

Joint Stock Company "Zaman-Bank"

Financial statements

*For the year ended 31 December 2016  
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"

### **Opinion**

We have audited the financial statements of Joint Stock Company "Zaman-Bank" (hereinafter – the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – the "IFRS").

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (hereinafter – the "ISA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (hereinafter – the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

### **Responsibilities of management and those charged with governance for the financial statements**

Management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Ernst & Young LLP*

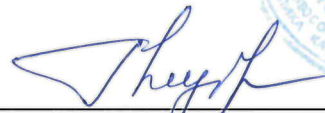


Bakhtiyor Eshonkulov  
Auditor / audit partner



Auditor qualification certificate  
No. МФ – 0000099 dated 27 August 2012

050060, Republic of Kazakhstan, Almaty  
Al-Farabi ave., 77/7, Esentai Tower  
20 April 2017



Gulmira Turmagambetova  
General director  
Ernst & Young LLP

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

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

*(In thousands of tenge)*

	Notes	2016	2015
<b>Assets</b>			
Cash and cash equivalents	5	1,705,490	2,510,673
Loans to customers	6	11,730,901	12,188,539
Finance lease receivables	7	41,319	42,341
Receivables on re-assigned loans	8	580,699	—
Property and equipment	9	22,229	27,131
Intangible assets	10	14,786	23,096
Inventory	11	190,565	190,565
Deferred corporate income tax assets	12	36,401	10,569
Other assets	13	21,711	6,127
<b>Total assets</b>		<b>14,344,101</b>	<b>14,999,041</b>
<b>Liabilities</b>			
Amounts due to credit institutions	14	52,969	—
Amounts due to customers	15	2,448,795	3,002,344
Current corporate income tax liabilities	12	—	9,807
Provisions for commitments and contingencies	16	173,062	182,270
Other liabilities	13	52,064	98,096
<b>Total liabilities</b>		<b>2,726,890</b>	<b>3,292,517</b>
<b>Equity</b>			
Share capital	17	10,050,000	10,050,000
Additional paid-in capital		122,037	122,037
Retained earnings		1,445,174	1,534,487
<b>Total equity</b>		<b>11,617,211</b>	<b>11,706,524</b>
<b>Total liabilities and equity</b>		<b>14,344,101</b>	<b>14,999,041</b>

Signed and authorised for issue on behalf of the Management Board of the Bank

Gupalo Yelena Anatolyevna



Chairwoman of the Management Board

Seitova Rimma

Chief Accountant

20 April 2017

The accompanying notes on page 5 to 34 are an integral part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

*(In thousands of tenge)*

	<i>Notes</i>	<i>2016</i>	<i>2015</i>
Interest income			
Loans to customers		1,505,833	1,358,463
Finance lease receivables		5,228	6,791
Amounts due from credit institutions		254	259
		<u>1,511,315</u>	<u>1,365,513</u>
Interest expense			
Amounts due to customers		(16,917)	(5,686)
		<u>(16,917)</u>	<u>(5,686)</u>
Effect from initial recognition on receivables on re-assigned loans	8	(181,870)	–
Net interest income		<u>1,312,528</u>	<u>1,359,827</u>
Allowance for loan impairment	6	(490,324)	(814,666)
Net interest income after allowance for loan impairment		<u>822,204</u>	<u>545,161</u>
Net fee and commission income	19	149,781	136,806
Net gains from transactions in foreign currencies	20	49,966	253,136
Other income		68,644	2,110
Non-interest income		<u>268,391</u>	<u>392,052</u>
Personnel expenses	21	(216,380)	(273,626)
Other operating expenses	21	(204,527)	(167,035)
Other impairment and provisions	16	9,208	286,598
Non-interest expense		<u>(411,699)</u>	<u>(154,063)</u>
Profit before corporate income tax expense		678,896	783,150
Corporate income tax expense	12	(142,365)	(157,306)
Profit for the year		<u>536,531</u>	<u>625,844</u>
Other comprehensive income		–	–
Total comprehensive income for the year		<u>536,531</u>	<u>625,844</u>

*The accompanying notes on page 5 to 34 are an integral part of these financial statements.*

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

*(In thousands of tenge)*

	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Retained earnings</i>	<i>Total equity</i>
As at 31 December 2014	10,050,000	122,037	1,487,031	11,659,068
Comprehensive income for the year	–	–	625,844	625,844
Dividends to the Bank shareholders declared <i>(Note 17)</i>	–	–	(578,388)	(578,388)
As at 31 December 2015	10,050,000	122,037	1,534,487	11,706,524
Comprehensive income for the year	–	–	536,531	536,531
Dividends to the Bank shareholders declared <i>(Note 17)</i>	–	–	(625,844)	(625,844)
As at 31 December 2016	10,050,000	122,037	1,445,174	11,617,211

*The accompanying notes on page 5 to 34 are an integral part of these financial statements.*



## STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

*(In thousands of tenge)*

	<i>Notes</i>	<i>2016</i>	<i>2015</i>
Cash flows from operating activities			
Interest received		1,159,625	1,160,473
Interest paid		(19,668)	(2,534)
Fees and commissions received		150,156	157,053
Fees and commissions paid		(4,493)	(3,761)
Realised gains less losses from dealing in foreign currencies		5,380	17,988
Other income received		26,789	2,110
Personnel expenses paid		(246,149)	(235,432)
Other operating expenses paid		(177,833)	(149,249)
Cash flows from operating activities before changes in operating assets and liabilities		893,807	946,648
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		4	(31)
Loans to customers		(439,098)	(1,462,491)
Finance lease receivables		5,706	7,954
Other assets		(11,466)	1,211
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		52,969	–
Amounts due to customers		(473,513)	1,173,338
Other liabilities		(18,526)	(2,634)
Net cash flows from operating activities before corporate income tax		9,883	663,995
Corporate income tax paid		(178,004)	(158,356)
Net cash flows (used in)/received from operating activities		(168,121)	505,639
Cash flows from investing activities			
Purchase of property and equipment	9	(9,836)	(4,653)
Purchase of intangible assets	10	(1,382)	(5,151)
Net cash flows used in investing activities		(11,218)	(9,804)
Cash flows from financing activities			
Dividends paid to shareholders of the Bank	17	(625,844)	(578,388)
Net cash flows used in financing activities		(625,844)	(578,388)
Net decrease in cash and cash equivalents		(805,183)	(82,553)
Cash and cash equivalents, as at 1 January		2,510,673	2,593,226
Cash and cash equivalents, as at 31 December	5	1,705,490	2,510,673

*The accompanying notes on page 5 to 34 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: Republic of Kazakhstan, 141206 Ekibastuz, 111A Mashhur Zhusup Str.

As at 31 December 2016 and 2015, the following shareholders owned the issued shares of the Bank:

<i>Shareholder</i>	<i>2016 (%)</i>	<i>2015 (%)</i>
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 2016, members of the Board of Directors and the Management Board controlled 2,991,021 shares or 30% of the Bank (as at 31 December 2015: 2,991,021 shares or 30%).

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 2016 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 paragraph "Summary of significant accounting policies". 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 has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016.

#### *Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 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(s) 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.

(In thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

#### *Amendments to IAS 1 Disclosure Initiative (continued)*

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank's financial statements.

#### *Annual improvements 2012-2014 cycle*

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

#### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered 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. This amendment must be applied prospectively.

#### *IFRS 7 Financial Instruments: Disclosures*

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 the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must 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.

#### 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 23*.

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

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

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

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

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.

(In thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### 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 rate. 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.

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

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss 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 rate.

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.

(In thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### 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 customers. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate. 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.

#### 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.

*(In thousands of tenge, unless otherwise indicated)*

### 3. Summary of significant accounting policies (continued)

#### Impairment of financial assets (continued)

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.

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.

(In thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Impairment of financial assets (continued)

##### *Renegotiated loans (continued)*

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.

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.

(In thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Taxation

The current corporate income tax expenses 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 amounts 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 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 amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

	<i>Depreciation rates</i>
Computers and office equipment	20-50%
Vehicles	15-20%
Furniture	15-20%

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.



*(In thousands of tenge, unless otherwise indicated)*

### 3. Summary of significant accounting policies (continued)

#### Retirement and other employee benefit obligations

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

#### Share capital

##### *Share capital*

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

#### Recognition of income and expenses

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

##### *Fee and commission income*

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

- *Fee 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.

(In thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Foreign currency translation

The financial statements are presented in tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded 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. The KASE official exchange rates as at 31 December 2016 and 2015, were KZT 333.29 and KZT 340.01 to 1 USD, respectively.

#### Standards and interpretations issued but not yet effective

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

#### *IFRS 9 Financial Instruments*

In July 2014, the IFRS Board published the final version of IFRS 9 *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* as well as all previous versions of IFRS 9. The standard introduces new requirements regarding classification and measurement, impairment and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to financing impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all financings and other debt financial assets not carried at FVPL, as well as for financing commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

#### *IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IFRS Board published IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, profit and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

(In thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

#### *IFRS 16 Leases*

The IFRS Board published the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, lessees recognise unpaid rental payment for the part obtained usufruct from leased asset its balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise ‘short-term’ leases and leases of ‘low-value’ assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today’s finance lease accounting, with profit and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

#### *Amendments to IAS 12 Income Taxes*

In January 2016, through issuing amendments to IAS 12, the IFRS Board clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

#### *Amendments to IAS 7 Statement of Cash Flows*

In January 2016, the IFRS Board published amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities’ liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

#### *Amendments to IFRS 2 Share-based Payment*

The IFRS Board published amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations;
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Bank’s financial statements.

#### *Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Bank’s financial statements.

(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. Implementation of 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 provision 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

As at 31 December cash and cash equivalents comprise the following:

	<u>2016</u>	<u>2015</u>
Cash on hand	563,973	201,823
Current accounts with the NBRK	690,183	525,024
Current accounts with credit institutions	451,334	1,783,826
Cash and cash equivalents	<u>1,705,490</u>	<u>2,510,673</u>

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 and hard currencies during the period of reserve creation. However, the Bank is not restricted from using these funds to finance its day-to-day operations.

