Joint Stock Company "Zaman-Bank"

Financial statements

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

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Independent auditor's report

To the Shareholders and Board of Directors of Joint Stock Company "Zaman-Bank"

We have audited the accompanying financial statements of Joint Stock Company "Zaman-Bank" (hereinafter – 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.

Auditor's responsibility

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

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

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

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company "Zaman-Bank" 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 and Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

13 April 2016

The accompanying notes on page 5 to 37 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

(In thousands of tenge)

	Notes	*2015*	*2014*
Interest income			
Loans to customers		1,358,463	1,317,924
Finance lease receivables		6,791	7,895
Amounts due from credit institutions		259	212
Reverse repurchase agreements		–	2,220
		1,365,513	1,328,251
Interest expense			
Amounts due to customers		(5,686)	(32,840)
		(5,686)	(32,840)
Net interest income		1,359,827	1,295,411
(Allowance)/reversal of allowance for loan impairment	6	(814,666)	21,954
Net interest income after allowance for loan impairment		545,161	1,317,365
Net fee and commission income	17	136,806	128,332
Net gains from transactions in foreign currencies	18	253,136	180,081
Other income		2,110	3,406
Non-interest income		392,052	311,819
Personnel expenses	19	(273,626)	(203,462)
Other operating expenses	19	(167,035)	(236,075)
Other impairment and provisions	13	286,598	(468,868)
Non-interest expense		(154,063)	(908,405)
Profit before corporate income tax expense		783,150	720,779
Corporate income tax expense	12	(157,306)	(142,390)
Profit for the year		625,844	578,389
Other comprehensive income		–	–
Total comprehensive income for the year		625,844	578,389

The accompanying notes on page 5 to 37 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(In thousands of tenge)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total equity*
As at 31 December 2013	10,050,000	122,037	908,642	11,080,679
Total comprehensive income for the year	–	–	578,389	578,389
As at 31 December 2014	10,050,000	122,037	1,487,031	11,659,068
Total comprehensive income for the year	–	–	625,844	625,844
Dividends to shareholders of the Bank declared *(Note 15)*	–	–	(578,388)	(578,388)
As at 31 December 2015	10,050,000	122,037	1,534,487	11,706,524

The accompanying notes on page 5 to 37 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

(In thousands of tenge)

	Notes	*2015*	*2014*
Cash flows from operating activities			
Interest received		1,160,473	1,182,463
Interest paid		(2,534)	(29,806)
Fees and commissions received		157,053	141,715
Fees and commissions paid		(3,761)	(2,855)
Realised gains less losses from dealing in foreign currencies		17,988	22,626
Other income received		2,110	3,380
Personnel expenses paid		(235,432)	(201,621)
Other operating expenses paid		(149,249)	(246,032)
Cash flows from operating activities before changes in operating assets and liabilities		946,648	869,870
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(31)	22
Loans to customers		(1,462,491)	(1,713,732)
Finance lease receivables		7,954	15,959
Other assets		1,211	28,316
Net increase/(decrease) in operating liabilities			
Amounts due to customers		1,173,338	(1,293,815)
Other liabilities		(2,634)	30,891
Net cash flows from/(used in) operating activities before corporate income tax		663,995	(2,062,489)
Corporate income tax paid		(158,356)	(178,632)
Net cash flows from/(used in) operating activities		505,639	(2,241,121)
Cash flows from investing activities			
Proceeds from reverse repurchase agreements		–	504,000
Proceeds from sale of property and equipment		–	4,000
Purchase of property and equipment	8	(4,653)	(5,636)
Purchase of intangible assets	9	(5,151)	(9,112)
Net cash flows (used in)/from investing activities		(9,804)	493,252
Cash flows from financing activities			
Dividends paid to shareholders of the Bank	15	(578,388)	–
Net cash flows used in financing activities		(578,388)	–
Net decrease in cash and cash equivalents		(82,553)	(1,747,869)
Cash and cash equivalents as at 1 January		2,593,226	4,341,095
Cash and cash equivalents as at 31 December	5	2,510,673	2,593,226

The accompanying notes on page 5 to 37 are an integral part of these financial statements.

(In thousands of tenge, unless otherwise indicated)

1. Principal activities

Joint Stock Company "Zaman-Bank" (hereinafter – "the Bank") operates in the Republic of Kazakhstan since 1991. The Bank accepts deposits from the public and extends credits, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers in accordance with the license No. 1.1.11 issued by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK") on 12 June 2013. The Bank's activity is regulated by the NBRK.

