Tsesnabank JSC

Unconsolidated Financial Statements

for the year ended
31 December 2015

Contents

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Independent Auditors' Report

To the Board of Directors of Tsesnabank JSC

We have audited the accompanying unconsolidated financial statements of Tsesnabank JSC (the "Bank"), which comprise the unconsolidated statement of financial position as at 31 December 2015, and the unconsolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Unconsolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Assel Urdabayeva
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ-0000096 of 27 August 2012

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Assel Khairova
General Director of KPMG Audit LLC
acting on the basis of the Charter

17 March 2016

	Note	2015 KZT'000	2014 KZT'000
Interest income	4	126,096,879	111,321,266
Interest expense	4	(62,950,172)	(54,918,667)
Net interest income		**63,146,707**	**56,402,599**
Fee and commission income	5	8,798,277	9,851,705
Fee and commission expense	6	(693,133)	(1,059,105)
Net fee and commission income		**8,105,144**	**8,792,600**
Net gain on financial instruments at fair value through profit or loss	7	88,837,809	296,610
Net foreign exchange (loss) gain	8	(75,432,573)	8,005,287
Other income		148,262	94,314
Other operating income		**13,553,498**	**8,396,211**
Impairment losses	9	(31,200,019)	(22,718,065)
Personnel expenses	10	(15,907,699)	(13,097,848)
Other general administrative expenses	11	(16,487,879)	(17,468,437)
Other operating expenses		**(63,595,597)**	**(53,284,350)**
Profit before income tax		**21,209,752**	**20,307,060**
Income tax expense	12	(5,067,993)	(4,798,148)
Profit for the year		**16,141,759**	**15,508,912**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(223,593)	16,029
Total items that are or may be reclassified subsequently to profit or loss		*(223,593)*	*16,029*
Other comprehensive (loss) income for the year		**(223,593)**	**16,029**
Total comprehensive income for the year		**15,918,166**	**15,524,941**

The unconsolidated financial statements as set out on pages 5 to 83 were approved by the management on 17 March 2016 and were signed on its behalf by:

Yakupbayev R.K.
Chairman of the Management Board

Bagautdinova N.M.
Chief Accountant

The unconsolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the unconsolidated financial statements.

	Note	31 December 2015 KZT'000	31 December 2014 KZT'000
ASSETS			
Cash and cash equivalents	13	173,025,717	141,951,966
Deposits and balances with banks and other financial institutions	14	21,670,093	9,126,619
Financial instruments at fair value through profit or loss	15	48,004,810	7,665,606
Available-for-sale financial assets	16	3,587,795	6,382,748
Loans to customers	17	1,504,057,514	1,060,248,934
Held-to-maturity investments	18	23,404,435	31,798,063
Property, equipment and intangible assets	19	39,708,163	25,798,568
Investment in subsidiaries	20	17,740,871	11,438,540
Current tax asset		3,372,940	158,707
Other assets	21	16,863,146	21,909,445
Total assets		**1,851,435,484**	**1,316,479,196**
LIABILITIES			
Loans from state company	22	32,364,715	23,526,969
Deposits and balances from banks and other financial institutions	23	213,933,411	62,876,779
Financial instruments at fair value through profit or loss	15	16,289,988	-
Current accounts and deposits from customers	24	1,347,960,736	1,010,450,102
Debt securities issued	25	44,803,340	46,784,145
Subordinated debt	26	59,120,799	58,593,213
Deferred tax liability	12	8,852,266	3,900,592
Other liabilities	27	5,953,613	4,108,946
Total liabilities		**1,729,278,868**	**1,210,240,746**
EQUITY			
Share capital	28	59,239,830	59,239,830
Additional paid-in capital		1,770	1,770
Revaluation reserve for available-for-sale financial assets		(207,564)	16,029
Reserve for general banking risks		11,982,676	11,982,676
Dynamic reserve		16,631,209	16,631,209
Retained earnings		34,508,695	18,366,936
Total equity		**122,156,616**	**106,238,450**
Total liabilities and equity		**1,851,435,484**	**1,316,479,196**

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

	2015 KZT'000	2014 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	111,051,792	108,813,044
Interest payments	(65,225,364)	(50,507,014)
Fee and commission receipts	8,746,401	9,849,910
Fee and commission payments	(486,583)	(1,059,013)
Net receipts (payments) from financial instruments at fair value through profit or loss	62,940,093	(3,352,434)
Net receipts from foreign exchange	15,709,821	8,824,991
Other income receipts	148,262	94,314
Personnel and other general administrative expenses	(28,270,605)	(27,843,776)
(Increase) decrease in operating assets		
Deposits and balances with banks and other financial institutions	(18,803,065)	(3,693,723)
Financial instruments at fair value through profit or loss	1,787,560	16,300,425
Loans to customers	(34,347,606)	(360,067,621)
Other assets	(2,156,720)	216,533
Increase (decrease) in operating liabilities		
Loans from state company	8,826,484	23,478,203
Deposits and balances from banks and other financial institutions	129,307,861	37,875,078
Current accounts and deposits from customers	(204,422,306)	264,657,178
Amounts payable under repurchase agreements	-	(15,944,006)
Other liabilities	(1,265,743)	(1,058,371)
Net cash (used in) from operating activities before income tax paid	**(16,459,718)**	**6,583,718**
Income tax paid	(3,250,527)	(1,562,500)
Net cash flows (used in) from operating activities	**(19,710,245)**	**5,021,218**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	-	(2,999,841)
Sale and repayment of available-for-sale financial assets	168,197	-
Purchases of held-to-maturity investments	(185,566)	(7,943,535)
Redemption of held-to-maturity investments	8,355,826	3,027,694
Purchases of investments in subsidiary companies	(3,401,438)	(4,012,661)
Purchases of property, equipment and intangible assets	(9,533,267)	(8,448,953)
Proceeds of sales of property and equipment	1,752	202
Net cash flows used in investing activities	**(4,594,496)**	**(20,377,094)**

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

	2015 KZT'000	2014 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Placement of subordinated debt	-	16,319,257
Repayment of subordinated debt	-	(3,001,860)
Placement of debt securities issued	-	31,125,417
Redemption of debt securities	(2,452,633)	(6,019,138)
Proceeds from issuance of shares	-	20,399,830
Net cash flows (used in) from financing activities	**(2,452,633)**	**58,823,506**
Net (decrease) increase in cash and cash equivalents	**(26,757,374)**	**43,467,630**
Effect of changes in exchange rates on cash and cash equivalents	57,831,125	3,336,819
Cash and cash equivalents as at the beginning of the year	141,951,966	95,147,517
Cash and cash equivalents as at the end of the year (Note 13)	**173,025,717**	**141,951,966**

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

	Attributable to equity holders of the Bank						
KZT'000	**Share capital**	**Additional paid-in capital**	**Revaluation reserve for available-for-sale financial assets**	**Reserve for general banking risks**	**Dynamic reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2015	59,239,830	1,770	16,029	11,982,676	16,631,209	18,366,936	106,238,450
Total comprehensive income							
Profit for the year	-	-	-	-	-	16,141,759	16,141,759
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value of available-for-sale financial assets	-	-	(223,593)	-	-	-	(223,593)
Total items that are or may be reclassified subsequently to profit or loss	-	-	*(223,593)*	-	-	-	*(223,593)*
Total other comprehensive loss	-	-	(223,593)	-	-	-	(223,593)
Total comprehensive income for the year	**-**	**-**	**(223,593)**	**-**	**-**	**16,141,759**	**15,918,166**
Balance as at 31 December 2015	**59,239,830**	**1,770**	**(207,564)**	**11,982,676**	**16,631,209**	**34,508,695**	**122,156,616**

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

	Attributable to equity holders of the Bank						
KZT'000	**Share capital**	**Additional paid-in capital**	**Revaluation reserve for available-for-sale financial assets**	**Reserve for general banking risks**	**Dynamic reserve**	**Retained earnings**	**Total equity**
Balance as at 1 January 2014	38,840,000	1,770	-	11,982,676	16,631,209	2,863,638	70,319,293
Total comprehensive income							
Profit for the year	-	-	-	-	-	15,508,912	15,508,912
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value of the available-for-sale financial assets	-	-	16,029	-	-	-	16,029
Total items that are or may be reclassified subsequently to profit or loss	-	-	*16,029*	-	-	-	*16,029*
Total other comprehensive income	-	-	16,029	-	-	-	16,029
Total comprehensive income for the year	**-**	**-**	**16,029**	**-**	**-**	**15,508,912**	**15,524,941**
Transactions with owners, recorded directly in equity							
Shares issued	20,399,830	-	-	-	-	-	20,399,830
Total transactions with owners	**20,399,830**	**-**	**-**	**-**	**-**	**-**	**20,399,830**
Reversal of revaluation reserve for land and buildings	**-**	**-**	**-**	-	-	(5,614)	(5,614)
Balance as at 31 December 2014	**59,239,830**	**1,770**	**16,029**	**11,982,676**	**16,631,209**	**18,366,936**	**106,238,450**

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

1 Background

(a) Organisation and operations

Tsesnabank JSC (the “Bank”) was established in the Republic of Kazakhstan as an open joint stock company under the laws of the Republic of Kazakhstan on 17 January 1992. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint stock company on 26 December 2003.

The Bank operates based on general license #1.2.74/74/29 for banking operations and activities on securities market granted on 8 September 2014 by the National Bank of the Republic of Kazakhstan (the “NBRK”). The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by NBRK. The Bank is a member of the state deposit insurance system in Kazakhstan.

As at 31 December 2015, the Bank has 22 branches (31 December 2014: 22) and 143 sub-branches (31 December 2014: 144) from which it conducts business throughout the Republic of Kazakhstan. The registered address of the head office is 24 Syganak Street, Astana, Republic of Kazakhstan. The majority of the Bank’s assets and liabilities are located in Kazakhstan.

At 31 December 2015, Financial Holding Tsesna JSC, APPARATKZ LLC, KINESIOKZ LLC and United Accumulated Pension Fund JSC owned 50.93%, 7.60%, 7.38% and 6.63% of the outstanding common shares of the Bank, respectively (31 December 2014: Financial Holding Tsesna JSC, Tsesna Corporation JSC, APPARATKZ LLC, KINESIOKZ LLC and United Accumulated Pension Fund JSC owned 39.94%, 10.98%, 7.61%, 7.38% and 6.64%). Other shareholders have less than 5% of the outstanding shares each.

(b) Business environment

The Bank’s operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes, which together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Kazakhstan. In addition, the recent significant depreciation of the Kazakhstan tenge, and the reduction in the global price of oil, have increased the level of uncertainty in the business environment. The unconsolidated financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

(c) Move to floating exchange rate

On 20 August 2015, the NBRK announced that the KZT, which had previously been managed within an exchange rate corridor, would float freely against other currencies going forward.

The KZT closed at 255.26 per USD after the announcement, down approximately 36% from the exchange rate quoted in the previous day’s morning trading.

As at 31 December 2015 the exchange rates applied by the Bank were as follows:

in KZT	**31 December 2015**	**31 December 2014**
Per 1 USD	340.01	182.35
Per 1 EUR	371.46	221.59
Per 1 RUB	4.61	3.13

2 Basis of preparation

(a) Statement of compliance

The accompanying unconsolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The Bank also prepares consolidated financial statements for the year ended 31 December 2015 in accordance with IFRS that can be obtained from the Bank's registered office.

(b) Basis of measurement

The unconsolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these unconsolidated financial statements.

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

(d) Use of estimates and judgments

The preparation of unconsolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - Note 17
- estimates of fair value of financial instruments – Note 36.

(e) Changes in accounting policies

New amendments to IFRS became effective from 1 January 2016 and have been adopted by the Bank since that date. These changes did not have a significant effect on the unconsolidated financial statements.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these unconsolidated financial statements, and are applied consistently by Bank.

(a) Accounting for investments in subsidiaries in unconsolidated financial statements

Subsidiaries are investees controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are accounted for at cost in these unconsolidated financial statements.

3 Significant accounting policies, continued

(b) Foreign currency

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

(c) Cash and cash equivalents

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

(d) Financial instruments

(i) Classification

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

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

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

- the asset or liability contains an embedded financial derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iii) Measurement, continued

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

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

(iv) Amortised cost

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

(v) Financial assets or liabilities originated at interest rates different from market rates

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(vi) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(vi) Fair value measurement principles, continued

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Gains and losses on subsequent measurement

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

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

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

(viii) Derecognition

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

The Bank enters into transactions whereby it transfers assets recognised on its unconsolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

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

The Bank writes off assets deemed to be uncollectible.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(ix) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the unconsolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(x) Derivative financial instruments

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

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

Changes in the fair value of derivative financial instruments are recognised immediately in profit or loss.

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

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

(xi) Offsetting

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

(e) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

3 Significant accounting policies, continued

(e) Property and equipment, continued

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the first day of the month following the acquisition date or, in respect of internally constructed assets, on the first day of the month following the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings	25 to 100 years
- Computer equipment	5 to 10 years
- Motor vehicles	7 years
- Other	2 to 20 years

(f) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is from 2 to 30 years.

(g) Impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

3 Significant accounting policies, continued

(g) Impairment, continued

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis.

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

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

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

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

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

(ii) Financial assets carried at cost

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

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

3 Significant accounting policies, continued

(g) Impairment, continued

(iii) Available-for-sale financial assets

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

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

(iv) Non financial assets

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

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

(h) Provisions

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

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(i) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

3 Significant accounting policies, continued

(i) Credit related commitments, continued

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(j) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Cumulative non-redeemable preference shares

The component of the cumulative non-redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the unconsolidated statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the unconsolidated statement of profit or loss and other comprehensive income. On issuance of the cumulative non-redeemable preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on redemption.

(iii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iv) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

3 Significant accounting policies, continued

(k) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(l) Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

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

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3 Significant accounting policies, continued

(m) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Bank's operations are highly integrated and constitute one operating business segment for the purposes of IFRS 8 *Operating Segments*.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and are not applied in preparing these unconsolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the unconsolidated financial statements. The Bank has not yet completed the process of evaluating the impact of these changes. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

- IFRS 16 *Leases* replaces the current guidance for the lease accounting, including IAS 17 Leases, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard cancels a currently used dual lessee accounting model. This model requires classification of the lease as on-balance finance lease and off-balance operating lease. It will be replaced by a single accounting model, which implies that the lease is recognised on balance and is similar to the current accounting of the finance lease.