As at 31 December 2016, such obligatory reserves were equal to KZT 51,478 thousand (as at 31 December 2015: KZT 47,789 thousand).

*(In thousands of tenge, unless otherwise indicated)***6. Loans to customers**

As at 31 December loans to customers comprise the following:

	<i>2016</i>	<i>2015</i>
Corporate lending	12,734,526	12,973,616
Lending to individual entrepreneurs	326,509	402,517
Small business lending	122,478	65,567
Residential mortgages	30,606	35,875
Consumer lending	10,045	36,575
Total gross loans to customers before allowance for loan impairment	<u>13,224,164</u>	<u>13,514,150</u>
Less: allowance for loan impairment	<u>(1,493,263)</u>	<u>(1,325,611)</u>
Loans to customers	<u>11,730,901</u>	<u>12,188,539</u>

**Allowance for loan impairment**

Movements in allowance for loan impairment in 2016 were as follows:

	<i>Corporate lending</i>	<i>Lending to individual entrepreneurs</i>	<i>Small business lending</i>	<i>Residential mortgages</i>	<i>Consumer lending</i>	<i>Total</i>
As at 1 January 2016	1,292,793	27,271	5,547	–	–	1,325,611
Charge/(reversal) for the year	464,101	31,770	(5,547)	–	–	490,324
Write-offs	(322,672)	–	–	–	–	(322,672)
As at 31 December 2016	<u>1,434,222</u>	<u>59,041</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,493,263</u>
Individual impairment	<u>1,434,222</u>	<u>59,041</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,493,263</u>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	<u>9,784,568</u>	<u>268,009</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>10,052,577</u>

Movements in allowance for loan impairment in 2015 were as follows:

	<i>Corporate lending</i>	<i>Lending to individual entrepreneurs</i>	<i>Small business lending</i>	<i>Residential mortgages</i>	<i>Consumer lending</i>	<i>Total</i>
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	<u>1,292,793</u>	<u>27,271</u>	<u>5,547</u>	<u>–</u>	<u>–</u>	<u>1,325,611</u>
Individual impairment	<u>1,292,793</u>	<u>27,271</u>	<u>5,547</u>	<u>–</u>	<u>–</u>	<u>1,325,611</u>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	<u>8,338,050</u>	<u>263,656</u>	<u>55,474</u>	<u>–</u>	<u>–</u>	<u>8,657,180</u>

Interest income accrued on loans, for which impairment allowances have been recognized, for the year ended 31 December 2016, was equal to KZT 409,174 thousand (in 2015: KZT 735,049 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 2016, the Bank had a concentration of loans represented by KZT 7,985,762 thousand due from the ten largest third party borrowers (60% of gross loan portfolio) (in 2015: KZT 7,853,605 thousand, 58% of gross loan portfolio). An allowance of KZT 1,227,237 thousand was recognized against these loans (in 2015: KZT 806,786 thousand).

Loans have been extended to the following types of customers:

	<i>2016</i>	<i>2015</i>
Private companies	11,422,782	11,740,842
Individuals and entrepreneurs	308,119	447,697
Loans to customers	<u>11,730,901</u>	<u>12,188,539</u>

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

	<i>2016</i>	<i>2015</i>
Trade	3,910,969	3,884,471
Construction and maintenance	2,790,768	2,971,828
Engineering	1,640,640	1,627,208
Services	934,191	1,084,200
Transport	835,449	450,606
Agriculture and food processing	644,700	1,039,489
Metal goods manufacturing	409,709	385,103
Individuals and entrepreneurs	308,119	447,697
Industrial production	200,276	150,313
Publishing activities	–	86,360
Other	56,080	61,264
Loans to customers	<u>11,730,901</u>	<u>12,188,539</u>

**7. Finance lease receivables**

The analysis of finance lease receivables as at 31 December 2016 and 2015 is as follows:

	<i>2016</i>		
	<i>Not later than 1 year</i>	<i>Later than 1 year and not later than 5 years</i>	<i>Total</i>
Gross investment in finance lease	41,761	–	41,761
Unearned future finance income on finance leases	(442)	–	(442)
Net investment in finance lease	<u>41,319</u>	<u>–</u>	<u>41,319</u>
Finance lease receivables as at 31 December 2016	<u>41,319</u>	<u>–</u>	<u>41,319</u>

*(In thousands of tenge, unless otherwise indicated)***7. Finance lease receivables (continued)**

	2015		Total
	Not later than 1 year	Later than 1 year and not later than 5 years	
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

**8. Receivables on re-assigned loans**

Receivables on re-assigned loans consist of receivables from transfer of rights on loans not complying with the requirements of the Islamic Banking. As at 31 December 2016, receivables on re-assigned loans were equal to KZT 580,699 thousand (as at 31 December 2015: nil). In 2016, the Bank recognized effect from initial recognition of receivables on re-assigned loans in the amount of KZT 181,870 thousand and unwinding of discount in the amount of KZT 41,855 thousand.