The Bank is a member of the obligatory deposit insurance system. The system operates under the Republic of Kazakhstan laws and regulations and is governed by Kazakhstan Deposit Insurance Fund JSC (hereinafter – the "KDIF"). Insurance covers the Bank's liabilities of up to KZT 10,000 thousand on qualifying deposits in national currency and up to KZT 5,000 thousand on qualifying deposits in foreign currency for each individual in the event of business failure and revocation of the NBRK banking license.

Registered address of the Bank's head office is: 111A Mashhur Zhusup Str., 141206 Ekibastuz, Republic of Kazakhstan.

As at 31 December 2015 and 2014, the following shareholders owned the issued shares:

Shareholder	*2015 (%)*	*2014 (%)*
Abguzhinov A.T.	61.9	61.9
Abguzhinov T.S.	29.0	29.0
Islamic Corporation for the Development of the Private Sector	5.0	5.0
Other shareholders, individually holding less than 3%	4.1	4.1
Total	100.0	100.0

As at 31 December 2015, members of the Board of Directors and the Management Board controlled 30% or 2,991,021 shares (as at 31 December 2014: 30% or 2,991,021 shares) of the Bank.

In 2013, the Islamic Corporation for the Development of the Private sector (the "ICD") announced its footsteps with a mandate of converting the Bank into Islamic bank with expected investments of up to 35% of the subscribed and paid up capital of the Bank. In 2014 and 2015, the Bank received consultations on Islamic finance and plans to become an Islamic bank in the Republic of Kazakhstan.

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. These financial statements are presented in thousands of tenge ("tenge" or "KZT") except per share amounts and unless otherwise indicated.

3. Summary of significant accounting policies

Changes in accounting policies

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2010-2012 cycle

These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these financial statements. 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 do not impact the Bank's accounting policy.

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. This is consistent with the Bank's current accounting policies, and thus this amendment does not impact the Bank's accounting policy.

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

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment does not impact the Bank's accounting policy.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (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 is not relevant for the Bank as it does not receive any management services from other entities.

Annual improvements 2011-2013 cycle

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

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 trading and available-for-sale securities and derivatives at fair value at the balance sheet date. Information on fair value of financial instruments measured at amortised cost is disclosed in *Note 21*.

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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant 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.

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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Reclassification of financial assets (continued)

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 of 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 already 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 credit institutions 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 amounts due from credit institutions or loans to customers as appropriate. 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 these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the income statement. 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 profit or loss when borrowings are derecognised, as well as through the amortisation process.

Leases

Finance – Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant 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 a 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 credit institutions and loans to customers

For amounts due from credit institutions 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, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in 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 realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers (continued)

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

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

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

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

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 the loan has been changed the old loan is derecognised and the new loan is recognized;
- 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 allowance 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.

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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

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 allowance) 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 allowance) on an asset measured at fair value, 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 the statement of comprehensive income 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.

Deferred 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 except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

The Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses in the statement of comprehensive income.

Property and equipment

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

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

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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

	Depreciation rates
Computers and office equipment	20-50%
Vehicles	15-20%
Furniture	15-20%
Land	0%

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 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 finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 7 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 recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. 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.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both 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 declared 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.

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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Income and expense recognition

Revenue is recognized 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 recognized:

Interest and similar income and expense

For all financial instruments measured at amortised cost, 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 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 and commission 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.

- *Fee and 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.

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 in the functional currency rate established by the Kazakhstan Stock Exchange (hereinafter – 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 gains less losses from transactions in foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the official KASE exchange rate on the date of the transaction are included in gains less losses from transactions 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 official exchange rates as at 31 December 2015 and 2014, were 340.01 KZT and 182.35 KZT to 1 USD, respectively.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

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 intends, if necessary, to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, IFRS Board published a final version of IFRS 9 *Financial Instruments*, which includes all phases 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 before 1 February 2015. 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 2018. 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 Bank has no impact on the Bank, since the Bank is an existing IFRS prepare.

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 the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property 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, with early adoption 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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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.

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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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.

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.

(In thousands of tenge, unless otherwise indicated)

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Allowance for loans impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment 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, or national or local economic conditions that correlate with defaults on assets. 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 experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

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.

Adequacy of allowances for guarantees issued

The Bank regularly reviews its exposures under guarantees and similar off balance sheet credit instruments issued. These instruments are assessed and provision is made in a similar manner as for loans. The Bank uses its experienced judgment to adjust the provisions against guarantees issued based on probability of outflow of resources required to settle the obligation under the guarantee.

5. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2015	*2014*
Cash on hand	201,823	97,667
Current accounts with the NBRK	525,024	2,324,648
Current accounts with credit institutions	1,783,826	170,911
Cash and cash equivalents	2,510,673	2,593,226

Under legislation of the Republic of Kazakhstan, 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 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 currency during the period of reserve creation. As at 31 December 2015, obligatory reserves amounted to KZT 47,789 thousand (as at 31 December 2014: KZT 20,570 thousand). However, the Bank is not restricted from using these funds to finance its day-to-day operations.

(In thousands of tenge, unless otherwise indicated)

6. Loans to customers

Loans to customers comprise the following:

	2015	*2014*
Corporate lending	12,973,616	11,730,140
Lending to individual entrepreneurs	402,517	369,760
Small business lending	65,567	63,493
Consumer lending	36,575	67,533
Residential mortgages	35,875	45,735
Total gross loans to customers before allowance for loan impairment	13,514,150	12,276,661
Less: allowance for loan impairment	(1,325,611)	(1,044,624)
Loans to customers	12,188,539	11,232,037

Allowance for loan impairment

The movements in allowance for loan impairment in 2015 is as follows:

	Corporate lending	*Lending to individual entrepreneurs*	*Small business lending*	*Consumer lending*	*Residential mortgages*	*Total*
As at 1 January 2015	1,043,235	–	1,389	–	–	1,044,624
Charge for the year	783,237	27,271	4,158	–	–	814,666
Write-offs	(533,679)	–	–	–	–	(533,679)
As at 31 December 2015	1,292,793	27,271	5,547	–	–	1,325,611
Individual impairment	1,292,793	27,271	5,547	–	–	1,325,611
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	8,338,050	263,656	55,474	–	–	8,657,180

The movements in allowance for loan impairment in 2014 is as follows:

	Corporate lending	*Lending to individual entrepreneurs*	*Small business lending*	*Consumer lending*	*Residential mortgages*	*Total*
As at 1 January 2014	1,099,576	11,697	16,966	–	–	1,128,239
Charge/(reversal) for the year	5,320	(11,697)	(15,577)	–	–	(21,954)
Write-offs	(61,661)	–	–	–	–	(61,661)
As at 31 December 2014	1,043,235	–	1,389	–	–	1,044,624
Individual impairment	1,043,235	–	1,389	–	–	1,044,624
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	3,999,512	–	28,593	–	–	4,028,105

Interest income accrued on loans, for which impairment allowances have been recognized, for the year ended 31 December 2015, comprised KZT 735,049 thousand (in 2014: KZT 347,414 thousand).

(In thousands of tenge, unless otherwise indicated)

6. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- for commercial lending, charges over real estate properties, inventory and other;
- for retail lending, mortgages over residential properties.

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 loan impairment.

Concentration of loans to customers

As at 31 December 2015, the Bank had a concentration of loans represented by KZT 7,853,605 thousand due from the ten largest third party borrowers (58% of gross loan portfolio) (in 2014: KZT 7,453,613 thousand, 61% of gross loan portfolio). An allowance of KZT 806,786 thousand (in 2014: KZT 926,402 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	2015	*2014*
Private companies	11,740,842	10,749,008
Individuals and entrepreneurs	447,697	483,029
Loans to customers	12,188,539	11,232,037

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

	2015	*2014*
Trade	4,245,066	3,712,694
Construction and maintenance	2,971,828	3,248,559
Machine-building	1,627,208	846,995
Agriculture and food processing	1,039,489	1,460,350
Services	733,123	825,269
Individuals and entrepreneurs	447,697	483,029
Transport	441,088	30,509
Metal goods manufacturing	385,103	494,297
Industrial production	150,313	–
Publishing activities	86,360	120,242
Other	61,264	10,093
Loans to customers	12,188,539	11,232,037

7. Finance lease receivables

The analysis of finance lease receivables as at 31 December 2015 and 2014 are as follows:

	2015		
	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance lease	42,478	482	42,960
Unearned future finance income on finance leases	(549)	(70)	(619)
Net investment in finance lease	41,929	412	42,341
Finance lease receivables as at 31 December 2015	41,929	412	42,341

(In thousands of tenge, unless otherwise indicated)

7. Finance lease receivables (continued)

	2014		
	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance lease	12,234	42,960	55,194
Unearned future finance income on finance leases	(880)	(6,507)	(7,387)
Net investment in finance lease	11,354	36,453	47,807
Finance lease receivables as at 31 December 2014	11,354	36,453	47,807