  For lessors the currently used accounting rules will be preserved in general – the lessors will continue classifying the lease as finance lease and operating lease. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted provided that IFRS 15 *Revenue from Contracts with Customers* is also applied. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2015 KZT'000	2014 KZT'000
Interest income		
Loans to customers	122,906,705	107,764,729
Held-to-maturity investments	1,384,187	1,387,697
Deposits and balances with banks and other financial institutions	833,836	682,518
Amounts receivable under reverse repurchase agreements	371,068	483,034
Available-for-sale financial assets	172,191	54,135
Financial instruments at fair value through profit or loss	156,438	420,129
Cash and cash equivalents	254,851	529,024
Other assets	17,603	-
	126,096,879	**111,321,266**
Interest expense		
Current accounts and deposits from customers	(47,573,309)	(45,280,218)
Subordinated debt	(5,511,860)	(4,400,486)
Debt securities issued	(4,081,173)	(2,353,939)
Deposits and balances from banks and other financial institutions	(4,078,863)	(2,235,507)
Loans from state company	(1,343,591)	(546,504)
Amounts payable under repurchase agreements	(361,376)	(102,013)
	(62,950,172)	**(54,918,667)**
	63,146,707	**56,402,599**

Included within various line items under interest income for the year ended 31 December 2015 is a total of KZT 7,400,671 thousand (31 December 2014: KZT 5,517,515 thousand) accrued on impaired financial assets.

Included in interest income on financial instruments at fair value through profit or loss for the year ended 31 December 2015 is a total of KZT 156,438 thousand (31 December 2014: KZT 420,129 thousand) recognised on financial assets at fair value through profit or loss held for trading.

Interest income and expense calculated using the effective interest method and relating to financial assets or liabilities not carried at fair value through profit of loss is KZT 125,940,441 thousand (31 December 2014: KZT 110,901,137 thousand) and KZT 62,950,172 thousand (31 December 2014: KZT 54,918,667 thousand), respectively.

5 Fee and commission income

	2015 KZT'000	2014 KZT'000
Transfer operations	2,698,309	2,658,391
Cash withdrawal fees	1,759,929	1,865,291
Guarantee and letter of credit issuance fees	1,718,968	2,394,572
Settlement fees	1,051,096	1,102,308
Foreign exchange fees	850,927	1,129,500
Cash collection fees	61,683	53,672
Commission for the safe deposit operations	53,392	41,915
Other	603,973	606,056
	8,798,277	**9,851,705**

6 Fee and commission expense

	2015 KZT'000	2014 KZT'000
Client card account maintenance fees	341,232	311,573
Transfer operations	150,110	137,102
Commission expenses on guarantees issued	64,427	61,705
Brokers' and insurance agents' services	55,908	349,464
Agents' services	34,776	64,259
Commission expense on received deposits	15,342	78,987
Commission expenses on credit letters	10,451	30,747
Other	20,887	25,268
	693,133	**1,059,105**

7 Net gain on financial instruments at fair value through profit or loss

	2015 KZT'000	2014 KZT'000
Derivative financial instruments	88,810,214	316,163
Equity financial instruments	(197)	(182)
Debt financial instruments	27,792	(19,371)
	88,837,809	**296,610**

Included in net gain on financial instruments at fair value through profit or loss for the year ended 31 December 2015 is a total gain of KZT 88,837,809 thousand (31 December 2014:gain of KZT 296,610 thousand) recognised on financial assets held for trading.

During the year ended 31 December 2015, net gain on derivative financial instruments comprise the unrealised gain from revaluation in the amount of KZT 43,150,948 thousand and realised gain constituted KZT 61,786,985 thousand on the NBRK swap agreements (31 December 2014: the unrealised gain from revaluation was KZT 693,910 thousand and realised loss was KZT 368,321 thousand), as well as the unrealised loss from revaluation amounting to KZT 16,277,788 thousand and the realised gain in the amount of KZT 150,069 thousand on other currency swap agreements concluded with other counterparties (31 December 2014: the unrealised loss from revaluation was KZT 12,200 thousand and realised gain was KZT 2,774 thousand).

8 Net foreign exchange (loss) gain

	31 December 2015 KZT'000	31 December 2014 KZT'000
Gain on spot transactions and derivatives	15,720,936	8,812,315
Loss from revaluation of financial assets and liabilities	(91,153,509)	(807,028)
	(75,432,573)	**8,005,287**

9 Impairment losses

	2015 KZT'000	2014 KZT'000
Loans to customers (Note 17)	30,784,845	21,371,113
Other assets (Note 21)	415,174	1,346,952
	31,200,019	**22,718,065**

10 Personnel expenses

	2015 KZT'000	2014 KZT'000
Employee compensation	14,558,002	11,911,756
Social contributions and payroll related taxes	1,349,697	1,186,092
	15,907,699	**13,097,848**

11 Other general administrative expenses

	2015 KZT'000	2014 KZT'000
Occupancy	3,232,493	3,465,654
Depreciation and amortisation	2,644,194	1,948,013
Contributions to deposit fund	1,762,275	2,069,360
Transportation	1,629,449	1,172,424
Repairs and maintenance	1,148,116	1,058,278
Taxes other than on income	1,107,491	1,220,839
Security	734,938	650,508
Advertising and marketing	588,905	1,162,985
Communications and information services	461,233	438,736
Stationery and office equipment supplies	372,484	363,769
Professional services	283,244	136,672
Travel expenses	254,833	340,902
Insurance	249,721	231,596
Encashment expenses	200,965	189,869
Post and courier services	76,084	59,209
Recruitment and training	49,340	40,509
Other	1,692,114	2,919,114
	16,487,879	**17,468,437**

12 Income tax expense

	2015 KZT'000	2014 KZT'000
Current tax expense		
Current year	(80,018)	(4,255,252)
Effect of retrospective changes in tax legislation	-	1,097,368
Underprovided in prior periods	(36,301)	(332,914)
	(116,319)	**(3,490,798)**
Deferred tax expense		
Origination and reversal of temporary differences	(4,951,674)	(1,307,350)
Total income tax expense	**(5,067,993)**	**(4,798,148)**

In 2015, the applicable tax rate for current and deferred tax is 20% (2014: 20%).

12 Income tax expense, continued

Reconciliation of effective tax rate for the year ended 31 December:

	2015 KZT'000	%	2014 KZT'000	%
Profit before income tax	**21,209,752**	**100.0**	**20,307,060**	**100.0**
Income tax at the applicable tax rate	(4,241,950)	(20.0)	(4,061,412)	(20.0)
Underprovided in prior periods	(36,301)	(0.2)	(332,914)	(1.6)
Non-deductible expense	(789,742)	(3.7)	(403,822)	(2.0)
	(5,067,993)	**(23.9)**	**(4,798,148)**	**(23.6)**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as at 31 December 2015 and 31 December 2014. Deferred tax assets in respect of tax losses carried forward are recognised in these unconsolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim the deductions in future periods.

These deductible temporary differences do not expire under current tax legislation. The tax losses carried forward expire in ten years after the date of origination.

Movements in temporary differences during the years ended 31 December 2015 and 2014 are presented as follows.

KZT'000	**Balance 1 January 2015**	**Recognised in profit or loss**	**Balance 31 December 2015**
Property, equipment and intangible assets	(1,002,894)	(355,587)	(1,358,481)
Loans to customers	(3,326,242)	-	(3,326,242)
Interest payable on deposits and balances from banks and other financial institutions	122,949	(38,743)	84,206
Interest payable on current accounts and deposits from customers	40,051	(31,527)	8,524
Unrealised revaluation of currency swap agreements	-	(5,374,632)	(5,374,632)
Other liabilities	208,753	236,849	445,602
Tax losses carried forward	56,791	611,966	668,757
	(3,900,592)	**(4,951,674)**	**(8,852,266)**

12 Income tax expense, continued

Deferred tax asset and liability, continued

KZT'000	Balance 1 January 2014	Recognised in profit or loss	Balance 31 December 2014
Property, equipment and intangible assets	(605,996)	(396,898)	(1,002,894)
Loans to customers	(3,326,242)	-	(3,326,242)
Interest payable on deposits and balances from banks and other financial institutions	56,657	66,292	122,949
Interest payable on current accounts and deposits from customers	850,284	(810,233)	40,051
Interest payable on repurchase agreements	382	(382)	-
Interest payable on debt securities issued	72,045	(72,045)	-
Interest payable on subordinated debt	197,186	(197,186)	-
Other liabilities	104,673	104,080	208,753
Tax losses carried forward	57,769	(978)	56,791
	(2,593,242)	**(1,307,350)**	**(3,900,592)**

13 Cash and cash equivalents

	31 December 2015 KZT'000	31 December 2014 KZT'000
Cash on hand	**44,982,068**	**32,410,904**
Nostro accounts with the NBRK	**120,997,942**	**64,928,468**
Nostro accounts with other banks		
- rated AA- to AA+	766,755	29,422,285
- rated A- to A+	78,832	2,711,122
- rated from BBB- to BBB+	2,564,015	592,892
- rated from BB- to BB+	668,224	358,246
- rated from B- to B+	122,131	456,737
- not rated	832,527	208,996
Total nostro accounts with other banks	**5,032,484**	**33,750,278**
Current accounts and term deposits with other banks		
- rated from B- to B+	2,013,223	10,862,316
Total current accounts and term deposits with other banks	**2,013,223**	**10,862,316**
Total cash and cash equivalents	**173,025,717**	**141,951,966**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.
None of cash and cash equivalents are impaired or past due.

As at 31 December 2015, the Bank has one bank (31 December 2014: three banks), whose balance exceeds 10% of equity. The gross value of these balances as at 31 December 2015 is KZT 120,997,942 thousand (31 December 2014: KZT 105,213,068 thousand).

Minimum reserve requirements

As at 31 December 2015 minimum reserve requirements are calculated in accordance with regulations issued by the NBRK and should be maintained as average of cash on hand not exceeding 70% of the estimated minimum reserve requirements and balances on current account with the NBRK for a 4-week period (31 December 2014: as average of cash on hand and balances on current account with the NBRK for a two-week period) calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other Bank liabilities. As at 31 December 2015, the minimum reserve is KZT 12,828,850 thousand (31 December 2014: KZT 12,043,308 thousand), and the reserve asset is KZT 19,519,450 thousand (31 December 2014: KZT 21,272,996 thousand).

14 Deposits and balances with banks and other financial institutions

	31 December 2015 KZT'000	31 December 2014 KZT'000
Loans and deposits		
- conditional deposit with NBRK	10,201,923	3,672,281
- rated from BB- to BB+	12,529	29,843
- rated below B+	1,004,028	128
- not rated	9,718,544	5,424,367
- defaulted	48,130	48,130
Total loans and deposits	**20,985,154**	**9,174,749**
Impairment allowance	(48,130)	(48,130)
Total loans and deposits	**20,937,024**	**9,126,619**
Derivative financial instruments		
Foreign currency contracts	733,069	-
Net deposits and balances with banks and other financial institutions	**21,670,093**	**9,126,619**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.

Overdue or impaired deposits and balances with banks and other financial institutions comprise deposits and balances with banks and other financial institutions overdue for more than 360 days of KZT 48,130 thousand (31 December 2014: overdue for more than 360 days of KZT 48,130 thousand).

Conditional deposit with NBRK consists of funds of KZT 1,000,128 thousand (31 December 2014: KZT 3,000,000 thousand) received from Development Bank of Kazakhstan JSC ("DBK") in accordance with the loan agreement with DBK and funds of KZT 9,201,795 thousand (31 December 2014: KZT 672,281 thousand) received from Entrepreneurship Development Fund DAMU JSC ("Damu") in accordance with the loan agreement with Damu. Funds will be distributed to corporate clients on preferential terms. These funds may be withdrawn from the conditional deposit only after approval of DBK and Damu, respectively.

The amount of loans and deposits with not rated banks includes KZT 9,705,544 thousand of subordinated debt (31 December 2014: KZT 2,009,312 thousand).

Concentration of deposits and balances with banks and other financial institutions

As at 31 December 2015, the Bank has no banks (31 December 2014: no banks), whose balance exceeds 10% of equity.

15 Financial instruments at fair value through profit or loss

	31 December 2015 KZT'000	31 December 2014 KZT'000
ASSETS		
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	68,712	1,645,717
- Total government bonds	**68,712**	**1,645,717**
- Corporate bonds		
rated from BBB- to BBB+	123,181	2,095,395
rated from BB- to BB+	1,961,781	245,741
- Total corporate bonds	**2,084,962**	**2,341,136**
Equity investments		
American and Global depository receipts	626	510
Total equity investments	**626**	**510**
Derivative financial instruments		
Foreign currency contracts	45,850,510	3,678,243
	48,004,810	**7,665,606**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	16,289,988	-
	16,289,988	**-**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.

As at 31 December 2015 and 31 December 2014 financial instruments at fair value through profit or loss are held for trading.

No financial assets at fair value through profit or loss are past due.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of the foreign currency swap contracts outstanding at 31 December 2015 and 31 December 2014 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resulted unrealised gains and losses on these non-matured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

In 2014 and 2015, the Bank concluded contracts on cross-currency interest rate swaps with Damu and with NBRK for the total notional amount of USD 164,200,000 as part of the investment program for small and medium enterprises ("SME"s) development implemented by Damu jointly with Asian Development Bank.