**9. Property and equipment**

Movements in property and equipment were as follows:

	Computers and office equipment	Vehicles	Furniture	Total
<b>Cost</b>				
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)
At 31 December 2015	33,414	6,584	18,352	58,350
Additions	7,841	–	1,995	9,836
Disposals	(2,571)	–	(4,528)	(7,099)
At 31 December 2016	38,684	6,584	15,819	61,087
<b>Accumulated depreciation</b>				
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
At 31 December 2015	(18,763)	(3,402)	(9,054)	(31,219)
Charge for the year	(8,632)	(1,317)	(4,657)	(14,606)
Disposals	2,440	–	4,527	6,967
At 31 December 2016	(24,955)	(4,719)	(9,184)	(38,858)
<b>Net book value</b>				
At 31 December 2014	21,600	4,499	9,366	35,465
At 31 December 2015	14,651	3,182	9,298	27,131
At 31 December 2016	13,729	1,865	6,635	22,229

*(In thousands of tenge, unless otherwise indicated)***10. Intangible assets**

Movements in intangible assets were as follows:

	<i>Computer software and licenses</i>
Cost	
At 31 December 2014	55,100
Additions	5,151
Disposals	(3,587)
At 31 December 2015	<u>56,664</u>
Additions	1,382
Disposals	(10,560)
At 31 December 2016	<u>47,486</u>
Accumulated amortization	
At 31 December 2014	(26,986)
Charge for the year	(10,169)
Disposals	3,587
At 31 December 2015	<u>(33,568)</u>
Charge for the year	(9,692)
Disposals	10,560
At 31 December 2016	<u>(32,700)</u>
Net book value	
At 31 December 2014	<u>28,114</u>
At 31 December 2015	<u>23,096</u>
At 31 December 2016	<u>14,786</u>

**11. Inventory**

As at 31 December 2016, inventories comprise real estate property repossessed by the Bank from a borrower who failed to meet its obligations to repay a loan to the Bank. The Bank plans to sell the property in future.

**12. Taxation**

The corporate income tax expense comprises:

	<u>2016</u>	<u>2015</u>
Current corporate income tax charge	168,207	170,685
Deferred corporate income tax benefit – origination and reversal of temporary differences	(25,832)	(13,476)
Adjustment of current corporate income tax of prior periods	(10)	97
Corporate income tax expense	<u>142,365</u>	<u>157,306</u>

The Republic of Kazakhstan is the only 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 2016 and 2015.

As at 31 December 2016, current corporate income tax liabilities is nil (as at 31 December 2015: KZT 9,807 thousand).



*(In thousands of tenge, unless otherwise indicated)***12. Taxation (continued)**

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:

	<u>2016</u>	<u>2015</u>
Profit before corporate income tax expense	678,896	783,150
Statutory tax rate	20%	20%
Theoretical corporate income tax expense at the statutory rate	<u>135,779</u>	<u>156,630</u>
<i>Non-taxable income</i>		
Non-taxable interest income on finance lease	(1,045)	(1,358)
Non-deductible administrative expenses	7,783	2,173
Adjustment of income tax of prior periods	(10)	97
Other permanent differences	(142)	(236)
Corporate income tax expense	<u><u>142,365</u></u>	<u><u>157,306</u></u>

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

	<i>Origination and reversal of temporary differences in profit or loss</i>		<i>Origination and reversal of temporary differences in profit or loss</i>		
	<u>2014</u>		<u>2015</u>		<u>2016</u>
Tax effect of deductible temporary differences					
Receivables on re-assigned loans	–	–	–	28,003	28,003
Payroll accruals	2,581	7,439	10,020	(6,211)	3,809
Unused vacations accrual	1,570	192	1,762	265	2,027
Property and equipment and intangible assets	–	–	–	1,676	1,676
Accrued professional services	2,074	(1,037)	1,037	49	1,086
Time deposits	19	631	650	(551)	99
Deferred corporate income tax assets	<u>6,244</u>	<u>7,225</u>	<u>13,469</u>	<u>23,231</u>	<u>36,700</u>
Tax effect of taxable temporary differences					
Loans to customers	(7,291)	4,589	(2,702)	2,403	(299)
Property and equipment and intangible assets	(1,860)	1,662	(198)	198	–
Deferred corporate income tax liabilities	<u>(9,151)</u>	<u>6,251</u>	<u>(2,900)</u>	<u>2,601</u>	<u>(299)</u>
Net deferred corporate income tax assets/ (liabilities)	<u><u>(2,907)</u></u>	<u><u>13,476</u></u>	<u><u>10,569</u></u>	<u><u>25,832</u></u>	<u><u>36,401</u></u>

**13. Other assets and liabilities**

As at 31 December other assets comprise the following:

	<u>2016</u>	<u>2015</u>
Prepayments for goods and services	17,228	1,115
Commissions receivables	2,713	1,464
Prepaid taxes other than corporate income tax	–	1
Other	1,770	3,547
Other assets	<u><u>21,711</u></u>	<u><u>6,127</u></u>

*(In thousands of tenge, unless otherwise indicated)***13. Other assets and liabilities (continued)**

As at 31 December other liabilities comprise the following:

	<u>2016</u>	<u>2015</u>
Amounts due to employees	19,044	50,137
Deferred commission income from guarantees issued	13,135	31,797
Accrued expenses on unused vacations	10,136	8,812
Professional fees payable	5,432	5,186
Contribution due to Kazakhstan Deposit Insurance Fund JSC	1,191	1,354
Other	3,126	810
Other liabilities	<u>52,064</u>	<u>98,096</u>

**14. Amounts due to credit institutions**

As at 31 December 2016, amounts due to credit institutions mainly comprise current accounts of Islamic Corporation for the Development of the Private Sector and Parsian Bank (Tehran, Iran) totaling to KZT 31,295 thousand and KZT 21,674 thousand, respectively (as at 31 December 2015: nil).

**15. Amounts due to customers**

As at 31 December amounts due to customers comprise the following:

	<u>2016</u>	<u>2015</u>
Current accounts	1,882,628	739,526
Time deposits	566,167	2,262,818
Amounts due to customers	<u>2,448,795</u>	<u>3,002,344</u>
Held as collateral against guarantees	560,329	1,084,027

As at 31 December 2016, amounts due to customers of KZT 2,114,344 thousand (86.34% of total amounts due to customers) were due to the ten largest customers (as at 31 December 2015: KZT 2,792,567 thousand (93.01% of total amounts due to customers)).

As at 31 December 2016, amounts included in time deposits are deposits of individuals in the amount of KZT 363,806 thousand (as at 31 December 2015: KZT 1,129,670 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.

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

	<u>2016</u>	<u>2015</u>
Current deposits		
Individuals	1,125,173	99,144
Private enterprises	757,455	640,382
	<u>1,882,628</u>	<u>739,526</u>
Time accounts		
Individuals	363,806	1,129,670
Private enterprises	202,361	1,133,148
	<u>566,167</u>	<u>2,262,818</u>
Amounts due to customers	<u>2,448,795</u>	<u>3,002,344</u>

*(In thousands of tenge, unless otherwise indicated)***15. Amounts due to customers (continued)**

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

	<i>2016</i>	<i>2015</i>
Individuals	1,488,979	1,228,814
Real estate construction	318,376	86,582
Power generation	271,728	294,292
Finance leasing	196,995	1,256
Trade	60,665	214,528
Transport and communication	44,056	1,132,603
Fuel	41,377	30,792
Industrial production	21,622	9,550
Agriculture	3,073	1,023
Other	1,924	2,904
Amounts due to customers	<u>2,448,795</u>	<u>3,002,344</u>

**16. Provisions for commitments and contingencies**

Movements in provisions for commitments and contingencies were as follows:

	<i>Guarantees issued</i>	<i>Total</i>
At 31 December 2014	468,868	468,868
Reversal for the year	(286,598)	(286,598)
At 31 December 2015	<u>182,270</u>	<u>182,270</u>
Reversal for the year	(9,208)	(9,208)
At 31 December 2016	<u>173,062</u>	<u>173,062</u>

**17. Equity**

As at 31 December 2016 and 2015, 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 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 24 May 2016, in 2016 the Bank declared and paid dividends in the amount of KZT 625,844 thousand based on the Bank's performance in 2015 (in 2015: KZT 578,388 thousand).

**18. 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 2016, similar to 2015, the Kazakhstan economy continued to be negatively impacted by a significant decline in crude oil prices and significant tenge 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 future performance of the Bank.

*(In thousands of tenge, unless otherwise indicated)***18. Commitments and contingencies (continued)**

## Legal actions and claims (continued)

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 2016. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

## Financial commitments and contingencies

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

	<u>2016</u>	<u>2015</u>
Credit related commitments		
Guarantees issued	3,137,642	4,025,260
Undrawn loan commitments	1,249,080	909,239
	<u>4,386,722</u>	<u>4,934,499</u>
Operating lease commitments		
Not later than 1 year	57,897	49,909
	<u>57,897</u>	<u>49,909</u>
Commitments and contingencies (before deducting collateral)	4,444,619	4,984,408
Less: cash held as collateral against guarantees ( <i>Note 15</i> )	(560,329)	(1,084,027)
Commitments and contingencies	<u>3,884,290</u>	<u>3,900,381</u>

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 and other conditions.