8. Property and equipment

The movements in property and equipment were as follows:

	Land	*Computers and office equipment*	*Vehicles*	*Furniture*	*Total*
Cost					
As at 31 December 2013	3,975	34,802	6,584	14,047	59,408
Additions	–	1,506	–	4,130	5,636
Disposals	(3,975)	(740)		(2,038)	(6,753)
As at 31 December 2014	–	35,568	6,584	16,139	58,291
Additions	–	561	–	4,092	4,653
Disposals	–	(2,715)	–	(1,879)	(4,594)
As at 31 December 2015	–	33,414	6,584	18,352	58,350
Accumulated depreciation					
As at 31 December 2013	–	(6,948)	(768)	(5,715)	(13,431)
Charge for the year	–	(7,731)	(1,317)	(3,079)	(12,127)
Disposals	–	711	–	2,021	2,732
As at 31 December 2014	–	(13,968)	(2,085)	(6,773)	(22,826)
Charge for the year	–	(7,510)	(1,317)	(4,151)	(12,978)
Disposals	–	2,715	–	1,870	4,585
As at 31 December 2015	–	(18,763)	(3,402)	(9,054)	(31,219)
Net book value					
As at 31 December 2013	3,975	27,854	5,816	8,332	45,977
As at 31 December 2014	–	21,600	4,499	9,366	35,465
As at 31 December 2015	–	14,651	3,182	9,298	27,131

(In thousands of tenge, unless otherwise indicated)

9. Intangible assets

The movements of intangible assets were as follows:

	Computer software and licenses
Cost	
As at 31 December 2013	46,311
Additions	9,112
Disposals	(323)
As at 31 December 2014	55,100
Additions	5,151
Disposals	(3,587)
As at 31 December 2015	56,664
Accumulated amortization	
As at 31 December 2013	(17,455)
Charge for the year	(9,854)
Disposals	323
As at 31 December 2014	(26,986)
Charge for the year	(10,169)
Disposals	3,587
As at 31 December 2015	(33,568)
Net book value	
As at 31 December 2013	28,856
As at 31 December 2014	28,114
As at 31 December 2015	23,096

10. Inventory

As at 31 December 2015, inventories comprise real estate that was repossessed by the Bank from a borrower who failed to meet the obligations to repay a loan to the Bank. The Bank plans to realize the property in future.

11. Amounts due to customers

The amounts due to customers include the following:

	2015	*2014*
Time deposits	2,262,818	1,154,193
Current accounts	739,526	800,715
Amounts due to customers	3,002,344	1,954,908
Held as security against guarantees	1,084,027	10,000
Held as security against loans	–	9,683

As at 31 December 2015, amounts due to customers of KZT 2,792,567 thousand (93.01% of total amounts due to customers) were due to the ten largest customers (as at 31 December 2014: KZT 685,799 thousand (85.65% of total amounts due to customers)).

As at 31 December 2015, amounts included in time deposits are deposits of individuals in the amount of KZT 1,129,670 thousand (as at 31 December 2014: KZT 1,142,364 thousand). In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay deposits of individuals upon demand of a depositor. In case a term deposit is repaid before maturity upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(In thousands of tenge, unless otherwise indicated)

11. Amounts due to customers (continued)

Amounts due to customers as at 31 December included the following:

	2015	*2014*
Time deposits		
Private enterprises	1,133,148	11,829
Individuals	1,129,670	1,142,364
	2,262,818	1,154,193
Current accounts		
Private enterprises	640,382	394,165
Individuals	99,144	406,550
	739,526	800,715
Amounts due to customers	3,002,344	1,954,908

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

	2015	*2014*
Individuals	1,228,814	1,548,914
Transport and communication	1,132,603	41,123
Energetics	294,292	145,441
Trade	214,528	28,358
Real estate construction	86,582	146,370
Fuel	30,792	10,884
Industrial production	9,550	10,713
Finance leasing	1,256	2,628
Agriculture	1,023	1,154
Other	2,904	19,323
Amounts due to customers	3,002,344	1,954,908

12. Taxation

The corporate income tax expense comprises:

	2015	*2014*
Current corporate income tax change	170,685	159,001
Deferred corporate income tax benefit – origination and reversal of temporary differences	(13,476)	(16,611)
Adjustment of current corporate income tax of prior periods	97	–
Corporate income tax expense	157,306	142,390

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.

As at 31 December 2015, current corporate income tax liabilities comprise KZT 9,807 thousand. As at 31 December 2014, current corporate income tax assets comprised KZT 2,619 thousand.