15 Financial instruments at fair value through profit or loss, continued

Foreign currency contracts, continued

Type of instrument	Notional amount	Maturity	Weighted average contractual exchange rates	Amounts payable by Bank	Amounts receivable by Bank	Fair value Asset KZT'000
31 December 2015						
Cross-currency interest rate swaps with the NBRK (less than 1 year)	USD 432,000,000	January – June 2016	277.80	Fixed prepayment* of 3% per year and KZT 120,011,160 thousand at maturity	USD 432,000,000 at maturity	28,008,785
Cross-currency interest rate swaps with the NBRK (5-year)	USD 164,200,000	September 2019, August 2020	240.80	Fixed prepayment* of 3% per year and KZT 39,539,654 thousand at maturity	USD 164,200,000 at maturity	17,841,725
Cross-currency interest rate swaps with Damu (5-year)	KZT 39,539,654 thousand	September 2019, August 2020	240.80	USD 164,200,000 at maturity	Fixed interest rate of 3% per year and KZT 39,539,654 thousand	(16,289,988)
						29,560,522

15 Financial instruments at fair value through profit or loss, continued

Foreign currency contracts, continued

Type of instrument	Notional amount	Maturity	Weighted average contractual exchange rates	Amounts payable by Bank	Amounts receivable by Bank	Fair value Asset KZT'000
31 December 2014						
Cross-currency interest rate swaps with the NBRK (less than 1 year)	USD 604,440,000	October – December 2015	181.22	Fixed prepayment* of 3% per year and KZT 109,537,924 thousand at maturity	USD 604,440,000 at maturity	3,344,834
Cross-currency interest rate swaps with the NBRK (5-year)	USD 61,000,000	September 2019	182.15	Fixed prepayment* of 3% per year and KZT 11,111,150 thousand at maturity	USD 61,000,000 at maturity	339,056
Cross-currency interest rate swap with Damu (less than 1 year)	KZT 444,934 thousand	29 December 2015	182.35	USD 2,440,000 at maturity	Fixed interest rate of 3% per year and KZT 444,934 thousand at maturity	74
Cross-currency interest rate swap with Damu (5-year)	KZT 11,111,150 thousand	September 2019	182.15	USD 61,000,000 at maturity	Fixed interest rate of 3% per year and KZT 11,111,150 thousand at maturity	(5,721)
						3,678,243

* Prepayment is calculated based on the USD notional amount of the deal and paid in USD

16 Available-for-sale financial assets

	31 December 2015 KZT'000	31 December 2014 KZT'000
Debt instruments		
Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	2,850,069	3,073,611
Total government bonds	**2,850,069**	**3,073,611**
Equity instruments		
Corporate shares	737,726	3,309,137
	3,587,795	**6,382,748**

As at 31 December 2015, available-for-sale investments include unquoted equity securities stated at cost of KZT 737,726 thousand (31 December 2014: KZT 10,743 thousand). There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows.

17 Loans to customers

	31 December 2015 KZT'000	31 December 2014 KZT'000
Loans to corporate customers		
Loans to large corporates	402,991,799	278,946,761
Loans to small and medium size companies	1,078,480,504	670,138,838
Total loans to corporate customers	**1,481,472,303**	**949,085,599**
Loans to retail customers		
Car loans	61,178,013	82,305,774
Mortgage loans	39,647,316	45,615,991
Consumer loans	19,133,937	27,761,012
Express loans	4,443,509	4,908,812
Credit cards	92,150	111,980
Total loans to retail customers	**124,494,925**	**160,703,569**
Gross loans to customers	**1,605,967,228**	**1,109,789,168**
Impairment allowance	(101,909,714)	(49,540,234)
Net loans to customers	**1,504,057,514**	**1,060,248,934**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	41,404,211	8,136,023	49,540,234
Net charge	27,463,045	3,321,800	30,784,845
Foreign exchange effect	22,649,824	399,500	23,049,324
Write-offs	(1,210,331)	(255,260)	(1,465,591)
Recovery of previously written-off balances	-	902	902
Balance at the end of the year	**90,306,749**	**11,602,965**	**101,909,714**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2014 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	24,474,211	3,765,524	28,239,735
Net charge	16,957,270	4,413,843	21,371,113
Foreign exchange effect	141,924	47,785	189,709
Write-offs	(169,194)	(91,129)	(260,323)
Balance at the end of the year	**41,404,211**	**8,136,023**	**49,540,234**

17 Loans to customers, continued

(a) Credit quality of loans to customers

The following table provides information on the credit quality of the loans to customers as at 31 December 2015 and 2014:

	31 December 2015 KZT'000	31 December 2014 KZT'000
Loans to corporate customers		
Loans to large corporates		
Unimpaired loans		
- not overdue	372,022,906	271,080,226
- overdue less than 90 days	14,096,199	-
- overdue more than 1 year	2,250,247	-
Total unimpaired loans	388,369,352	271,080,226
Impaired loans:		
- not overdue	14,116,231	-
- overdue more than 90 days and less than 1 year	-	2,250,247
- overdue more than 1 year	506,216	5,616,288
Total impaired loans	14,622,447	7,866,535
Total loans to large corporates	**402,991,799**	**278,946,761**
Impairment allowance on loans to large corporates	(10,070,462)	(7,187,574)
Total loans to large corporates, net of impairment allowance	**392,921,337**	**271,759,187**
Loans to small and medium size companies		
Unimpaired loans		
- not overdue	908,804,261	589,770,464
- overdue less than 90 days	6,702,247	382,824
- overdue more than 90 days and less than 1 year	1,217,993	120,383
Total unimpaired loans	916,724,501	590,273,671
Impaired loans:		
- not overdue	124,895,349	52,026,217
- overdue less than 90 days	4,795,038	6,525,968
- overdue more than 90 days and less than 1 year	12,010,784	5,910,865
- overdue more than 1 year	20,054,832	15,402,117
Total impaired loans	161,756,003	79,865,167
Total loans to small and medium size companies	**1,078,480,504**	**670,138,838**
Impairment allowance on loans to small and medium size companies	(80,236,287)	(34,216,637)
Total loans to small and medium size companies, net of impairment allowance	**998,244,217**	**635,922,201**
Total loans to corporate customers	**1,481,472,303**	**949,085,599**
Impairment allowance on loans corporate customers	(90,306,749)	(41,404,211)
Total loans to corporate customers, net of impairment allowance	**1,391,165,554**	**907,681,388**

17 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	31 December 2015 KZT'000	31 December 2014 KZT'000
Loans to retail customers		
Car loans		
- not overdue	42,853,846	70,624,097
- overdue less than 30 days	1,730,947	2,605,687
- overdue 30-89 days	1,600,639	1,909,962
- overdue 90-179 days	2,092,469	2,045,418
- overdue more than 180 days	12,900,112	5,120,610
Total car loans	**61,178,013**	**82,305,774**
Impairment allowance on car loans	(6,086,356)	(1,770,825)
Total car loans, net of impairment allowance	**55,091,657**	**80,534,949**
Mortgage loans		
- not overdue	31,307,215	38,361,409
- overdue less than 30 days	891,300	701,716
- overdue 30-89 days	661,782	521,246
- overdue 90-179 days	790,722	353,842
- overdue more than 180 days	5,996,297	5,677,778
Total mortgage loans	**39,647,316**	**45,615,991**
Impairment allowance on mortgage loans	(3,374,500)	(3,120,138)
Total mortgage loans, net of impairment allowance	**36,272,816**	**42,495,853**
Consumer loans		
- not overdue	13,938,915	23,157,410
- overdue less than 30 days	537,840	550,196
- overdue 30-89 days	454,274	391,451
- overdue 90-179 days	556,624	303,107
- overdue more than 180 days	3,646,284	3,358,848
Total consumer loans	**19,133,937**	**27,761,012**
Impairment allowance on consumer loans	(1,038,994)	(1,238,283)
Total consumer loans, net of impairment allowance	**18,094,943**	**26,522,729**
Express loans		
- not overdue	3,363,132	4,252,030
- overdue less than 30 days	47,746	65,556
- overdue 30-89 days	73,204	61,180
- overdue 90-179 days	87,303	55,257
- overdue more than 180 days	872,124	474,789
Total express loans	**4,443,509**	**4,908,812**
Impairment allowance on express loans	(1,057,570)	(1,975,532)
Total express loans, net of impairment allowance	**3,385,939**	**2,933,280**
Credit cards		
- not overdue	22,687	33,836
- overdue less than 30 days	24,072	42,651
- overdue 90-179 days	3,342	127
- overdue more than 180 days	42,049	35,366
Total credit cards	**92,150**	**111,980**
Impairment allowance on credit cards	(45,545)	(31,245)
Total credit cards, net of impairment allowance	**46,605**	**80,735**
Total loans to retail customers	**124,494,925**	**160,703,569**
Impairment allowance on loans to retail customers	(11,602,965)	(8,136,023)
Total loans to retail customers, net of impairment allowance	**112,891,960**	**152,567,546**
Total loans to customers	**1,605,967,228**	**1,109,789,168**
Impairment allowance on loans to customers	(101,909,714)	(49,540,234)
Total loans to customers, net of impairment allowance	**1,504,057,514**	**1,060,248,934**

17 Loans to customers, continued

(a) Credit quality of loans to customers, continued

As at 31 December 2015, the Bank has a ratio of non-performing loans to customers to gross exposure of loans to customers of 3.92%, which is less than 10%. Management define non-performing loans as those loans to customers (gross exposure) which are contractually overdue by more than 90 days.

(b) Key assumptions and judgments for estimating loan impairment

(i) Loans to corporate customers

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of unimpaired loans.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- quarterly loss rates are based on historic loss experience of 0.47-0.65% and an emergence period of 3 months
- migration rates for loans to small and medium size companies are constant and can be estimated based on historic loss migration pattern for the past 12 months
- a discount of between 10% and 20% to the originally appraised value if the property pledged is sold
- a delay of 6-24 months in obtaining proceeds from the foreclosure of collateral.

As at 31 December 2015 management of the Bank performed assessment of the impact of devaluation of KZT which occurred in August 2015 on corporate loans denominated in foreign currency in order to estimate the development of additional impairment indicators. The reassessment of expected future cash flows from operating activities of the corporate borrowers was performed by the Bank taking into account an impact of devaluation of KZT on future forecasts of revenue and related costs of the corporate borrowers. The Bank also re-estimated the value of collateral as at the reporting date.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by 0.5 percent, the impairment allowance on loans to corporate customers as at 31 December 2015 would be KZT 6,955,828 thousand lower/higher (31 December 2014: KZT 4,538,407 thousand).

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months
- a discount of between 10% and 30% to the annually appraised value if the property pledged is sold
- a delay of 6-12 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2015 would be KZT 3,386,759 thousand lower/higher (31 December 2014: KZT 4,577,026 thousand).

17 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2015 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral as of date of loan issue	Fair value of collateral not determined
Unimpaired loans				
Cash and deposits	17,197,972	17,197,972	-	-
Traded securities	13,087,513	13,087,513	-	-
Real estate	508,593,054	489,846,218	18,746,836	-
Grain	131,785,082	131,785,082	-	-
Goods in turnover	117,869,837	117,781,517	88,320	-
Motor vehicles	4,030,180	3,691,415	338,765	-
Equipment	8,926,491	8,897,648	28,843	-
Corporate guarantees and guarantees of individuals	144,841,055	-	-	144,841,055
No collateral or other credit enhancement	272,495,782	-	-	272,495,782
Other collateral registered subsequently after reporting date	77,877,535	77,877,535	-	-
Total unimpaired loans	**1,296,704,501**	**860,164,900**	**19,202,764**	**417,336,837**
Impaired loans				
Cash and deposits	508,811	508,811	-	-
Traded securities	350,763	350,763	-	-
Real estate	49,267,537	46,673,852	2,593,685	-
Grain	14,125,639	14,125,639		
Goods in turnover	10,653,544	10,475,824	177,720	-
Motor vehicles	381,613	170,410	211,203	-
Equipment	3,369,518	3,323,695	45,823	-
Other	29	29		-
Guarantees	13,089,673	-	-	13,089,673
No collateral or other credit enhancement	2,713,926	-	-	2,713,926
Total impaired loans	**94,461,053**	**75,629,023**	**3,028,431**	**15,803,599**
Total loans to corporate customers	**1,391,165,554**	**935,793,923**	**22,231,195**	**433,140,436**

17 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements, continued

(i) Loans to corporate customers, continued

31 December 2014 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral as of date of loan issue	Fair value of collateral not determined
Unimpaired loans				
Cash and deposits	19,820,064	19,820,064	-	-
Trading securities	19,041,460	19,041,460	-	-
Real estate	349,645,322	340,108,365	9,536,957	-
Grain	63,986,649	63,986,649	-	-
Goods in turnover	77,838,579	77,749,748	88,831	-
Motor vehicles	2,987,524	2,726,036	261,488	-
Equipment	11,224,173	11,163,640	60,533	-
Other	795,630	795,630	-	-
Corporate guarantees (unrated) and guarantees of individuals	141,118,941	-	-	141,118,941
No collateral or other credit enhancement	142,265,193	-	-	142,265,193
Other collateral registered subsequently after reporting date	28,678,293	28,678,293	-	-
Total unimpaired loans	**857,401,828**	**564,069,885**	**9,947,809**	**283,384,134**
Impaired loans				
Cash and deposits	61,790	61,790	-	-
Trading securities	1,428,842	1,428,842	-	-
Real estate	33,561,510	31,993,577	1,567,933	-
Goods in turnover	2,762,213	2,638,806	123,407	-
Motor vehicles	370,738	182,207	188,531	-
Equipment	177,537	88,194	89,343	-
Guarantees	9,606,335	-	-	9,606,335
Other	63	33	30	-
No collateral or other credit enhancement	2,310,532	-	-	2,310,532
Total impaired loans	**50,279,560**	**36,393,449**	**1,969,244**	**11,916,867**
Total loans to corporate customers	**907,681,388**	**600,463,334**	**11,917,053**	**295,301,001**

The tables above exclude the effect of overcollateralisation.

The amount disclosed in the table above within "No collateral or other credit enhancement" line includes uncollateralised loans and portions of loans without full collateral coverage. As at 31 December 2015, the net carrying value of uncollateralised corporate loans is KZT 45,485,031 thousand or 3.25% of the corporate loan portfolio (31 December 2014: KZT 16,832,789 thousand or 1.85% of corporate loan portfolio).

For the majority of loans the fair value of collateral is updated as at the reporting date. The Bank also has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, and corporate guarantees received from unrated local companies are not considered for impairment assessment purposes.

17 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements, continued

(ii) Loans to retail customers

Mortgage loans are secured by underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 70%. Car loans are secured by cars. The Bank's policy is to issue car loans with a loan-to-value ratio of a maximum of 90%. Consumer loans are generally secured by properties and in certain cases by assets including vehicles, cash deposits and guarantees.

Management estimates that the impairment allowance would have been higher by KZT 3,396,703 thousand (31 December 2014: KZT 3,082,333 thousand) for mortgage loans, by KZT 3,035,732 thousand (31 December 2014: KZT 2,218,581 thousand) for consumer loans and by KZT 9,305,048 thousand (31 December 2014: KZT 4,270,097 thousand) for car loans if collateral was not taken into account.