**19. Net fee and commission income**

Net fee and commission income comprises the following:

	<u>2016</u>	<u>2015</u>
Guarantees issued	109,944	93,293
Currency conversion operations	17,783	18,537
Cash operations	13,577	12,671
Transfer operations	8,299	9,423
Customer accounts maintenance	1,454	1,209
Other	3,020	5,334
Fee and commission income	<u>154,077</u>	<u>140,467</u>
Transfer operations	(2,200)	(2,189)
Cash operations	(2,096)	(1,472)
Fee and commission expense	<u>(4,296)</u>	<u>(3,661)</u>
Net fee and commission income	<u>149,781</u>	<u>136,806</u>

*(In thousands of tenge, unless otherwise indicated)***20. Net gains from transactions in foreign currencies**

Net gains from transactions in foreign currencies comprise the following:

	<u>2016</u>	<u>2015</u>
Gain less losses from currency translation differences	44,586	235,148
Gain less losses from dealing in foreign currencies	5,380	17,988
Net gains from transaction in foreign currencies	<u>49,966</u>	<u>253,136</u>

**21. Personnel and other operating expenses**

Personnel and other operating expenses comprise the following:

	<u>2016</u>	<u>2015</u>
Salaries and bonuses	192,000	250,553
Social security costs	24,380	23,073
Personnel expenses	<u>216,380</u>	<u>273,626</u>
Rent	57,897	49,909
Depreciation and amortization	24,298	23,147
Technical support of software	20,895	12,096
Professional services	13,664	12,816
Security	11,767	11,782
Business trips	10,243	8,487
Communication	6,772	5,331
Utilities	6,212	3,972
Contributions to Kazakhstan Deposit Insurance Fund JSC	4,128	4,470
Transportation	3,523	3,249
Taxes, other than income tax	3,497	690
Advertising and marketing	2,519	1,895
Office supplies	1,801	1,448
Repair and maintenance of property and equipment	1,582	3,388
Representative expenses	1,156	923
Encashment	715	1,338
Other	33,858	22,094
Other operating expenses	<u>204,527</u>	<u>167,035</u>

**22. 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.

*(In thousands of tenge, unless otherwise indicated)*

## 22. Risk management (continued)

Introduction (continued)

### *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 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.

### *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*

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

### *Internal audit*

Risk management processes throughout the Bank are 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 (hereinafter – the "ALMC"), 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).

*(In thousands of tenge, unless otherwise indicated)***22. Risk management (continued)**

## Introduction (continued)

*Excessive risk concentration*

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

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

## Credit risk

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

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

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

*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 18 "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:

	Notes	2016			Total
		<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>	<i>Individually impaired</i>	
Cash and cash equivalents (excluding cash on hand)	5	1,141,517	–	–	1,141,517
Loans to customers	6				
Corporate lending		2,949,958	–	9,784,568	12,734,526
Lending to individual entrepreneurs		40,367	18,133	268,009	326,509
Small business lending		122,478	–	–	122,478
Residential mortgages		30,606	–	–	30,606
Consumer lending		10,045	–	–	10,045
Finance lease receivables	7	460	40,859	–	41,319
Receivables on re-assigned loans	8	580,699	–	–	580,699
<b>Total</b>		<b>4,876,130</b>	<b>58,992</b>	<b>10,052,577</b>	<b>14,987,699</b>

*(In thousands of tenge, unless otherwise indicated)***22. Risk management (continued)**

Credit risk (continued)

*Credit – related commitments risks (continued)**Credit quality per class of financial assets (continued)*

	Notes	2015			Total
		<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>	<i>Individually impaired</i>	
Cash and cash equivalents (excluding cash on hand)	5	2,308,850	–	–	2,308,850
Amounts due from credit institutions	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
Residential mortgages		35,875	–	–	35,875
Consumer lending		36,575	–	–	36,575
Finance lease receivables	7	8,695	33,646	–	42,341
<b>Total</b>		<b>7,034,486</b>	<b>173,675</b>	<b>8,657,180</b>	<b>15,865,341</b>

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*

	2016		
	<i>Less than 30 days</i>	<i>31-90 days</i>	<i>Total</i>
Loans to customers	–	18,133	18,133
Finance lease receivables	–	40,859	40,859
<b>Total</b>	<b>–</b>	<b>58,992</b>	<b>58,992</b>

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

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.

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



*(In thousands of tenge, unless otherwise indicated)***22. Risk management (continued)**

Credit risk (continued)

*Credit – related commitments risks (continued)**Impairment assessment (continued)*

The geographical concentration of Bank's monetary assets and liabilities as at 31 December is set out below:

	2016			2015		
	Kazakhstan	CIS and other countries	Total	Kazakhstan	CIS and other countries	Total
<b>Assets</b>						
Cash and cash equivalents	1,664,923	40,567	1,705,490	2,497,290	13,383	2,510,673
Loans to customers	11,730,901	–	11,730,901	12,188,539	–	12,188,539
Finance lease receivables	41,319	–	41,319	42,341	–	42,341
Receivables on re-assigned loans	580,699	–	580,699	–	–	–
Other monetary assets	2,713	–	2,713	1,464	–	1,464
<b>Total monetary assets</b>	<b>14,020,555</b>	<b>40,567</b>	<b>14,061,122</b>	<b>14,729,634</b>	<b>13,383</b>	<b>14,743,017</b>
<b>Liabilities</b>						
Amounts due to credit institutions	–	52,969	52,969	–	–	–
Amounts due to customers	2,448,365	430	2,448,795	3,001,978	366	3,002,344
Other monetary liabilities	25,846	1,924	27,770	56,935	–	56,935
<b>Total monetary liabilities</b>	<b>2,474,211</b>	<b>55,323</b>	<b>2,529,534</b>	<b>3,058,913</b>	<b>366</b>	<b>3,059,279</b>
<b>Net position</b>	<b>11,546,344</b>	<b>(14,756)</b>	<b>11,531,588</b>	<b>11,670,721</b>	<b>13,017</b>	<b>11,683,738</b>

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)***22. 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.