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	783,150	720,779
Statutory tax rate	20%	20%
Theoretical corporate income tax expense at the statutory rate	156,630	144,156
Non-taxable interest income on finance lease	(1,358)	(1,579)
Non-deductible administrative expenses	2,173	3,044
Adjustment of income tax of prior periods	97	–
Other permanent differences	(236)	(3,231)
Corporate income tax expense	157,306	142,390

(In thousands of tenge, unless otherwise indicated)

12. Taxation (continued)

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

	2013	*Origination and reversal of temporary differences in profit or loss*	*2014*	*Origination and reversal of temporary differences in profit or loss*	*2015*
Tax effect of deductible temporary differences					
Accrued professional fees	1,976	98	2,074	(1,037)	1,037
Unused vacations accrual	1,201	369	1,570	192	1,762
Payroll accruals	2,270	311	2,581	7,439	10,020
Time deposits	–	19	19	631	650
Deferred corporate income tax assets	5,447	797	6,244	7,225	13,469
Tax effect of taxable temporary differences					
Time deposits	(242)	242	–	–	–
Loans to customers	(21,552)	14,261	(7,291)	4,589	(2,702)
Property and equipment and intangible assets	(3,171)	1,311	(1,860)	1,662	(198)
Deferred corporate income tax liabilities	(24,965)	15,814	(9,151)	6,251	(2,900)
Net deferred corporate income tax (liabilities) / assets	(19,518)	16,611	(2,907)	13,476	10,569

13. Provisions for commitments and contingencies

Below is movement of provisions for commitments and contingencies:

	Guarantees issued	*Total*
As at 31 December 2013	–	–
Charge for the year	468,868	468,868
As at 31 December 2014	468,868	468,868
Reversal for the year	(286,598)	(286,598)
As at 31 December 2015	182,270	182,270

14. Other assets and liabilities

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

	2015	*2014*
Commissions receivables	1,464	–
Prepayments for goods and services	1,115	2,290
Prepaid taxes other than corporate income tax	1	20
Prepaid corporate income tax	–	2,619
Other	3,547	1,505
Other assets	6,127	6,434

(In thousands of tenge, unless otherwise indicated)

14. Other assets and liabilities (continued)

As at 31 December 2015 and 2014, other liabilities comprise the following:

	2015	*2014*
Amounts due to employees	50,137	12,907
Deferred commission income from guarantees issued	31,797	14,407
Accrued expenses on unused vacations	8,812	7,848
Professional fees payable	5,186	10,371
Contribution due to Kazakhstan Deposit Insurance Fund JSC	1,354	1,693
Other	810	671
Other liabilities	98,096	47,897

15. Equity

As at 31 December 2015 and 2014, authorized and outstanding 10,000,000 common shares are issued and fully paid by the shareholders of the Bank at placement value of KZT 1,005 per one common share.

The share capital of the Bank was contributed by the shareholders in tenge and they are entitled to dividends and any capital distribution in tenge. Each common share entitles to one vote. In accordance with the decision made at the Bank shareholders' annual meeting dated 21 May 2015, in 2015 the Bank declared and paid dividends in the amount of KZT 578,388 thousand based on the Bank's performance in 2014. In 2014, the Bank did not declare or paid any dividends.

16. 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, the Kazakhstan economy continued to be negatively impacted by a significant decline in crude oil prices and a significant KZT devaluation. 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 50% of the taxes unpaid or more.

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

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.

(In thousands of tenge, unless otherwise indicated)

16. Commitments and contingencies (continued)

Financial commitments and contingencies

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

	2015	*2014*
Credit related commitments		
Guarantees issued	4,025,260	3,002,108
Undrawn loan commitments	909,239	1,896,679
	4,934,499	4,898,787
Operating lease commitments		
Not later than 1 year	49,909	36,001
	49,909	36,001
Commitments and contingencies (before deducting collateral)	4,984,408	4,934,788
Less: cash held as security against guarantees *(Note 11)*	(1,084,027)	(10,000)
Commitments and contingencies	3,900,381	4,924,788

The loan commitments agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise, including breach of contracts by borrowers, worsening of financial performance, etc.