(d) Industry analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan who operate in the following economic sectors:

	31 December 2015 KZT'000	31 December 2014 KZT'000
Trade	400,372,402	239,747,689
Agriculture	291,829,155	186,725,453
Production	203,576,070	140,503,823
Services	158,773,314	115,064,241
Construction	179,955,538	110,013,084
Transportation	189,044,907	92,460,031
Finance and insurance	48,025,547	55,831,894
Education	1,103,539	2,720,573
Public authority companies	22,682	31,677
Other	8,769,149	5,987,134
Total loans to corporate customers	**1,481,472,303**	**949,085,599**
Loans issued to retail customers		
Car loans	61,178,013	82,305,774
Mortgage loans	39,647,316	45,615,991
Consumer loans	19,133,937	27,761,012
Express loans	4,443,509	4,908,812
Credit cards	92,150	111,980
Total retail loans	**124,494,925**	**160,703,569**
Gross loans to customers	**1,605,967,228**	**1,109,789,168**
Impairment allowance	(101,909,714)	(49,540,234)
	1,504,057,514	**1,060,248,934**

(e) Significant credit exposures

As at 31 December 2015, the Bank has 40 borrowers or groups of connected borrowers (31 December 2014: 22), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2015 is KZT 780,743,038 thousand (31 December 2014: KZT 323,432,109 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 30 which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than that based on contractual terms.

18 Held-to-maturity investments

	31 December 2015 KZT'000	31 December 2014 KZT'000
Held by the Bank		
Government bonds		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	23,214,877	31,798,063
Total government bonds	**23,214,877**	**31,798,063**
Corporate bonds		
- rated from BBB- to BBB+	189,558	-
- not rated	1,883,357	1,883,357
Total corporate bonds	**2,072,915**	**1,883,357**
Impairment allowance	(1,883,357)	(1,883,357)
Total net corporate bonds	**189,558**	-
	23,404,435	**31,798,063**

Analysis of movements in the impairment allowance

	2015 KZT'000	2014 KZT'000
Balance at the beginning of the year	1,883,357	1,883,357
Net charge	-	-
Balance at the end of the year	**1,883,357**	**1,883,357**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable on the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Astana-Nedvizhimost JSC ("Astana-Nedvizhimost"). Astana-Nedvizhimost bonds were excluded from trading at KASE in July 2011. As at 31 December 2015 and 31 December 2014, the Bank provided 100% impairment allowance on these bonds in the amount of KZT 1,883,357 thousand.

19 Property, equipment and intangible assets

KZT'000	Land and buildings	Computer equipment	Motor vehicles	Construction in progress	Other	Intangible assets	Total
Cost							
Balance at 1 January 2015	17,169,642	5,304,467	592,203	614,920	5,559,311	2,400,562	31,641,105
Additions	6,271,226	326,268	62,077	1,040,988	821,415	615,302	9,137,276
Disposals	-	(69,905)	(20,503)	-	(277,311)	-	(367,719)
Reclassified from other assets (Note 21)	7,745,313	-	-	-	-	-	7,745,313
Transfers	-	8,502	172,046	(1,092,981)	912,433	-	-
Balance at 31 December 2015	**31,186,181**	**5,569,332**	**805,823**	**562,927**	**7,015,848**	**3,015,864**	**48,155,975**
Depreciation and amortisation							
Balance at 1 January 2015	326,117	1,884,030	165,656	-	2,225,758	1,240,976	5,842,537
Depreciation and amortisation for the year	396,860	977,484	95,198	-	861,325	313,327	2,644,194
Disposals	-	(68,883)	(20,503)	-	(263,969)	-	(353,355)
Reclassified from other assets (Note 21)	314,436	-	-	-	-	-	314,436
Balance at 31 December 2015	**1,037,413**	**2,792,631**	**240,351**	**-**	**2,823,114**	**1,554,303**	**8,447,812**
Carrying amount							
At 31 December 2015	**30,148,768**	**2,776,701**	**565,472**	**562,927**	**4,192,734**	**1,461,561**	**39,708,163**

19 Property, equipment and intangible assets, continued

KZT'000	Land and buildings	Computer equipment	Motor vehicles	Construction in progress	Other	Intangible assets	Total
Cost							
Balance at 1 January 2014	13,692,063	3,395,095	403,620	759,531	4,061,039	2,046,146	24,357,494
Additions	3,285,395	2,002,082	74,506	489,707	1,274,165	425,187	7,551,042
Disposals	(2,158)	(92,710)	-	-	(96,178)	(70,771)	(261,817)
Reversal of revaluation reserve for land and buildings	(5,614)	-	-	-	-	-	(5,614)
Transfers	199,956	-	114,077	(634,318)	320,285	-	-
Balance at 31 December 2014	**17,169,642**	**5,304,467**	**592,203**	**614,920**	**5,559,311**	**2,400,562**	**31,641,105**
Depreciation and amortisation							
Balance at 1 January 2014	170,039	1,185,831	101,989	-	1,619,417	1,068,174	4,145,450
Depreciation and amortisation for the year	156,078	789,557	63,667	-	695,138	243,573	1,948,013
Disposals	-	(91,358)	-	-	(88,797)	(70,771)	(250,926)
Balance at 31 December 2014	**326,117**	**1,884,030**	**165,656**	**-**	**2,225,758**	**1,240,976**	**5,842,537**
Carrying amount							
At 31 December 2014	**16,843,525**	**3,420,437**	**426,547**	**614,920**	**3,333,553**	**1,159,586**	**25,798,568**

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during the years ended 31 December 2015 and 2014.

20 Investment in subsidiaries

On 3 January 2007 the Bank established a subsidiary, Tsesna International B.V., which is a special purpose entity intended to raise funds on international capital markets and make these funds available to the Bank. As at 31 December 2015 and 2014, the Bank owned 100% of the share capital of Tsesna International B.V.

In accordance with the resolutions of the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA") #65 and #66 dated 18 May 2010 the Bank was given permission to purchase a subsidiary, Subsidiary Company of Tsesnabank JSC Insurance Company Tsesna Garant JSC ("Tsesna Garant"). The primary business activity of Tsesna Garant is mandatory and voluntary insurance and re-insurer's services in accordance with licence #2.1.49 granted on 30 September 2015 by the NBRK.

During the year ended 31 December 2011, the Bank obtained control over Tsesna Capital JSC ("Tsesna Capital"). As at 31 December 2012 the share of ownership of the Bank in Tsesna Capital comprised 76.80% of share capital. In 2013 the Bank acquired the remaining portion of 23.20% of the share capital of Tsesna Capital. Tsesna Capital possesses licences #0001201383 for brokerage and dealing activities in the securities market with the right to manage clients' accounts as a nominal holder and #0003200615 for investment portfolio management activities without the right to attract voluntary pension contributions, granted by the NBRK on 24 October 2014.

In accordance with the resolutions of the NBRK #329 dated 29 October 2012 the Bank was given permission to establish a subsidiary, Subsidiary organisation of Tsesnabank JSC OMAD Tsesna LLC ("OMAD Tsesna").

The primary business activity of OMAD Tsesna is the purchase of of bad and doubtful debts of the parent bank, sale of doubtful and bad assets and lease of its own property.

In accordance with resolution of the NBRK #135 dated 17 July 2015 the Bank was given permission to purchase a subsidiary in the Russian Federation, Plus Bank PJSC ("Plus Bank"). On 30 September 2015 the Central Bank of the Russian Federation ("CBRF") gave preliminary approval to the Bank to acquire 100% of Plus Bank shares. As at 31 December 2015, the Bank owns 67.38% of the ordinary shares of Plus Bank.

The principal subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Ownership interest, % 2015	Carrying amount KZT'000 2015	Ownership interest, % 2014	Carrying amount KZT'000 2014
Tsesna Garant	Kazakhstan	Insurance activity	100.00	8,050,000	100.00	8,050,000
Tsesna Capital	Kazakhstan	Brokerage and dealing activity	100.00	3,005,681	100.00	3,005,681
OMAD Tsesna	Kazakhstan	Debt collection	100.00	864,392	100.00	366,712
Plus Bank	Russian Federation	Banking	67.38	5,804,651	19.97*	-
Tsesna International B.V.	Netherlands	Raising funds on international capital markets and making these funds available to the Bank	100.00	16,147	100.00	16,147
				17,740,871		**11,438,540**

* as at 31 December 2014 Bank has 19.97% of shares of Plus Bank included in the available-for-sale financial assets, it was not accounted for as an associate or a subsidiary

21 Other assets

	31 December 2015 KZT'000	31 December 2014 KZT'000
Other receivables	6,809,166	6,012,693
Receivables from collector agencies	2,237,544	2,257,320
Commission receivables from guarantees issued	1,968,528	1,650,294
Debtors under documentary settlements	391,948	-
Amount due from local commercial bank	210,035	210,035
Commissions receivable	80,429	26,312
Impairment allowance	(2,574,507)	(2,111,617)
Total other financial assets	**9,123,143**	**8,045,037**
Advance consideration*	-	7,430,877
Prepayments for office buildings	3,834,125	3,367,183
Prepayments	2,395,290	1,500,937
Materials and supplies	1,157,759	1,438,817
Other	429,427	226,295
Impairment allowance	(76,598)	(99,701)
Total other non-financial assets	**7,740,003**	**13,864,408**
Total other assets	**16,863,146**	**21,909,445**

*On 10 April 2013, the Bank entered into an agreement with the shareholders of Plus Bank PJSC to increase the Bank's shareholding of 19% up to 91.09%, subject to Kazakhstan and Russian Federation regulatory approval. Prior to 31 December 2012, the Bank acquired certain real estate assets for KZT 6,744,543 thousand which the planned to use as consideration for the completion of the transaction. During the year ended 31 December 2015, the Bank changed its intention on transfer of the assets. Thus, the assets of KZT 7,430,877 thousand, including capitalised repair costs, were reclassified from other assets to property, equipment and intangible assets (Note 19) for further use.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2015 are as follows:

	Other financial assets KZT'000	Other non-financial assets KZT'000	Total KZT'000
Balance at the beginning of the year	2,111,617	99,701	2,211,318
Net charge (recovery)	437,329	(22,155)	415,174
Write-offs	(18,054)	(948)	(19,002)
Foreign exchange	43,615	-	43,615
Balance at the end of the year	**2,574,507**	**76,598**	**2,651,105**

Movements in the impairment allowance for the year ended 31 December 2014 are as follows:

	Other financial assets KZT'000	Other non-financial assets KZT'000	Total KZT'000
Balance at the beginning of the year	851,759	22,537	874,296
Net charge	1,265,232	81,720	1,346,952
Write-offs	(12,223)	(4,556)	(16,779)
Foreign exchange	6,849	-	6,849
Balance at the end of the year	**2,111,617**	**99,701**	**2,211,318**

As at 31 December 2015, included in other assets are overdue other receivables of gross KZT 2,186,563 thousand (31 December 2014: KZT 1,103,775 thousand), of which KZT 183,685 thousand are overdue for more than 90 days (31 December 2014: KZT 293,706 thousand).

22 Loans from state company

	Issue date	Maturity	Interest rate	Carrying value 31 December 2015 KZT'000	Carrying value 31 December 2014 KZT'000
Loans from National Management Holding KazAgro JSC:					
Loan 1	29.08.2014	15.06.2023	3.00%	22,373,478	22,679,252
Loan 2	06.01.2014	04.12.2021	10.00%	847,947	847,717
Loan 3	16.07.2015	15.06.2024	3.00%	3,832,898	-
Loan 4	16.07.2015	15.06.2024	3.00%	2,661,751	-
Loan 5	16.07.2015	15.06.2024	3.00%	2,648,641	-
				32,364,715	**23,526,969**

Loans from the National Management Holding KazAgro JSC ("KazAgro") were received in accordance with the KazAgro Rules of programme on financial recovery of companies operating in the agriculture industry (the "Rules").

During 2014, in accordance with the Rules and based on an agreement between KazAgro and the Bank, KazAgro placed a fixed term deposit in the amount USD 541,076 thousand at 1% per annum interest rate with maturity in 2023 (Note 24). As at 31 December 2015 the deposit amounted to USD 505,852 thousand (31 December 2014: USD 531,012 thousand). According to the loan and deposit agreements between KazAgro and the Bank, the Bank is responsible to extend loans to companies operating in the agriculture industry to support their financial recovery. Management of the Bank believes that there are some other similar financial instruments such as loans from Damu (Note 23) and due to their specific nature, the loans and deposits from KazAgro and Damu represent a separate segment of borrowings from state companies to support companies operating in certain industries. As a result, the loans from KazAgro were received in an "arm's length" transaction and, as such, the amount received under the loans represents the fair value of the loans on initial recognition.

23 Deposits and balances from banks and other financial institutions

	31 December 2015 KZT'000	31 December 2014 KZT'000
Loans from banks and other financial institutions	125,898,653	59,431,758
Deposits from banks	87,718,536	2,770,946
Vostro accounts	316,222	661,785
	213,933,411	**62,864,489**
Derivative financial instruments		
Foreign currency contracts	-	12,290
	213,933,411	**62,876,779**

As at 31 December 2015, the Bank has three financial institutions (31 December 2014: two financial institutions), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 is KZT 148,348,111 thousand (31 December 2014: KZT 57,005,366 thousand).

As at 31 December 2015, deposits and balances from banks and other financial institutions include a long-term loan from Damu in the amount of KZT 28,000,000 thousand at 2.0% per annum interest rate with maturity in 2034-2035 and with an early repayment option. The loan was received in accordance with the Government program (the "Program") to finance SMEs operating in certain industries. According to the loan agreement between Damu and the Bank, the Bank is responsible to extend loans to SME borrowers, eligible to participate in the Program, with maximum maturity up to 10 years at a 6% interest rate.

Management of the Bank believes that there are some other similar financial instruments and due to their specific nature, the loans from KazAgro (Note 22) and Damu represent a separate segment of borrowings from state companies to support companies operating in certain industries. As a result, the loan from Damu was received in an "arm's length" transaction and, as such, the amount received under the loans represents the fair value of the loans on initial recognition.

24 Current accounts and deposits from customers

	31 December 2015 KZT'000	31 December 2014 KZT'000
Current accounts and demand deposits		
- Corporate	166,462,258	128,723,574
- Retail	12,257,004	10,243,000
- Accrued interest	77,216	324,569
Term deposits		
- Corporate	676,436,077	606,007,527
- Retail	488,357,489	258,761,696
- Accrued interest	4,370,692	6,389,736
	1,347,960,736	**1,010,450,102**

As at 31 December 2015, the Bank maintained customer deposit balances of KZT 26,961,870 thousand (31 December 2014: KZT 25,758,569 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Bank.

As at 31 December 2015, the Bank has 14 customers (31 December 2014: 14 customers), whose balances exceed 10% of equity. These balances as at 31 December 2015 are KZT 508,838,006 thousand (31 December 2014: KZT 469,563,445 thousand).

Current accounts and deposits from customers include a fixed term deposit of KazAgro in the amount of USD 505,852 thousand at 1% per annum with maturity in 2023 on terms described in Note 22 (31 December 2014: USD 531,012 thousand).