<i>Financial liabilities</i>	<i>2016</i>				<i>Total</i>
	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	
Amounts due to credit institutions	31,295	21,674	–	–	52,969
Amounts due to customers	1,908,945	341,833	205,517	–	2,456,295
Other financial liabilities	–	27,770	–	–	27,770
<b>Total undiscounted financial liabilities</b>	<b>1,940,240</b>	<b>391,277</b>	<b>205,517</b>	<b>–</b>	<b>2,537,034</b>

<i>Financial liabilities</i>	<i>2015</i>				<i>Total</i>
	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	
Amounts due to customers	1,872,620	925,102	218,595	–	3,016,317
Other financial liabilities	–	56,935	–	–	56,935
<b>Total undiscounted financial liabilities</b>	<b>1,872,620</b>	<b>982,037</b>	<b>218,595</b>	<b>–</b>	<b>3,073,252</b>

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.

	<i>2016</i>				<i>Total</i>
	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	
Guarantees issued	205,550	1,945,925	451,358	534,809	3,137,642
Undrawn loan commitments	–	151,038	655,981	442,061	1,249,080
	<b>205,550</b>	<b>2,096,963</b>	<b>1,107,339</b>	<b>976,870</b>	<b>4,386,722</b>
	<i>2015</i>				<i>Total</i>
	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	
Guarantees issued	992,305	756,682	1,699,368	576,905	4,025,260
Undrawn loan commitments	909,239	–	–	–	909,239
	<b>1,901,544</b>	<b>756,682</b>	<b>1,699,368</b>	<b>576,905</b>	<b>4,934,499</b>

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)***22. 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.

<i>Currency</i>	<i>2016</i>		<i>2015</i>	
	<i>Increase in currency rate in %</i>	<i>Effect on profit before tax</i>	<i>Increase in currency rate in %</i>	<i>Effect on profit before tax</i>
US Dollar	+13%	96,327	+60%	444,719
Euro	+15%	(809)	+60%	914
Russian ruble	+13%	5,263	+40%	973

<i>Currency</i>	<i>2016</i>		<i>2015</i>	
	<i>Decrease in currency rate in %</i>	<i>Effect on profit before tax</i>	<i>Decrease in currency rate in %</i>	<i>Effect on profit before tax</i>
US Dollar	-13%	(96,327)	-20%	(148,240)
Euro	-15%	809	-20%	(305)
Russian ruble	-13%	(5,263)	-29%	(706)

**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)***23. Fair value measurement****Fair value hierarchy**

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

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

<i>2016</i>	<i>Date of valuation</i>	<i>Fair value measurement using</i>			<i>Total</i>
		<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2016	–	1,705,490	–	1,705,490
Loans to customers	31 December 2016	–	–	11,114,801	11,114,801
Finance lease receivables	31 December 2016	–	41,319	–	41,319
Receivables on re-assigned loans	31 December 2016	–	–	580,699	580,699
Other financial assets	31 December 2016	–	–	2,713	2,713
<b>Liabilities for which fair values are disclosed</b>					
Amounts due to credit institutions	31 December 2016	–	–	52,969	52,969
Amounts due to customers	31 December 2016	–	–	2,448,714	2,448,714
Other financial liabilities	31 December 2016	–	–	27,770	27,770

<i>2015</i>	<i>Date of valuation</i>	<i>Fair value measurement using</i>			<i>Total</i>
		<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2015	–	2,510,673	–	2,510,673
Loans to customers	31 December 2015	–	–	11,960,730	11,960,730
Finance lease receivables	31 December 2015	–	42,341	–	42,341
Other financial assets	31 December 2015	–	–	1,464	1,464
<b>Liabilities for which fair values are disclosed</b>					
Amounts due to customers	31 December 2015	–	–	2,986,722	2,986,722
Other financial liabilities	31 December 2015	–	–	56,935	56,935

During 2016 and 2015, there were no transfers between levels of the fair value hierarchy.

*(In thousands of tenge, unless otherwise indicated)***23. Fair value measurement (continued)**

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.