17. Net fee and commission income

Net fee and commission income comprises:

	2015	*2014*
Guarantees issued	93,293	83,359
Currency conversion operations	18,537	18,566
Cash operations	12,671	15,781
Transfer operations	9,423	8,803
Customer accounts maintenance	1,209	1,037
Other	5,334	3,741
Fee and commission income	140,467	131,287
Transfer operations	(2,189)	(2,342)
Cash operations	(1,472)	(517)
Securities operations	–	(96)
Fee and commission expense	(3,661)	(2,955)
Net fee and commission income	136,806	128,332

18. Net gains from transactions in foreign currencies

Net gains from transactions in foreign currencies comprise the following:

	2015	*2014*
Gain less losses from translation differences	235,148	157,455
Gain less losses from dealing	17,988	22,626
Net gains from transaction in foreign currencies	253,136	180,081

(In thousands of tenge, unless otherwise indicated)

19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2015	*2014*
Salaries and bonuses	(250,553)	(183,649)
Social security costs	(23,073)	(19,813)
Personnel expenses	(273,626)	(203,462)
Rent	(49,909)	(35,775)
Depreciation and amortization	(23,147)	(21,981)
Professional services	(12,816)	(80,270)
Technical support of software	(12,096)	(9,089)
Security	(11,782)	(10,631)
Business trips	(8,487)	(9,233)
Communication	(5,331)	(5,531)
Contributions to Kazakhstan Deposit Insurance Fund JSC	(4,470)	(9,672)
Utilities	(3,972)	(3,282)
Repair and maintenance of property and equipment	(3,388)	(1,182)
Transportation	(3,249)	(3,518)
Advertising and marketing	(1,895)	(3,292)
Office supplies	(1,448)	(1,294)
Encashment	(1,338)	(1,172)
Representative expenses	(923)	(884)
Taxes, other than income tax	(690)	(595)
Other	(22,094)	(38,674)
Other operating expenses	(167,035)	(236,075)

20. 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.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee (hereinafter – the "ALMC") has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental liquidity risk issues and manages and monitors relevant risk decisions.

(In thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Introduction (continued)

Risk Management

The Risk Management Department 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.

Internal audit

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

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 Management Board, the Assets and Liabilities Management Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

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

A regular briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of credit limits, liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank monitors its exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

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

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

(In thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Credit risk

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

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

Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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 guarantees and letters of credit. They expose the Bank to similar risks 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.

For more details 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 6* "Loans to customers" and *Note 16* "Commitments and contingencies".

Credit quality per class of financial assets

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

		2015			
	Notes	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	5	2,308,850	–	–	2,308,850
Loans to customers	6				
Corporate lending		4,579,036	56,530	8,338,050	12,973,616
Lending to individual entrepreneurs		55,362	83,499	263,656	402,517
Small business lending		10,093	–	55,474	65,567
Consumer lending		36,575	–	–	36,575
Residential mortgages		35,875	–	–	35,875
Finance lease receivables	7	8,695	33,646	–	42,341
Total		7,034,486	173,675	8,657,180	15,865,341

(In thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Credit risk (continued)

Credit – related commitments risks (continued)

Credit quality per class of financial assets (continued)

		2014			
	Notes	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	5	2,495,559	–	–	2,495,559
Amounts due from credit institutions	6				
Corporate lending		7,730,628	–	3,999,512	11,730,140
Lending to individual entrepreneurs		369,760	–	–	369,760
Consumer lending		63,493	–	–	63,493
Small business lending		38,940	–	28,593	67,533
Residential mortgages		45,735	–	–	45,735
Finance lease receivables	7	11,980	35,827	–	47,807
Total		10,756,095	35,827	4,028,105	14,820,027

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

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

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

	2015		
	Less than 30 days	*31-90 days*	*Total*
Loans to customers	83,499	56,530	140,029
Finance lease receivables	–	33,646	33,646
Total	83,499	90,176	173,675

	2014		
	Less than 30 days	*31-90 days*	*Total*
Loans to customers	–	–	–
Finance lease receivables	35,827	–	35,827
Total	35,827	–	35,827

See *Note 6* "Loans to Customers" for more detailed information with respect to allowance for loan impairment.

Impairment assessment

The main considerations for the loan impairment assessment include 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 determines the allowances appropriate for each 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.

(In thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Credit risk (continued)

Credit – related commitments risks (continued)

Impairment assessment (continued)

Financial guarantees are assessed and provision is made in a similar manner as for loans.