25 Debt securities issued

	31 December 2015 KZT'000	31 December 2014 KZT'000
Nominal	46,482,000	48,935,222
Discount	(2,185,981)	(2,657,861)
Accrued interest	507,321	506,784
	44,803,340	**46,784,145**

The summary of bond issues at 31 December 2015 and 2014 is presented below:

					Carrying amount	
	Issue date	Maturity	Coupon rate	Effective rate	31 December 2015 KZT'000	31 December 2014 KZT'000
KZT denominated bonds of the eighteenth issue *	4.06.2013	4.06.2016	8.0%	8.2%	10,059,989	10,059,964
KZT denominated bonds of the nineteenth issue *	04.06.2013	04.06.2018	8.0%	8.7%	9,951,985	9,913,382
KZT denominated bonds of the twenty fourth issue *	10.04.2014	10.04.2017	6.0%	6.9%	9,839,793	9,628,706
KZT denominated bonds of the twentieth issue *	04.06.2013	04.06.2023	Inflation index + 1%	8.0%	9,389,149	9,239,090
KZT denominated bonds of the twenty fifth issue *	10.04.2014	10.04.2019	8.0%	8.7%	2,929,111	2,897,941
KZT denominated bonds of the seventh issue *	11.07.2007	11.07.2027	7.5%	10.9%	2,633,313	2,633,335
KZT denominated bonds of the sixth issue *	14.12.2006	14.12.2015	Inflation index + 1%	10.8%	-	2,411,727
					44,803,340	**46,784,145**

*Quoted on KASE

26 Subordinated debt

	31 December 2015 KZT'000	31 December 2014 KZT'000
Subordinated bonds	56,370,799	55,843,213
Cumulative non-redeemable preferred shares	2,750,000	2,750,000
	59,120,799	**58,593,213**

As at 31 December 2015 and 2014, subordinated debt comprises quoted bonds and cumulative non-redeemable preferred shares. In case of bankruptcy, the repayment of the subordinated debt would be made after repayment in full of all other liabilities of the Bank but before repayment of the preferred shares.

(a) Cumulative non-redeemable preference shares

Holders of cumulative non-redeemable preference shares receive a minimum cumulative dividend of 10% per annum on the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to the Bank's residual assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears. All preference shares were issued and fully paid at price of KZT 1,000 each.

During the year ended 31 December 2015, the Bank accrued dividends on preference shares amounting to KZT 250,000 thousand (2014: KZT 250,000 thousand).

(b) Subordinated bonds

The summary of subordinated bonds at 31 December 2015 and 2014 is presented below:

					Carrying amount	
	Issue date	**Maturity**	**Coupon rate**	**Effective rate**	**31 December 2015 KZT'000**	**31 December 2014 KZT'000**
KZT denominated bonds of the twenty first issue *	10.04.2014	10.04.2021	8.0%	9.7%	9,372,346	9,260,842
KZT denominated bonds of the thirteenth issue *	02.08.2012	02.08.2019	8.0%	9.7%	5,930,478	5,870,269
KZT denominated bonds of the eighth issue *	13.04.2011	13.04.2018	8.0%	8.1%	5,548,280	5,544,297
KZT denominated bonds of the eleventh issue *	01.02.2012	01.02.2019	8.0%	9.2%	5,027,455	4,991,784
KZT denominated bonds of the fourteenth issue *	04.06.2013	04.06.2020	8.0%	9.7%	4,764,243	4,717,842
KZT denominated bonds of the sixteenth issue *	04.06.2013	04.06.2028	9.0%	9.7%	4,699,260	4,686,042
KZT denominated bonds of the twenty second issue *	10.04.2014	10.04.2021	8.0%	9.7%	4,686,173	4,630,421
KZT denominated bonds of the fifteenth issue *	04.06.2013	04.06.2023	8.0%	9.7%	4,575,308	4,535,120
KZT denominated bonds of the tenth issue *	30.06.2011	30.06.2018	8.0%	10.7%	4,115,289	4,036,909
KZT denominated bonds of the twelfth issue *	02.08.2012	02.08.2019	8.0%	9.7%	3,948,483	3,908,368
KZT denominated bonds of the twenty third issue *	10.04.2014	10.04.2021	8.0%	9.7%	2,829,061	2,795,403
KZT denominated bonds*	19.03.2013	19.03.2020	8.0%	9.7%	874,423	865,916
					56,370,799	**55,843,213**

*Quoted on KASE

27 Other liabilities

	31 December 2015 KZT'000	31 December 2014 KZT'000
Sundry creditors	1,704,071	832,332
Dividends payable	1,421	1,421
Total other financial liabilities	**1,705,492**	**833,753**
Accrued vacation and other amounts due to employees	2,040,334	1,043,768
Deferred income for guarantees and letters of credit issued	1,226,232	1,554,475
Other taxes payable	892,402	576,210
Other prepayments	71,427	73,938
Other non-financial liabilities	17,726	26,802
Total other non-financial liabilities	**4,248,121**	**3,275,193**
Total other liabilities	**5,953,613**	**4,108,946**

28 Share capital

(a) Issued capital

As at 31 December 2015, the authorised share capital comprises 77,500,000 ordinary shares and 2,500,000 non-redeemable cumulative preference shares (31 December 2014: 77,500,000 ordinary shares and 2,500,000 non-redeemable cumulative preference shares). Issued and outstanding share capital comprises 43,999,915 ordinary shares and 2,500,000 non-redeemable cumulative preference shares (31 December 2014: 43,999,915 ordinary shares and 2,500,000 non-redeemable cumulative preference shares). The shares do not have a par value. During the year ended 31 December 2015 no ordinary shares were issued (31 December 2014: 10,199,915 ordinary shares were issued at KZT 2,000 per share).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Nature and purpose of reserves

Reserves for general banking risks

Until 2013 year, in accordance with amendments to the Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks issued by the FMSA introduced on 31 January 2011 (which ceased to be in force during 2013), the Bank had to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year was calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in Classified Assets and Contingent Liabilities for the preceding year. Classified Assets and Contingent Liabilities were defined in accordance with Resolution #296 "On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities" issued by the FMSC on 25 December 2006, which ceased to be in force during 2013. Such percentage increase should not be less than 10% and not more than 100%.

A transfer from retained earnings to the reserve for general banking risks in the amount of KZT 4,992,972 thousand was made for the year ended 31 December 2013.

28 Share capital, continued

(b) Nature and purpose of reserves, continued

Dynamic reserve

In accordance with the NBRK Resolution #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Bank has established a dynamic reserve calculated using a formula determined in the Rules. In accordance with the Rules, dynamic reserve cannot be less than zero and shall be calculated as the difference between expected losses and actual charge on tax deductible impairment losses recognised during the reporting quarter in accordance with IFRS net of income from recovery of provisions. Expected losses are estimated based on the increase of loans to customers during the reporting quarter multiplied by certain coefficients. The Resolution has been effective from 1 January 2013.

In 2014 the dynamic reserve was temporarily fixed by the NBRK on the level recognised at 31 December 2013.

As at 31 December 2015 and 31 December 2014 the dynamic reserve is KZT 16,631,209 thousand.

Revaluation reserve for available-for-sale financial assets

Revaluation reserve for available-for-sale financial assets comprise accumulated net change in the fair value till the moment of assets derecognition or their impairment.

(c) Dividends

In accordance with Kazakhstan legislation and the Bank's charter documents, distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan.

At a general shareholders' meeting held in May 2015, the Bank made a decision not to pay any dividends (31 December 2014: nil).

29 Earnings per share

Basic earnings per share

The calculation of basic earnings per share as at 31 December 2015 is based on the profit attributable to ordinary shareholders of KZT 16,141,759 thousand (31 December 2014: KZT 15,508,912 thousand), and a weighted average number of ordinary shares outstanding of 43,999,915 (31 December 2014: 39,270,677) calculated as follows:

	2015	2014
Profit, in thousand of KZT	16,141,759	15,508,912
Issued ordinary shares at the beginning of the year	43,999,915	33,800,000
Effect of shares issued during the year	-	5,470,677
Weighted average number of ordinary shares	**43,999,915**	**39,270,677**
Basic earnings per share, in KZT	367	395

The Bank does not have any potentially dilutive securities.

30 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

During 2015, to comply with requirements of the Decree of the Management Board of the National Bank of the Republic of Kazakhstan dated 26 February 2014, No. 29 "On Approval of the Rules of Formation of the Risk Management and Internal Control System for the Second-Tier Banks", the Bank, jointly with the international external consultants, updated the risk management and internal control system with due account of the leading global practices.

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Heads of Risk Departments are responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The supervisor of these departments is Deputy Chairman of Management Board who is reportable to Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and are controlled by the Board of Directors, Management Board and through a system of Credit Committees and the Authorised Collegial Bodies (ACB). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit, market and liquidity risk analysis, the Risk Department monitors operational risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

The Bank on a daily basis calculates statutory ratios set by the NBRK. As at 31 December 2015 and 31 December 2014 the Bank was in compliance with set ratios.

(b) Market risk

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

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

Overall authority for market risk is vested in Management Board/Board of Directors. Market risk limits are approved by Management Board/Board of Directors based on recommendations of the Market risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

The Bank also utilises Value-at-Risk (VAR) methodology to monitor market risk of its trading positions.

31 Risk management, continued

(b) Market risk, continued

During 2015 the Bank implemented the following measures:

- improved the market risk management policies and procedures;
- improved procedures of the market risk stress testing;
- organised the system of the market risk management reporting;
- implemented the internal and market indicators of the market risk early warning.

(i) Interest rate risk

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

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

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

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2015							
ASSETS							
Cash and cash equivalents	6,072,574	-	-	-	-	166,953,143	173,025,717
Deposits and balances with banks and other financial institutions	123	-	4,740,110	-	5,950,175	10,979,685	21,670,093
Financial instruments at fair value through profit or loss	3,178,420	8,366,100	17,494,915	18,964,747	2	626	48,004,810
Available-for-sale financial assets	-	57,633	-	2,792,436	-	737,726	3,587,795
Loans to customers	165,964,727	117,536,177	524,244,388	524,550,360	171,761,862	-	1,504,057,514
Held-to-maturity investments	2,114,659	91,560	3,534,364	17,663,852	-	-	23,404,435
	177,330,503	**126,051,470**	**550,013,777**	**563,971,395**	**177,712,039**	**178,671,180**	**1,773,750,364**
LIABILITIES							
Loans from state company	476,356	637,657	2,048,441	20,871,708	8,330,553	-	32,364,715
Deposits and balances from banks and other financial institutions	49,791,945	35,731,407	37,215,858	51,463,394	39,730,807	-	213,933,411
Financial instruments at fair value through profit or loss	-	-	-	16,289,988	-	-	16,289,988
Current accounts and deposits from customers	164,550,346	34,609,351	419,365,350	459,773,878	165,977,068	103,684,743	1,347,960,736
Debt securities issued	123,321	-	20,383,989	22,471,889	1,824,141	-	44,803,340
Subordinated debt	166,433	351,343	931,044	29,397,915	25,774,064	2,500,000	59,120,799
	215,108,401	**71,329,758**	**479,944,682**	**600,268,772**	**241,636,633**	**106,184,743**	**1,714,472,989**
	(37,777,898)	**54,721,712**	**70,069,095**	**(36,297,377)**	**(63,924,594)**	**72,486,437**	**59,277,375**

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014							
ASSETS							
Cash and cash equivalents	41,010,689	-	-	-	-	100,941,277	141,951,966
Deposits and balances with banks and other financial institutions	3,704,252	-	2,413,055	3,009,312	-	-	9,126,619
Financial instruments at fair value through profit or loss	3,678,243	1,635,231	247,048	2,104,574	-	510	7,665,606
Available-for-sale financial assets	-	57,633	-	3,015,978	-	3,309,137	6,382,748
Loans to customers	133,166,722	92,485,767	312,957,711	374,441,684	147,197,050	-	1,060,248,934
Held-to-maturity investments	4,124,494	940,631	3,907,614	22,825,324	-	-	31,798,063
	185,684,400	**95,119,262**	**319,525,428**	**405,396,872**	**147,197,050**	**104,250,924**	**1,257,173,936**
LIABILITIES							
Loans from state company	51,190	45,753	257,214	14,189,034	8,983,778	-	23,526,969
Deposits and balances from banks and other financial institutions	3,103,134	706,410	2,015,843	24,976,609	32,074,783	-	62,876,779
Current accounts and deposits from customers	120,900,544	75,265,574	359,971,337	263,796,270	110,581,291	79,935,086	1,010,450,102
Debt securities issued	123,321	-	11,959,817	32,190,991	2,510,016	-	46,784,145
Subordinated debt	-	517,776	931,044	23,591,291	31,053,102	2,500,000	58,593,213
	124,178,189	**76,535,513**	**375,135,255**	**358,744,195**	**185,202,970**	**82,435,086**	**1,202,231,208**
	61,506,211	**18,583,749**	**(55,609,827)**	**46,652,677**	**(38,005,920)**	**21,815,838**	**54,942,728**

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2015 and 31 December 2014. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2015 Average effective interest rate, %			31 December 2014 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	2.10	-	2.10	6.0	0.30	-
Deposits and balances with banks and other financial institutions	9.00	9.00	-	4.20	8.87	-
Financial instruments at fair value through profit or loss	6.06	-	-	5.02	-	-
Available-for-sale financial assets	5.27	-	-	5.27	-	-
Loans to customers	14.50	9.20	6.10	14.69	8.91	5.29
Held-to-maturity investments	5.74	-	-	5.33	-	-
Interest bearing liabilities						
Loans from state company	3.18	-	-	3.25	-	-
Deposits and balances from banks and other financial institutions	4.89	3.13	5.36	4.40	4.34	4.32
Current accounts and deposits from customers						
- Current accounts and demand deposits	6.6	1.3	-	1.61	1.47	3.17
- Term deposits	10.4	4.0	2.9	8.71	4.19	2.98
Financial instruments at fair value through profit or loss	3.00	-	-	-	-	-
Debt securities issued	9.05	-	-	9.16	-	-
Subordinated debt	9.87	-	-	9.87	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities of banking book. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities expected for the period of up to twelve months existing as at 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015		31 December 2014	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel fall	(285,388)	(285,388)	(428,610)	(428,610)
100 bp parallel rise	285,388	285,388	428,610	428,610

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis, continued

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2015 and 31 December 2014 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves using modified duration method is as follows:

	31 December 2015		31 December 2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	18,017	60,242	40,267	113,673
100 bp parallel rise	(18,017)	(60,242)	(40,267)	(113,673)

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

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

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2015:

	KZT KZT'000	USD KZT'000	EUR KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	31,901,334	124,070,735	12,753,385	3,623,829	676,434	173,025,717
Deposits and balances with banks and other financial institutions	11,952,019	9,718,074	-	-	-	21,670,093
Financial instruments at fair value through profit or loss	48,004,184	626	-	-	-	48,004,810
Available-for-sale financial assets	3,587,795	-	-	-	-	3,587,795
Loans to customers	490,143,609	987,367,056	26,501,193	45,656	-	1,504,057,514
Held-to-maturity investments	23,404,435	-	-	-	-	23,404,435
Other financial assets	8,419,365	554,078	147,623	2,077	-	9,123,143
Total financial assets	**617,412,741**	**1,121,710,569**	**39,402,201**	**3,671,562**	**676,434**	**1,782,873,507**
LIABILITIES						
Loans from state company	32,364,715	-	-	-	-	32,364,715
Deposits and balances from banks and other financial institutions	92,980,726	102,158,534	18,793,720	431	-	213,933,411
Financial instruments at fair value through profit or loss	16,289,988	-	-	-	-	16,289,988
Current accounts and deposits from customers	233,176,787	1,087,591,431	22,733,445	3,820,535	638,538	1,347,960,736
Debt securities issued	44,803,340	-	-	-	-	44,803,340
Subordinated debt	59,120,799	-	-	-	-	59,120,799
Other financial liabilities	1,686,994	14,828	2,081	1,383	206	1,705,492
Total financial liabilities	**480,423,349**	**1,189,764,793**	**41,529,246**	**3,822,349**	**638,744**	**1,716,178,481**
Net position as at 31 December 2015	**136,989,392**	**(68,054,224)**	**(2,127,045)**	**(150,787)**	**37,690**	**66,695,026**
The effect of derivatives held for risk management	(52,346,579)	76,970,376	2,080,176	169,187	-	26,873,160
Net position after derivatives held for risk management purposes as at 31 December 2015	**84,642,813**	**8,916,152**	**(46,869)**	**18,400**	**37,690**	**93,568,186**

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	EUR KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	21,291,172	115,357,646	2,159,286	2,759,345	384,517	141,951,966
Deposits and balances with banks and other financial institutions	7,087,464	2,039,155	-	-	-	9,126,619
Financial instruments at fair value through profit or loss	7,665,096	510	-	-	-	7,665,606
Available-for-sale financial assets	6,382,748	-	-	-	-	6,382,748
Loans to customers	566,830,995	487,751,315	5,666,624	-	-	1,060,248,934
Held-to-maturity investments	31,798,063	-	-	-	-	31,798,063
Other financial assets	7,289,670	700,041	52,625	2,701	-	8,045,037
Total financial assets	**648,345,208**	**605,848,667**	**7,878,535**	**2,762,046**	**384,517**	**1,265,218,973**
LIABILITIES						
Loans from state company	23,526,969	-	-	-	-	23,526,969
Deposits and balances from banks and other financial institutions	59,787,944	2,964,838	119,087	4,910	-	62,876,779
Current accounts and deposits from customers	291,639,024	708,133,202	7,700,360	2,612,325	365,191	1,010,450,102
Debt securities issued	46,784,145	-	-	-	-	46,784,145
Subordinated debt	58,593,213	-	-	-	-	58,593,213
Other financial liabilities	830,655	2,767	222	-	109	833,753
Total financial liabilities	**481,161,950**	**711,100,807**	**7,819,669**	**2,617,235**	**365,300**	**1,203,064,961**
Net position as at 31 December 2014	**167,183,258**	**(105,252,140)**	**58,866**	**144,811**	**19,217**	**62,154,012**
The effect of off balance derivatives held for risk management	(108,050,030)	108,753,540	-	-	-	703,510
Net position after derivatives held for risk management purposes as at 31 December 2014	**59,133,228**	**3,501,400**	**58,866**	**144,811**	**19,217**	**62,857,522**

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2015 and 31 December 2014 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis for financial assets and liabilities is on a net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2015		31 December 2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% appreciation of USD against KZT (2014: 10%)	713,292	713,292	280,112	280,112
10% appreciation of EUR against KZT (2014: 10%)	(3,750)	(3,750)	4,709	4,709
10% appreciation of RUB against KZT (2014: 10%)	1,472	1,472	11,585	11,585

A strengthening of the KZT against the above currencies at 31 December 2015 and 31 December 2014 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Bank takes a long or short position in an equity financial instrument.

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on equity instrument positions existing as at 31 December 2015 and 31 December 2014 and a simplified scenario of a 10% change in all equity securities prices is as follows:

	31 December 2015		31 December 2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	63	73,773	843	336,100
10% decrease in securities prices	(63)	(73,773)	(843)	(336,100)

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

During 2015 the Bank developed and implemented a new Credit Policy approved by the Board of Directors of the Bank.

30 Risk management, continued

(c) Credit risk, continued

The credit policy establishes and determines the major requirements to be followed in lending activity, including:

- aims and objectives the Bank's lending activity;
- priorities and restrictions in lending;
- credit risk limits;
- system of the credit risk limits;
- terms of granting loans to the individuals and legal entities, including entities having special relations with the Bank;
- stages and participants of the lending process;
- decision-making system;
- key principles and methods of credit risk management in the Bank;
- internal control system for the credit risk management process.

On the basis of the updated Credit Policy, which covers the key directions of the Bank's activity and the system of the credit risk management instruments, the Bank has built a more efficient lending process in the segments of the corporate business, small and medium-size business and retail business, as described below.

Corporate and SME loan credit applications are analysed by the Credit Analysis Department and SME lending divisions in branches, respectively, which are responsible for the analysis of issuing loans. The minimum rating required for the borrower to obtain a loan has been established in accordance with the decision of the Board of Directors of the Bank.

Then, to consider a project at the meeting of the authorised body that makes decisions on concluding a transaction, the opinions of the Bank's departments are provided, including:

- opinion of the Legal Department;
- opinion of the Security Department ;
- opinion of the Collateral Department;
- opinion of the Risk Management Department

For the purpose of effective risk management, the Risk Management Department, while analysing the projects, assigns a rating (probability of default) to the borrower.

Currently the Bank uses the rating and scoring models for each business segment: small, medium, corporate and retail clients. In addition to the Bank's own models, the Bank also uses the S&P Capital IQ model.

Based on the submitted opinions, the Credit Committee makes a decision depending on the level of authority to make decisions. In this case, transactions in excess of 5% of the Bank's equity are approved exclusively by the decision of the Board of Directors of the Bank.

Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Standard Products Risk Department.

30 Risk management, continued

(c) Credit risk, continued

To achieve the Bank's key performance indicators, while setting the interest rates for the customers from the corporate business, SMB and retail business, the level of credit risk accepted under each transaction is taken into account, and at least the following factors are analysed:

- rating/scoring (probability of default of the Borrower);
- losses if the borrower defaults;
- finding costs;
- cost of capital;
- the Bank's overheads.

As a part of this lending process, to ensure the timely response to the changes in the financial position and paying capacity of the Borrower and ability to make the appropriate management decisions, the Bank exercises the ongoing monitoring of the status of individual loans, and regularly revalues the paying capacity of its borrowers. Revaluation procedures are based on analysis of the financial statements of the borrower as at the latest reporting date, or other information provided by the borrower itself or otherwise obtained by the Bank.

The Bank is regularly monitoring the current market value of the collateral. If the market value of the borrower's collateral decreases, the Bank has a right to send a request for additional security.

To ensure the effective risk management at the portfolio level the Bank uses such methods as diversification of the loan portfolio and system of management reporting, which allows exercising the regular monitoring of the Bank lending activity, identifying the major problems and implementing the risk minimisation instruments as well as stress-testing of credit risk.

The Bank has improved the system of credit risk limits, which comprises:

- credit risk allowable level
- limits by the categories of borrowers;
- limits on the types of lending;
- limits for the retail segment, comprising the portfolio limits and individual limits;
- limits on lending in terms of the industries, etc.

Monitoring and control are exercised periodically and findings are submitted for consideration to the Management Board/Board of Directors of the Bank.

This instrument allows the Bank to control the lending activity based on the strategic development targets and risk taking in different areas.

The system of management reporting is functioning within the Bank, the purpose of which is to provide the high quality, reliable and accurate information on the credit risk level and its deviation from the set value. The management reports are generated at the level of both the Bank and individual segments on a monthly/quarterly basis, and submitted for consideration to the Management Board/Board of Directors of the Bank.

30 Risk management, continued

(c) Credit risk, continued

The Bank has improved the methodology of credit risk stress testing, which is performed using a scenario analysis and sensitivity analysis. While performing the stress testing, the Bank uses the following stress testing scenarios:

- general business scenario, which is based on assessment of influence of deterioration of the economic situation in the country, including decline in economic growth in general and in separate industries;
- scenario specific to the Bank's business, which is based on assessment of influence of the local stress factors, including those related to the specifics of the Bank's lending activity and structure of its loan portfolio.

Credit risk stress testing makes it possible to respond on a timely basis to changes in macroeconomic and other indicators that may adversely affect the Bank's operations, and to forecast the impact of these factors and to develop risk mitigation methods.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the unconsolidated statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	31 December 2015 KZT'000	31 December 2014 KZT'000
ASSETS		
Cash equivalents and nostro accounts	128,043,649	109,541,062
Deposits and balances with banks and other financial institutions	21,670,093	9,126,619
Financial instruments at fair value through profit or loss	48,004,184	7,665,096
Available-for-sale financial assets	2,850,069	3,073,611
Loans to customers	1,504,057,514	1,060,248,934
Held-to-maturity investments	23,404,435	31,798,063
Other financial assets	9,123,143	8,045,037
Total maximum exposure	**1,737,153,087**	**1,229,498,422**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 17.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 32.

As at 31 December 2015, the Bank has no debtors or groups of connected debtors (31 December 2014: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

30 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

The Bank receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- loans to customers collateralised by cash on bank deposits; and
- sale and repurchase agreements, and reverse sale and repurchase agreements.

This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty's failure to post collateral. The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

KZT'000				**Related amounts not offset in the unconsolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/ liability**	**Gross amounts of recognised financial liability/asset offset in the unconsolidated statement of financial position**	**Net amount of financial asset/liability presented in the unconsolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Loans to customers	50,511,664	-	50,511,664	-	(19,430,585)	31,081,079
Total financial assets	**50,511,664**	**-**	**50,511,664**	**-**	**(19,430,585)**	**31,081,079**
Current accounts and deposits from customers	19,430,585	-	19,430,585	(19,430,585)	-	-
Total financial liabilities	**19,430,585**	**-**	**19,430,585**	**(19,430,585)**	**-**	**-**

30 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014:

KZT'000				Related amounts not offset in the unconsolidated statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/ liability**	**Gross amounts of recognised financial liability/asset offset in the unconsolidated statement of financial position**	**Net amount of financial asset/liability presented in the unconsolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Loans to customers	24,733,673	-	24,733,673	-	(16,887,513)	7,846,160
Total financial assets	**24,733,673**	-	**24,733,673**	-	**(16,887,513)**	**7,846,160**
Current accounts and deposits from customers	16,887,513	-	16,887,513	(16,887,513)	-	-
Total financial liabilities	**16,887,513**	-	**16,887,513**	**(16,887,513)**	-	-

The securities pledged under repurchased agreements represent the transferred financial assets that are not derecognised in their entirety.

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the unconsolidated statement of financial position that are disclosed in the above tables are measured in the unconsolidated statement of financial position at amortised cost. The amounts in the above tables that are offset in the statement of financial position are measured on the same basis.

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

30 Risk management, continued

(d) Liquidity risk, continued

The key objectives of the Bank's liquidity risk management are as follows:

- to ensure that the Bank is able to discharge its liabilities in time and in full scope;
- to invest the Bank's free cash flows in high income earning and highly liquid assets.

In the process of liquidity risk management the Bank is governed by the following principles:

- liquidity is managed on a day-to-day basis and continuously;
- sound management of assets and liabilities;
- management of access to the interbank market;
- diversification and stability of liabilities;
- application of the methods and instruments for the liquidity risk assessment, which do not contradict the regulatory legal acts of the NBRK;
- clear split of the powers and responsibility for liquidity management between the bodies of the Bank, its officials and business units;
- setting of limits that ensure the adequate level of liquidity and meet the size, nature of business and financial position of the Bank;
- in case of a conflict between the liquidity and returns, to make decision in favour of liquidity;
- planning of the liquidity requirements;
- regular monitoring of the decisions to provide liquidity, which have been made before.

Liquidity risk management policy provides for assessment of the total liquidity requirement under both normal and stressed conditions, taking into account the Bank's strategy and those types of activity, which expose the Bank to the liquidity risk; allowable level of the Bank's risk, within the limits of which the Bank sets the system of liquidity risk internal limits; size, nature and complexity of the Bank's business, and legislation of the Republic of Kazakhstan.

To manage the liquidity risk, a system of the liquidity risk management is established, which is based on the standards and instruments recommended by Basel Committee on Bank Supervision and complies with the requirements of the National Bank of the Republic of Kazakhstan and best global practices. The liquidity risk management system meets the current market situation, strategy, size and level of complexity of the Bank's operations and ensures the efficient identification, measurement, monitoring and control of the Bank liquidity risk, with due consideration of the intra-group transactions.

During 2015 the Bank implemented the following measures aimed at improvement of the liquidity risk management system:

1) improved the methodology regulating the liquidity risk management; developed and improved methods and instruments for the liquidity risk analysis and assessment;

- improved the liquidity risk management policies and procedures, including management of the daily, intraday, currency liquidity, with due account of the liquidity requirements under both normal and stressed condition;
- improved the risk liquidity stress testing procedures;
- reviewed a funding plan in case of emergency;
- organised a system of management reporting for liquidity risk;

30 Risk management, continued

(d) Liquidity risk, continued

- improved the instruments and indicators for liquidity risk analysis, such as a gap analysis based on both the remaining maturities under the contracts and expected cash flows;
- developed a tool to forecast future cash flows and identify potential gaps in funding under both normal and stressed conditions for the forthcoming month, using an indicator that characterises the Bank's resistance to the liquidity risk in the short run – Liquidity Coverage Ratio (LCR);
- reviewed and approved the internal unconsolidated and consolidated limits of control over the Bank's liquidity risk, within the annual maximum allowable level of liquidity risk;
- implemented the internal and market indicators of early warning of the liquidity risk;
- improved the internal control system.

2) The work has been performed to automate the liquidity risk management process.