	2016			2015		
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Un-recognised gain/(loss)</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Un-recognised gain/(loss)</i>
<b>Financial assets</b>						
Cash and cash equivalents	1,705,490	1,705,490	–	2,510,673	2,510,673	–
Loans to customers	11,730,901	11,114,801	(616,100)	12,188,539	11,960,730	(227,809)
Finance lease receivables	41,319	41,319	–	42,341	42,341	–
Receivables on re-assigned loans	580,699	580,699	–	–	–	–
Other financial assets	2,713	2,713	–	1,464	1,464	–
<b>Financial liabilities</b>						
Amounts due to credit institutions	52,969	52,969	–	–	–	–
Amounts due to customers	2,448,795	2,448,714	(81)	3,002,344	2,986,722	(15,622)
Other financial liabilities	27,770	27,770	–	56,935	56,935	–
Total unrecognised change in unrealised fair value			<u>(616,181)</u>			<u>(243,431)</u>

**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 amount**

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.

*(In thousands of tenge, unless otherwise indicated)***24. 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 22 "Risk Management"* for the Bank's contractual undiscounted repayment obligations.

	2016			2015		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	1,705,490	–	1,705,490	2,510,673	–	2,510,673
Loans to customers	2,936,431	8,794,470	11,730,901	3,089,756	9,098,783	12,188,539
Finance lease receivables	41,319	–	41,319	41,929	412	42,341
Receivables on re-assigned loans	–	580,699	580,699	–	–	–
Property and equipment	–	22,229	22,229	–	27,131	27,131
Intangible assets	–	14,786	14,786	–	23,096	23,096
Inventory	190,565	–	190,565	190,565	–	190,565
Deferred corporate income tax assets	–	36,401	36,401	–	10,569	10,569
Other assets	21,711	–	21,711	6,127	–	6,127
<b>Total</b>	<b>4,895,516</b>	<b>9,448,585</b>	<b>14,344,101</b>	<b>5,839,050</b>	<b>9,159,991</b>	<b>14,999,041</b>
Amounts due to credit institutions	52,969	–	52,969	–	–	–
Amounts due to customers	2,245,112	203,683	2,448,795	2,784,992	217,352	3,002,344
Current corporate income tax liabilities	–	–	–	–	9,807	9,807
Provisions for commitments and contingencies	88,467	84,595	173,062	–	182,270	182,270
Other liabilities	52,064	–	52,064	66,299	31,797	98,096
<b>Total</b>	<b>2,438,612</b>	<b>288,278</b>	<b>2,726,890</b>	<b>2,851,291</b>	<b>441,226</b>	<b>3,292,517</b>
<b>Net</b>	<b>2,456,904</b>	<b>9,160,307</b>	<b>11,617,211</b>	<b>2,987,759</b>	<b>8,718,765</b>	<b>11,706,524</b>

**25. 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.

The amount of related party transactions and balances as at 31 December 2016 and 2015, as well as the respective amounts of income and expenses for the years then ended are as follows:

	2016				2015			
	<i>Share-holders</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Share-holders</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Other related parties</i>
Loans outstanding as at 1 January	–	–	8,950	37,861	–	–	24,460	54,546
Loans issued during the year	–	–	–	–	–	–	–	–
Loan repayments during the year	–	–	(3,927)	(22,333)	–	–	(15,510)	(16,685)
Loans outstanding as at 31 December	–	–	5,023	15,528	–	–	8,950	37,861
Deposits outstanding as at 1 January	1,077,867	–	–	42,546	–	–	1,674	1,126,035
Deposits received during the year	200,000	–	–	–	2,130,322	–	–	–
Deposits withdrawn during the year	(917,888)	–	–	(42,546)	(1,052,455)	–	(1,674)	(1,083,489)
Deposits outstanding as at 31 December	359,979	–	–	–	1,077,867	–	–	42,546
Current accounts as at 31 December	7,257	193,993	2,811	50,190	1,229	171,444	5,279	55,431

*(In thousands of tenge, unless otherwise indicated)***25. Related party disclosures (continued)**

The income and expense arising from transactions with related parties for the years ended 31 December 2016 and 2015 were as follows:

	2016				2015			
	Share-holders	Entities under common control	Key management personnel	Other related parties	Share-holders	Entities under common control	Key management personnel	Other related parties
Interest income on loans	–	–	370	2,326	–	–	811	4,608
Fee and commission income	3,617	3,837	24	11,310	873	9,096	51	700
Interest expense on amounts due to customers	–	–	–	135	290	–	–	2,494
Other operating expenses	5,574	–	4,862	31,642	–	2,100	–	1,260

Below is the information about remuneration of 5 members (in 2015: 5 members) of key management personnel:

	2016	2015
Salaries and other short-term benefits	63,759	59,576
Social security costs	6,330	5,885
Total key management personnel compensation	70,089	65,461

**26. 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 2016 and 2015, 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 2016 and 2015:

	2016	2015
Tier 1 capital	11,602,425	11,689,054
Tier 2 capital	–	–
Total capital	11,602,425	11,689,054
Risk weighted assets and liabilities, possible claims and liabilities	16,325,717	17,350,970
Operational risk	1,175,297	822,691
Capital adequacy ratio k1-1 (minimum 5%)	91%	61%
Capital adequacy ratio k1-2 (minimum 6%)	66%	61%
Capital adequacy ratio k2 (minimum 7.5%)	66%	61%