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

	2015			*2014*		
	Kazakhstan	*CIS and other countries*	*Total*	*Kazakhstan*	*CIS and other countries*	*Total*
Assets						
Cash and cash equivalents	2,497,290	13,383	2,510,673	2,570,278	22,948	2,593,226
Loans to customers	12,188,539	–	12,188,539	11,232,037	–	11,232,037
Finance lease receivable	42,341	–	42,341	47,807	–	47,807
Other monetary assets	1,464	–	1,464	–	–	–
Total monetary assets	14,729,634	13,383	14,743,017	13,850,122	22,948	13,873,070
Liabilities						
Amounts due to customers	3,001,978	366	3,002,344	1,954,606	302	1,954,908
Other monetary liabilities	56,935	–	56,935	25,291	–	25,291
Total monetary liabilities	3,058,913	366	3,059,279	1,979,897	302	1,980,199
Net position	11,670,721	13,017	11,683,738	11,870,225	22,646	11,892,871

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

The Bank maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

The Treasury Department is responsible for management of the current open position of the Bank. The Treasury performs the monitoring of the Bank's balance sheet liquidity and any changes thereof. The Bank's liquidity analysis is performed by the Treasury on a monthly basis, and all members of the ALMC are informed appropriately.

The Bank uses internal methodologies to analyze the Bank's liquidity.

The ALMC performs weekly monitoring of liquidity risk by future expected cash flows – gap liquidity analysis. When the liquidity indicators worsen, the ALMC identifies the reasons and determines the strategy to mitigate the risk. The Risk Management Department performs regularly monitoring of compliance with the liquidity requirements determined by the Liquidity Management Policy, such as immediate, current, short-term, common and expected liquidity ratios.

The Board of Directors and the Management Board of the Bank, receive the information on the Bank's current liquidity at least on monthly basis and, when the current or expected liquidity positions worsen, on immediate basis.

(In thousands of tenge, unless otherwise indicated)

20. Risk management (continued)

Liquidity risk and funding management (continued)

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	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	1,872,620	925,102	218,595	–	3,016,317
Other financial liabilities	–	56,935	–	–	56,935
Total undiscounted financial liabilities	1,872,620	982,037	218,595	–	3,073,252

	2014				
Financial liabilities	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	830,580	1,829	1,132,538	–	1,964,947
Other financial liabilities	2,006	–	–	–	2,006
Total undiscounted financial liabilities	832,586	1,829	1,132,538	–	1,966,953

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

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2015				
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Guarantees issued	992,305	756,682	1,699,368	576,905	4,025,260
Undrawn loan commitments	909,239	–	–	–	909,239
	1,901,544	756,682	1,699,368	576,905	4,934,499

	2014				
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Guarantees issued	77,400	156,337	1,460,984	1,307,387	3,002,108
Undrawn loan commitments	1,896,679	–	–	–	1,896,679
	1,974,079	156,337	1,460,984	1,307,387	4,898,787

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

(In thousands of tenge, unless otherwise indicated)

20. 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 has exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

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's exposure to interest rate risk is not significant as the Bank borrows and places its funds with fixed rates.

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the tenge, with all other variables held constant on profit or loss – due to the fair value of currency sensitive non-trading monetary assets and liabilities. The effect on equity does not differ from the effect on profit or loss. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

	2015		*2014*	
Currency	*Increase in currency rate in %*	*Effect on profit before tax*	*Increase in currency rate in %*	*Effect on profit before tax*
US Dollar	+60.0%	444,719	+30.0%	206,290
EUR	+60.0%	914	+30.0%	382
RUR	+40.0%	973	+20.0%	527

	2015		*2014*	
Currency	*Decrease in currency rate in %*	*Effect on profit before tax*	*Decrease in currency rate in %*	*Effect on profit before tax*
US Dollar	-20.0%	(148,240)	-30.0%	(206,290)
EUR	-20.0%	(305)	-30.0%	(382)
RUR	-29.0%	(706)	-20.0%	(527)

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 lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(In thousands of tenge, unless otherwise indicated)

21. Fair value measurements

Fair value hierarchy

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.

2015	Date of valuation	*Fair value measurement using* Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2015	–	2,510,673	–	2,510,673
Loans to customers	31 December 2015	–	–	12,188,539	12,188,539
Finance lease receivable	31 December 2015	–	42,341	–	42,341
Other financial assets	31 December 2015	–	–	1,464	1,464
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2015	–	–	3,002,344	3,002,344
Other financial liabilities	31 December 2015	–	–	56,935	56,935

2014	Date of valuation	*Fair value measurement using* Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	–	2,593,226	–	2,593,226
Loans to customers	31 December 2014	–	–	11,232,037	11,232,037
Finance lease receivable	31 December 2014	–	47,807	–	47,807
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2014	–	–	1,954,908	1,954,908
Other financial liabilities	31 December 2014	–	–	2,006	2,006

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

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 value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	2,510,673	2,510,673	–	2,593,226	2,593,226	–
Loans to customers	12,188,539	11,960,730	(227,809)	11,232,037	11,388,769	156,732
Finance lease receivable	42,341	42,341	–	47,807	47,807	–
Other financial assets	1,464	1,464	–	–	–	–
Financial liabilities						
Amounts due to customers	3,002,344	2,986,722	(15,622)	1,954,908	1,954,908	–
Other financial liabilities	56,935	56,935	–	2,006	2,006	–
Total unrecognised change in fair value			(243,431)			156,732

(In thousands of tenge, unless otherwise indicated)

21. Fair value measurements (continued)

Valuation techniques and assumptions

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

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.