To manage the liquidity risk, the Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity position is monitored on a daily basis and liquidity forecasting is performed on a regular basis by the Assets and Liabilities Management Department both under normal and stress market conditions. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a daily basis. Decisions on liquidity management are made by the authorised collegial body and implemented by the Assets and Liabilities Management Department.

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment.

30 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total gross amount outflow	Carrying amount
Liabilities								
Loans from state company	477,654	641,131	2,098,668	22,918,774	11,054,047	-	37,190,274	32,364,715
Deposits and balances from banks and other financial institutions	49,982,707	36,005,193	38,499,081	58,561,339	57,996,676	-	241,044,996	213,933,411
Current accounts and deposits from customers	268,735,608	34,897,455	435,074,739	528,666,235	248,876,888	12,154	1,516,263,079	1,347,960,736
Debt securities issued	130,575	-	13,170,575	30,144,600	17,810,050	-	61,255,800	44,803,340
Subordinated debt	-	635,516	4,098,760	45,907,867	33,114,261	2,500,000	86,256,404	59,120,799
Other financial liabilities	1,626,453	23,246	55,468	-	-	325	1,705,492	1,705,492
Gross settled derivative liabilities								
- Inflow	(246,380)	(170,931)	(593,612)	(44,005,132)	-	-	(45,016,055)	(39,539,654)
- Outflow	-	-	-	55,829,642	-	-	55,829,642	55,829,642
Total liabilities	**320,706,617**	**72,031,610**	**492,403,679**	**698,023,325**	**368,851,922**	**2,512,479**	**1,954,529,632**	**1,716,178,481**
Credit related commitments	184,671,659	-	-	-	-	-	184,671,659	188,985,882

Future interest payments for non-redeemable cumulative preference shares, which are payable annually, are not included in the table above.

30 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total gross amount outflow	Carrying amount
Liabilities								
Loans from state company	51,342	46,024	264,080	15,704,109	12,181,340	-	28,246,895	23,526,969
Deposits and balances from banks and other financial institutions	3,117,333	712,875	2,098,857	29,090,827	49,686,281	-	84,706,173	62,876,779
Current accounts and deposits from customers	158,778,380	118,383,543	375,492,713	309,527,250	174,481,497	24,754	1,136,688,137	1,010,450,102
Debt securities issued	130,658	-	6,309,872	42,746,575	17,332,748	-	66,519,853	46,784,145
Subordinated debt	-	636,000	4,127,482	51,081,408	33,114,261	2,500,000	91,459,151	58,593,213
Other financial liabilities	746,855	26,572	18,755	-	-	41,571	833,753	833,753
Gross settled derivatives								
- Inflow	-	(70,040)	(617,312)	(12,465,419)	-	-	(13,152,771)	-
- Outflow	-	-	444,934	11,111,150	-	-	11,556,084	-
Total liabilities	**162,824,568**	**119,734,974**	**388,139,381**	**446,795,900**	**286,796,127**	**2,566,325**	**1,406,857,275**	**1,203,064,961**
Credit related commitments	182,416,794	-	-	-	-	-	182,416,794	182,416,794

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

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Bank indicates that these customers accounts provide a long-term and stable source of funding.

30 Risk management, continued

(d) Liquidity risk, continued

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their contractual cash flows:

The table below shows an analysis, by contractual maturities, of the amounts recognised in the unconsolidated statement of financial position as at 31 December 2015:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	173,025,717	-	-	-	-	-	-	173,025,717
Deposits and balances with banks and other financial institutions	10,979,808	-	4,740,110	-	5,950,175	-	-	21,670,093
Financial instruments at fair value through profit or loss	3,178,420	8,366,100	17,494,915	18,964,747	2	626	-	48,004,810
Available-for-sale financial assets	-	57,633	-	2,792,436	-	737,726	-	3,587,795
Loans to customers	113,295,087	117,536,177	524,244,388	524,550,360	171,761,862	-	52,669,640	1,504,057,514
Held-to-maturity investments	2,114,659	91,560	3,534,364	17,663,852	-	-	-	23,404,435
Property, equipment and intangible assets	-	-	-	-	-	39,708,163	-	39,708,163
Investment in subsidiaries	-	-	-	-	-	17,740,871	-	17,740,871
Current tax asset	-	-	3,372,940	-	-	-	-	3,372,940
Other assets	2,690,144	1,815,803	2,171,692	6,578,392	55,303	1,365,249	2,186,563	16,863,146
Total assets	**305,283,835**	**127,867,273**	**555,558,409**	**570,549,787**	**177,767,342**	**59,552,635**	**54,856,203**	**1,851,435,484**
Non-derivative liabilities								
Loans from state company	476,356	637,657	2,048,441	20,871,708	8,330,553	-	-	32,364,715
Deposits and balances from banks and other financial institutions	49,791,945	35,731,407	37,215,858	51,463,394	39,730,807	-	-	213,933,411
Financial instruments at fair value through profit or loss	-	-	-	16,289,988	-	-	-	16,289,988
Current accounts and deposits from customers	268,222,935	34,609,351	419,365,350	459,773,878	165,977,068	12,154	-	1,347,960,736
Debt securities issued	123,321	-	10,383,989	22,471,889	11,824,141	-	-	44,803,340
Subordinated debt	166,433	351,343	931,044	29,397,915	25,774,064	2,500,000	-	59,120,799
Deferred tax liability	-	-	8,852,266	-	-	-	-	8,852,266
Other liabilities	3,628,327	50,660	1,789,456	432,515	52,330	325	-	5,953,613
Total liabilities	**322,409,317**	**71,380,418**	**480,586,404**	**600,701,287**	**251,688,963**	**2,512,479**	**-**	**1,729,278,868**
Net position	**(17,125,482)**	**56,486,855**	**74,972,005**	**(30,151,500)**	**(73,921,621)**	**57,040,156**	**54,856,203**	**122,156,616**

30 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	141,951,966	-	-	-	-	-	-	141,951,966
Deposits and balances with banks and other financial institutions	3,704,252	-	2,413,055	3,009,312	-	-	-	9,126,619
Financial instruments at fair value through profit or loss	3,678,243	1,635,231	247,048	2,104,574	-	510	-	7,665,606
Available-for-sale financial assets	-	57,633	-	3,015,978	-	3,309,137	-	6,382,748
Loans to customers	101,958,980	92,485,767	312,957,711	374,441,684	147,197,050	-	31,207,742	1,060,248,934
Held-to-maturity investments	4,124,494	940,631	3,907,614	22,825,324	-	-	-	31,798,063
Property, equipment and intangible assets	-	-	-	-	-	25,798,568	-	25,798,568
Investment in subsidiaries	-	-	-	-	-	11,438,540	-	11,438,540
Current tax asset	-	158,707	-	-	-	-	-	158,707
Other assets	1,487,648	422,004	7,880,768	1,829,750	67,293	9,118,207	1,103,775	21,909,445
Total assets	**256,905,583**	**95,699,973**	**327,406,196**	**407,226,622**	**147,264,343**	**49,664,962**	**32,311,517**	**1,316,479,196**
Non-derivative liabilities								
Loans from state company	51,190	45,753	257,214	14,189,034	8,983,778	-	-	23,526,969
Deposits and balances from banks and other financial institutions	3,103,134	706,410	2,015,843	24,976,609	32,074,783	-	-	62,876,779
Current accounts and deposits from customers	216,124,951	62,595,574	357,327,262	263,796,270	110,581,291	24,754	-	1,010,450,102
Debt securities issued	123,321	-	2,785,227	32,190,991	11,684,606	-	-	46,784,145
Subordinated debt	-	517,776	931,044	23,591,291	31,053,102	2,500,000	-	58,593,213
Deferred tax liability	-	-	3,900,592	-	-	-	-	3,900,592
Other liabilities	1,870,270	833,640	560,297	799,487	-	45,252	-	4,108,946
Total liabilities	**221,272,866**	**64,699,153**	**367,777,479**	**359,543,682**	**194,377,560**	**2,570,006**	**-**	**1,210,240,746**
Net position	**35,632,717**	**31,000,820**	**(40,371,283)**	**47,682,940**	**(47,113,217)**	**47,094,956**	**32,311,517**	**106,238,450**

31 Capital management

NBRK sets and monitors capital requirements for the Bank as a whole.

As at 31 December 2014, the Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

- Tier 1 capital, which is comprised of ordinary and preference share capital, share premium, prior periods' retained earnings/accumulated losses and reserves created thereof, qualifying perpetual debt less intangible assets and current year losses. Starting from 1 February 2014, tier 1 capital includes the dynamic reserve.

- Total capital, which is the sum of tier 1 capital, tier 2 capital (in the amount not exceeding tier 1 capital) and tier 3 capital (in the amount not exceeding 250% of the portion of tier 1 capital attributed to cover market risk) less investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital.

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of statutory net income for the current year, revaluation reserves, qualifying subordinated liabilities and before 1 February 2014 dynamic reserve in the amount not exceeding 1.25% of risk-weighted assets.

Tier 3 capital is required for the purposes of calculation of total capital and includes subordinated liabilities not included into tier 2 capital.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the capital requirements as at 31 December 2014 set by the NBRK banks have to maintain:

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

Investments for the purposes of calculation of the above ratios represent investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital.

As at 31 December 2014 the minimum level of ratios as applicable to the Bank are as follows:

- k1-1 – not less than 0.05
- k1-2 – not less than 0.05
- k2 – not less than 0.1.

During 2015 the NBRK fulfilled transition on international regulatory framework for banks Basel III. Hence new capital requirements for the Bank are established from 1 January 2015. Therefore, the Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

- As at 31 December 2015, tier 1 capital is a total of basic and additional capital. Basic capital comprises ordinary share capital, share premium, current and prior periods' retained earnings and reserves created thereof, less treasury share capital, intangible assets including goodwill, and current and prior periods losses, deferred tax asset net of deferred tax liability and other revaluation reserves. Additional capital comprises of perpetual contracts and paid-in preference share capital less adjustments for the Bank's investment in its own perpetual financial instruments and treasury preference shares.

- Tier 2 capital comprises subordinated debt in KZT less investments in subordinated debt of financial institutions the Bank holds 10% and more shares in.

31 Capital management, continued

Total capital is the sum of tier 1 and tier 2 capital.

There are a set of different limitations and classification criteria applied to the above listed total capital elements.

In accordance with the regulations set by the NBRK the Bank has to maintain total capital adequacy within the following coefficients:

- a ratio of basic capital to the sum of credit risk-weighted assets, contingent liabilities and derivative financial instruments and market risk-weighted assets and contingent liabilities and quantified operational risk (k1)
- a ratio of tier 1 capital to the sum of credit risk-weighted assets, contingent liabilities and derivative financial instruments and market risk-weighted assets and contingent liabilities and quantified operational risk (k1-2)
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities and derivative financial instruments, market risk-weighted assets, contingent assets and liabilities, and a quantitative measure of operational risk (k2).

As at 31 December 2015 the minimum level of ratios as applicable to the Bank are as follows:

- k1 – not less than 0.05
- k1-2 – not less than 0.06
- k2 – not less than 0.075.

The Bank complied with all externally imposed capital requirements as at 31 December 2015 and 31 December 2014. As at 31 December 2015 Bank's coefficients are as follows: k1 – 0.069, k1-2 – 0.070 and k2 – 0.095 (31 December 2014: k1-1 – 0. 071, k1-2 – 0.076 and k2 – 0.127).

The following table shows the composition of the capital position calculated in accordance with the FMSA requirements established by the Rules # 358 dated 30 September 2005 as at 31 December 2015 and 31 December 2014:

	31 December 2015 KZT'000	31 December 2014 KZT'000
Tier 1 capital		
Basic capital:		
Ordinary share capital[1]	59,239,830	61,739,830
Additional paid-in capital	1,770	1,770
Statutory retained earnings of prior years	18,366,936	2,855,449
Retained earnings of current period[2]	16,127,676	-
Reserves formed from statutory retained earnings of prior years	28,613,885	28,613,885
Revaluation reserve of available-for-sale financial assets[3]	(207,564)	-
Statutory adjustments:		
Intangible assets including goodwill[4]	(1,461,561)	(199,596)
Total basic capital	**120,680,972**	**n/a**
Additional capital:		
Paid-in preference share capital not satisfying basic capital requirements	2,500,000	-
Tier 1 capital	**123,180,972**	**93,011,338**

[1] *As at 31 December 2014 share capital comprise of ordinary and preference shares.*
[2] *As at 31 December 2014 retained earnings of current period is included in tier 2 capital.*
[3] *As at 31 December 2014 revaluation reserve of available-for-sale financial assets is included in tier 2 capital.*
[4] *As at 31 December 2014 licences used for banking activities and accounted under IAS 38 Intangible assets are excluded from intangible assets.*

31 Capital management, continued

	31 December 2015 KZT'000	31 December 2014 KZT'000
Tier 2 capital		
Revaluation reserve of available-for-sale financial assets	-	24,218
Subordinated debt placed before 1 January 2015 denominated in KZT	53,291,857	-
Subordinated debt included in total capital up to 50% of Tier 1 capital less repurchased subordinated debt of the Bank	-	46,505,669
Retained earnings of current period	-	15,508,912
Statutory adjustments::		
Less investments in subordinated debt of financial institutions the Bank holds 10% and more shares in	(9,690,285)	-
Total tier 2 capital	**43,601,572**	**62,038,799**
Total capital	**166,782,544**	**155,050,137**
Total statutory assets less not invested funds accepted based on custody agreements	**n/a**	**1,316,849,477**
Risk-weighted assets, contingent liabilities and derivative financial instruments and operational risk		
Credit risk-weighted assets	1,662,545,890	1,133,440,880
Credit risk-weighted contingent liabilities	49,243,824	55,226,278
Credit risk-weighted derivative financial instruments	1,976,983	579,890
Market risk-weighted assets and contingent liabilities	15,544,122	10,488,820
Operational risk	31,138,592	19,667,912
Risk-weighted assets, contingent liabilities and derivative financial instruments and operational risk	**1,760,449,411**	**1,219,403,780**
k1 (31 December 2014: k1-1)	**0.069**	**0.071**
k1-2	**0.070**	**0.076**
k2	**0.095**	**0.127**

The Bank is also subject to minimum capital adequacy requirements calculated in accordance with NBRK established by covenants under borrowings of the Bank. The Bank complied with all externally imposed capital requirements as at 31 December 2015 and 31 December 2014.

32 Commitments

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

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

	31 December 2015 KZT'000	31 December 2014 KZT'000
Contracted amount		
Loan and credit line commitments	88,848,413	122,532,863
Guarantees	92,475,711	53,464,123
Letters of credit	7,536,807	6,041,160
Credit card commitments	124,951	378,648
	188,985,882	**182,416,794**

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

As at 31 December 2015, the Bank has outstanding contractual commitments related to guarantees issued by the Bank that exceed 10% of capital to one client for the total amount of KZT 49,981,470 thousand.

33 Operating leases

Leases as lessee

Non-cancellable operating lease rentals as at 31 December 2015 and 31 December 2014 are payable as follows:

	31 December 2015 KZT'000	31 December 2014 KZT'000
Less than 1 year	317,903	442,703

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current period KZT 3,232,493 thousand was recognised as an expense in the unconsolidated statement of profit or loss and other comprehensive income in respect of operating leases (31 December 2014: KZT 3,465,654 thousand).

34 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

35 Related party transactions

(a) Control relationships

The party with ultimate control over the Bank is Mr Zhaksybek D.A., who is the major shareholder of Tsesna Corporation JSC and trustee of shares of Tsesna Corporation JSC owned by Jaxybekov A.R. The Bank’s parent Financial Holding Tsesna JSC (the “Parent company”) produces publicly available financial statements.

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December is as follows:

	2015 KZT’000	**2014 KZT’000**
Members of the Board of Directors	52,575	33,511
Members of the Management Board	797,683	721,536
	850,258	**755,047**

35 Related party transactions, continued

(b) Transactions with the members of the Board of Directors and the Management Board, continued

The outstanding balances and average interest rates as at 31 December 2015 and 2014 for transactions with the members of the Board of Directors and the Management Board are as follows:

	31 December 2015 KZT'000	Average interest rate %	31 December 2014 KZT'000	Average interest rate %
Unconsolidated statement of financial position				
ASSETS				
Loans to customers	7,769	12.0	93,673	10.42
Loan impairment allowance	(2)	-	(24)	-
Other assets	-	-	4	-
LIABILITIES				
Current accounts and deposits from customers	7,889,520	5.13	2,950,645	4.94
Other liabilities	17	-	17	-

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board are as follows:

	2015 KZT'000	2014 KZT'000
Profit or loss		
Interest income	2,423	10,581
Interest expense	(229,580)	(93,109)
	(227,157)	**(82,528)**

35 Related party transactions, continued

(c) Transactions with other related parties

Other related parties include the parent company, ultimate parent company, fellow subsidiaries and other related entities. The outstanding balances and the related average interest rates as at 31 December 2015 and related profit or loss amounts of transactions for the year ended 31 December 2015 with other related parties are as follows.

	Parent company		Subsidiaries		Other subsidiaries of the Parent company		Other*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Unconsolidated statement of financial position									
ASSETS									
Deposits and balances with banks and other financial institutions									
In USD	-	-	9,705,544	9.00	-	-	-	-	9,705,544
Available-for-sale financial assets	-	-	-	-	-	-	726,983	-	726,983
Loans to customers									
In KZT:									
Gross loan exposure	-	-	-	-	-	-	10,851	12.36	10,851
Allowance for impairment	-	-	-	-	-	-	(9)	-	(9)
Investment in subsidiaries	-	-	17,576,652	-	-	-	-	-	17,576,652
Other assets	-	-	610,214	-	1,800,099	-	1	-	2,410,314
LIABILITIES									
Deposits and balances from banks and other financial institutions									
In USD	-	-	251,581	-	-	-	-	-	251,581
Current accounts and deposits from customers									
In KZT	9,450	6.88	211,959	3.31	166,256	7.82	218,679	1.36	606,344
In USD	6,330,612	5.90	134,468	1.98	34,387,907	5.78	22,802,656	5.64	63,655,643
In other currency	-	-	1,421	-	-	-	766,034	2.99	767,455
Debt securities issued	-	-	95,920	-	-	-	-	-	95,920
Subordinated debt	-	-	386,142	-	-	-	-	-	386,142
Other liabilities	-	-	-	-	10	-	11	-	21
Items not recognised in the unconsolidated statement of financial position									
Commitments	-		-		-		6,413		6,413
Unconsolidated statement of profit or loss and other comprehensive income									
Interest income	-		358,637		-		1,627		360,264
Interest expense	(286,931)		(8,095)		(1,783,376)		(577,130)		(2,655,532)
Income from insurance activities	-		-		276		-		276
Fee and commission income	381		28,328		3,144		2,864		34,717
Other income	-		1		-		1		2
Other general administrative expenses	(104,018)		-		(759,744)		-		(863,762)

35 Related party transactions, continued

(c) Transactions with other related parties, continued

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

	Parent company		Subsidiaries		Other subsidiaries of the Parent company		Other*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Unconsolidated statement of financial position									
ASSETS									
Loans to customers									
In KZT:									
Gross loan exposure	-	-	-	-	-	-	9,166	11.27	9,166
Allowance for impairment	-	-	-	-	-	-	(2)	-	(2)
Investment in subsidiaries	-	-	11,438,540	-	-	-	-	-	11,438,540
Other assets	-	-	193,145	-	1,812,970	-	6	-	2,006,121
LIABILITIES									
Current accounts and deposits from customers									
In KZT	12,082	6.75	487,416	3.19	225,819	5.99	159,043	6.95	884,360
In USD	12,743,392	3.29	6,443	-	23,234,044	3.40	1,716,634	5.82	37,700,513
In other currency	-	-	1,302	-	-	-	445,745	1.00	447,047
Subordinated debt	-	-	409,096	-	-	-	-	-	409,096
Other liabilities	-	-	-	-	2,018	-	9	-	2,027
Items not recognised in the unconsolidated statement of financial position									
Guarantees received	-		-		-		22,000		22,000
Commitments	-		-		-		5,305		5,305
Unconsolidated statement of profit or loss and other comprehensive income									
Interest income	-		-		-		1,427		1,427
Interest expense	(55,676)		(16,397)		(191,593)		(111,155)		(374,821)
Fee and commission income	88		26,034		3,397		256		29,775
Other general administrative expenses	-		1		(771,048)		-		(771,047)

* Other related parties are the entities that are controlled by the ultimate controlling party.

36 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	173,025,717	-	-	173,025,717	173,025,717
Deposits and balances with banks and other financial institutions	-	-	21,670,093	-	-	21,670,093	21,670,093
Financial instruments at fair value through profit or loss	48,004,810	-	-	-	-	48,004,810	48,004,810
Available-for-sale financial assets	-	-	-	3,587,795	-	3,587,795	3,587,795
Loans to customers	-	-	1,504,057,514	-	-	1,504,057,514	1,438,938,293
Held-to-maturity investments:							
Government bonds	-	23,214,877	-	-	-	23,214,877	22,209,753
Corporate bonds	-	189,558	-	-	-	189,558	189,490
Other financial assets	-	-	9,123,143	-	-	9,123,143	9,123,143
	48,004,810	**23,404,435**	**1,707,876,467**	**3,587,795**	**-**	**1,782,873,507**	**1,716,749,094**
Loans from state company	-	-	-	-	32,364,715	32,364,715	32,364,715
Deposits and balances from banks and other financial institutions	-	-	-	-	213,933,411	213,933,411	213,933,411
Financial instruments at fair value through profit or loss	16,289,988	-	-	-	-	16,289,988	16,289,988
Current accounts and deposits from customers	-	-	-	-	1,347,960,736	1,347,960,736	1,345,147,291
Debt securities issued	-	-	-	-	44,803,340	44,803,340	43,595,387
Subordinated debt	-	-	-	-	59,120,799	59,120,799	56,562,892
Other financial liabilities	-	-	-	-	1,705,492	1,705,492	1,705,492
	16,289,988	**-**	**-**	**-**	**1,699,888,493**	**1,716,178,481**	**1,709,599,176**

36 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

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

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	141,951,966	-	-	141,951,966	141,951,966
Deposits and balances with banks and other financial institutions	-	-	9,126,619	-	-	9,126,619	9,126,619
Financial instruments at fair value through profit or loss	7,665,606	-	-	-	-	7,665,606	7,665,606
Available-for-sale financial assets	-	-	-	6,382,748	-	6,382,748	6,382,748
Loans to customers	-	-	1,060,248,934	-	-	1,060,248,934	1,024,039,360
Held-to-maturity investments:							
Government bonds	-	31,798,063	-	-	-	31,798,063	32,127,400
Other financial assets	-	-	8,045,037	-	-	8,045,037	8,045,037
	7,665,606	**31,798,063**	**1,219,372,556**	**6,382,748**	**-**	**1,265,218,973**	**1,229,338,736**
Loans from state company	-	-	-	-	23,526,969	23,526,969	23,526,969
Deposits and balances from banks and other financial institutions	-	-	-	-	62,876,779	62,876,779	62,876,779
Current accounts and deposits from customers	-	-	-	-	1,010,450,102	1,010,450,102	1,018,098,643
Debt securities issued	-	-	-	-	46,784,145	46,784,145	48,705,812
Subordinated debt	-	-	-	-	58,593,213	58,593,213	55,565,663
Other financial liabilities	-	-	-	-	833,753	833,753	833,753
	-	-	-	-	**1,203,064,961**	**1,203,064,961**	**1,209,607,619**

36 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The Bank uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain securities for which there is no active market.

As disclosed in Note 16, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 737,726 thousand (31 December 2014: KZT 10,743 thousand) cannot be determined.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 5.0% - 16.0% and 8.3% – 25.0% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively
- discount rates of 2.4% – 12.7% and 1.8% – 8.3% are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively
- quoted market prices are used for determination of fair value of debt securities issued.

36 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

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

The table below analyses financial instruments measured at fair value as at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the unconsolidated statement of financial position:

KZT'000	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss				
- Assets	945,975	1,208,325	45,850,510	48,004,810
- Liabilities	-	-	(16,289,988)	(16,289,988)
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	2,850,069	-	2,850,069
	945,975	**4,058,394**	**29,560,522**	**34,564,891**

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2014, are classified as level 2 in the fair value hierarchy. As at 31 December 2015 financial instruments categorised to Level 2 category include government securities of KZT 2,918,781 thousand.

The table below analyses financial instruments measured at fair value as at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the unconsolidated statement of financial position:

KZT'000	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss	1,333,189	2,654,174	3,678,243	7,665,606
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	3,073,611	-	3,073,611
- Equity investments	-	3,298,394	-	3,298,394
	1,333,189	**9,026,179**	**3,678,243**	**14,037,611**

36 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2014, are classified as Level 2 in the fair value hierarchy. As at 31 December 2014 financial instruments categorised to Level 2 category include government securities of KZT 4,719,328 thousand.

Unobservable valuation differences on initial recognition

The transaction price of the swap transactions with the NBRK is different from fair value of the swap instruments in the principal markets. At initial recognition, the Bank estimates the fair values of the swaps transacted with the NBRK using valuation techniques.

In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the currency market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Bank uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlying, expectations on termination periods. When fair value at initial recognition is not evidenced by a quoted price in an active market or based on a valuation technique that uses data only from observable markets, any difference between the fair value at initial recognition and the transaction price is not recognised in profit or loss immediately, but is deferred (see Note 3).

The following table shows a reconciliation for the year ended 31 December 2015 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3		
	Financial instruments at fair value through profit or loss		
KZT'000	Derivative assets	Derivative liabilities	Total
Balance at beginning of the year	3,678,243	-	3,678,243
Net gain on financial instruments at fair value through profit or loss	105,479,158	16,668,944	88,810,214
Settlement	(66,728,795)	(378,956)	(66,349,839)
Interest paid	3,421,904	-	3,421,904
Balance at end of the year	**45,850,510**	**16,289,988**	**29,560,522**

The following table shows a reconciliation for the year ended 31 December 2014 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3	
	Financial instruments at fair value through profit or loss	Total
KZT'000	Derivative assets	
Balance at beginning of the year	-	-
Net gain on financial instruments at fair value through profit or	316,163	316,163
Settlement	(257,392)	(257,392)
Interest paid	3,619,472	3,619,472
Balance at end of the year	**3,678,243**	**3,678,243**

To determine the fair value of the swaps, management assumed a risk free interest rate in KZT of 12.7% and a rate in USD of 0.3%. Management assumes that the early termination right will not be exercised by NBRK until maturity.

36 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

As at 31 December 2015 if the risk-free interest rate applied to KZT cash flows increased by 1% and in USD increased by 0.1%, the fair value of the currency swaps with the NBRK in Level 3 of the hierarchy would increase by KZT 287,308 thousand (31 December 2014: increase by KZT 372,480 thousand). As at 31 December 2015 if the estimated maturity of the instrument decrease by one month the fair value of the currency swaps with the NBRK in Level 3 of the hierarchy would decrease by KZT 1,210,062 thousand (31 December 2014: decrease by KZT 375,033 thousand).

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2015:

KZT'000	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	173,025,717	-	173,025,717	173,025,717
Deposits and balances with banks and other financial institutions	-	21,670,093	-	21,670,093	21,670,093
Loans to customers	-	1,339,166,325	99,771,968	1,438,938,293	1,504,057,514
Held-to-maturity investments	-	22,399,243	-	22,399,243	23,404,435
Liabilities					
Loans from state company	-	32,364,715	-	32,364,715	32,364,715
Deposits and balances from banks and other financial institutions	-	213,933,411	-	213,933,411	213,933,411
Current accounts and deposits from customers	-	1,345,147,291	-	1,345,147,291	1,347,960,736
Debt securities issued	-	43,595,387	-	43,595,387	44,803,340
Subordinated debt	-	56,562,892	-	56,562,892	59,120,799

36 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

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

KZT'000	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	141,951,966	-	141,951,966	141,951,966
Deposits and balances with banks and other financial institutions	-	9,126,619	-	9,126,619	9,126,619
Loans to customers	-	969,053,846	54,985,514	1,024,039,360	1,060,248,934
Held-to-maturity investments	9,784,458	22,342,942	-	32,127,400	31,798,063
Liabilities					
Loans from state company	-	23,526,969	-	23,526,969	23,526,969
Deposits and balances from banks and other financial institutions	-	62,876,779	-	62,876,779	62,876,779
Current accounts and deposits from customers	-	1,018,098,643	-	1,018,098,643	1,010,450,102
Debt securities issued	-	48,705,812	-	48,705,812	46,784,145
Subordinated debt	-	55,565,663	-	55,565,663	58,593,213

37 Subsequent events

On 12 January 2016 the Bank acquired ordinary shares of Plus Bank from non-controlling shareholders for the total amount of KZT 1,217,955 thousand increasing its equity interest from 67.38% to 83.32% of the voting shares (from 69.07% to 84% of all shares).