Financial assets and financial liabilities carried at amortized cost

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, customer deposits, amounts due from credit institutions and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

22. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 20* "Risk Management" for the Bank's contractual undiscounted repayment obligations.

	2015			*2014*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	2,510,673	–	2,510,673	2,593,226	–	2,593,226
Loans to customers	3,089,756	9,098,783	12,188,539	3,401,094	7,830,943	11,232,037
Finance lease receivables	41,929	412	42,341	11,354	36,453	47,807
Property and equipment	–	27,131	27,131	–	35,465	35,465
Intangible assets	–	23,096	23,096	–	28,114	28,114
Inventory	190,565	–	190,565	190,565	–	190,565
Deferred corporate income tax assets	–	10,569	10,569	–	–	–
Other assets	6,127	–	6,127	6,434	–	6,434
Total	5,839,050	9,159,991	14,999,041	6,202,673	7,930,975	14,133,648
Amounts due to customers	2,784,992	217,352	3,002,344	822,277	1,132,631	1,954,908
Current corporate income tax liabilities	–	9,807	9,807	–	–	–
Deferred income tax liabilities	–	–	–	–	2,907	2,907
Provisions for commitments and contingencies	–	182,270	182,270	468,868	–	468,868
Other liabilities	66,299	31,797	98,096	33,490	14,407	47,897
Total	2,851,291	441,226	3,292,517	1,324,635	1,149,945	2,474,580
Net	2,987,759	8,718,765	11,706,524	4,878,038	6,781,030	11,659,068

23. Related party disclosures

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

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

(In thousands of tenge, unless otherwise indicated)

23. Related party disclosures (continued)

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

	2015				2014			
	Share-holders	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Loans outstanding as at 1 January	–	–	45,654	33,354	–	–	33,207	33,166
Loans issued during the year	–	–	–	–	–	330,000	21,500	4,000
Loan repayments during the year	–	–	(18,368)	(19,382)	–	(330,000)	(9,053)	(3,812)
Loans outstanding as at 31 December	–	–	27,286	13,972	–	–	45,654	33,354
Deposits outstanding as at 1 January	–	–	1,674	1,126,035	–	–	480	641,506
Deposits received during the year	2,130,322	–	–	114,077	–	–	1,194	1,045,389
Deposits withdrawn during the year	(1,052,455)	–	(1,674)	(119,699)	–	–	–	(560,860)
Deposits outstanding as at 31 December	1,077,867	–	–	1,120,413	–	–	1,674	1,126,035
Current accounts as at 31 December	1,229	171,444	5,279	55,431	358,803	2,951	1,960	35,549

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

	2015				2014			
	Share-holders	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Interest income on loans	–	–	811	4,608	–	7,700	3,079	5,051
Fee and commission income	873	9,096	51	700	1,363	14,108	63	2,984
Interest expense on amounts due to customers	290	–	–	2,494	2,839	1,200	57,083	19,317
Other operating expenses	–	2,100	–	1,260	–	–	145	29,662

Below is the information about remuneration of 5 members (in 2014: 5 members) of key management personnel:

	2015	*2014*
Salaries and other short-term benefits	59,576	49,025
Social security costs	5,885	4,887
Total key management personnel compensation	65,461	53,912

(In thousands of tenge, unless otherwise indicated)

24. Capital adequacy

Capital adequacy

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

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 adequate 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. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. 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 (k1-1);
- 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).

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	11,689,054	11,080,680
Tier 2 capital	–	578,388
Total capital	11,689,054	11,659,068
Risk weighted assets and liabilities, possible claims and liabilities	17,350,970	14,938,296
Operational risk	822,691	494,370
Capital adequacy ratio k1-1 (minimum 5%)	61%	78%
Capital adequacy ratio k1-2 (minimum 6%)	61%	70%
Capital adequacy ratio k2 (minimum 7.5%)	61%	74%