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HALYK
BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
GLOSSARY

GLOSSARY

1	**Halyk Group, the Group, the Halyk group of companies**	Halyk Bank and its subsidiaries
2	**Road Map for Business 2020**	The "Road Map for Business 2020" Unified Programme for Supporting Entrepreneurship and Business Development
3	**IT**	Information technology
4	**SME**	Small and medium-sized enterprise
5	**Halyk Bank, the Bank**	Joint Stock Company "Halyk Savings Bank of Kazakhstan"
6	**NBRK**	National Bank of Kazakhstan
7	**AML**	Anti-money laundering
8	**Damu fund**	Damu Entrepreneurship Development Fund
9	**CAR**	Capital adequacy ratio
10	**IPO**	Initial public offering
11	**KYC**	Know your customer
12	**mPOS**	Mobile acquiring solution
13	**OFAC, EU, UN**	Sanctions lists


HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
AT A GLANCE
FINANCIAL HIGHLIGHTS
Key figures at year-end
Key figures
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FINANCIAL HIGHLIGHTS

Key figures at year-end	01.01.2016		01.01.2015	
	KZT mln	US$ mln*	KZT mln	US$ mln*
Loans to customers	2,176,069	6,410	1,648,013	9,038
Total assets	4,454,938	13,123	2,809,782	15,406
Amounts due to customers	3,043,731	8,966	1,848,213	10,136
Debt securities issued	597,525	1,760	311,009	1,706
Amounts due to credit institutions	168,258	496	107,192	588
Total equity	529,928	1,561	475,221	2,606

Key figures	2015		2014	
	KZT mln	US$ mln**	KZT mln	US$ mln**
Net interest income	138,187	623	125,748	702
Fees and commissions, net	42,471	192	50,079	279
Operating expenses	(70,805)	(319)	(62,410)	(349)
Net income	120,312	543	114,377	638

Key ratios	2015	2014
Return on average common equity	24.4%	27.1%
Return on average assets	3.7%	4.1%
Net interest margin	6.2%	5.8%
Net interest spread	6.6%	5.7%
Cost-to-income	29.2%	29.6%
Cost-to-assets	2.2%	2.3%
Tier 1 capital adequacy ratio (BIS guidelines)	18.0%	20.4%
Total capital adequacy ratio (BIS guidelines)	18.2%	21.0%

* *Calculated using the official National Bank of Kazakhstan rate on the corresponding date*

** *Calculated using the average official National Bank of Kazakhstan rate for the corresponding period*

NUMBER OF CUSTOMERS/ACCOUNTS AT YEAR-END

Key figures	01.01.2016	01.01.2015
Retail accounts, mln	9.3	8.8
Corporate clients	1,591.0	1,521.0
Payment cards, mln	5.3	4.7
Retail loans, mln	0.65	0.59
Mortgage loans	21,900.0	20,024.0
Other consumer loans	14,297.0	11,823.0
Plastic cards of payroll programme customers (individuals), mln	2.7	2.4
Payroll programme clients (legal entities, including public organisations)	22,866.0	22,483.0
Internet banking users		
individuals	699,952.0	442,439.0
legal entities	14,888.0	14,074.0

* *Calculated using the official National Bank of Kazakhstan rate on the corresponding date*

** *Calculated using the average official National Bank of Kazakhstan average rate for the corresponding period*

DISTRIBUTION NETWORK

Halyk Bank	521 outlets, including:
	22 regional branches
	122 sub-regional offices
	55 personal service centres
	4 VIP centres
	1 bank service centre
	317 cash settlement units
	2,251 ATMs
	20,169 POS terminals
	561 multi-service kiosks
	577 payment terminals
Kazakhinstrakh	18 branches
	215 points of sale
Halyk-Life	17 branches
Halyk-Leasing	1 branch
Halyk Collection	18 branches, 37 outlets
Altyn Bank	6 outlets, including:
	4 branches (Astana, Almaty, Aktau, Atyrau)
	2 sub-branches (Almaty)
Halyk Bank Kyrgyzstan	9 branches, 9 cash settlement units
Halyk Bank Georgia	6 branches
NBK-Bank	2 lending and cash settlement units

As of 31 December 2015, Halyk Group had 11,827 full-time equivalent employees.

STRUCTURE OF HALYK GROUP*

NBK-Bank, Russia	100%
Halyk-Leasing (leasing)	100%
Kazteleport (telecommunications)	100%
Halyk Bank Kyrgyzstan	100%
Halyk-Life (life insurance)	100%
Halyk Collection (cash collection services)	100%
Halyk Bank Georgia	100%
Kazakhinstrakh (insurance)	100%
Halyk Project (distressed asset management)	100%
Altyn Bank (SB of Halyk Bank)	100%
Halyk Finance (brokerage and asset management)	100%

* *On 31 December 2014, the Board of Directors of Halyk Bank voted to voluntarily liquidate the subsidiary Accumulating Pension Fund, registered at 96/98 Zheltoksan st., Almaty. On 7 December 2015, the shares of Accumulating Pension Fund were cancelled in accordance with Kazakh legislation.*

INTERNATIONAL CREDIT RATINGS OF HALYK BANK AS OF 1 APRIL 2016

Agency	*Long-term rating*	*Outlook*
Moody's Investor Services	Ba2	Negative
Fitch Ratings	BB	Stable
Standard & Poor's	BB	Stable

SHAREHOLDERS OF HALYK BANK WITH AT LEAST 5% OF SHARES ISSUED AS OF 1 JANUARY 2016[1]

No	Name	Total shares	Proportion of total shares in circulation	Common shares	Proportion of common shares in circulation	Non-convertible preferred shares	Convertible preferred shares	Total preferred shares	Proportion of preferred shares in circulation
1	Total shares authorised	24,680,225,222	-	24,000,000,000	-	600,000,000	80,225,222	680,225,222	-
2	Holding Group ALMEX	8,024,149,068	73.4%	8,003,381,500	73.4%	20,400,000	367,568	20,767,568	99.8%
3	Single Accumulated Pension Fund	716,281,746	6.6%	716,281,746	6.5%	-	-	-	-
4	GDRs (ISIN: US46627J3023, US46627J2033)	1,840,058,240	16.8%	1,840,058,240	16.9%	-	-	-	-
5	Other	349,774,984	3.2%	349,729,065	3.2%	43,932	1,987	45,919	0.2%
6	Total shares issued	11,518,603,103	-	11,128,518,451	-	309,859,430	80,225,222	390,084,652	-
7	Shares bought back by the Bank	(586,399,435)	-	(217,453,231)	-	(289,259,381)	(79,686,823)	(368,946,204)	-
8	Shares retained by companies in the Group	(1,939,630)	-	(1,614,669)	-	(156,117)	(168,844)	(324,961)	-
9	Total shares in circulation (consolidated basis, EPS)	10,930,264,038	-	10,909,450,551	-	20,443,932	369,555	20,813,487	-
10	Total shares in circulation (as per KASE listing rules)	-	-	2,191,371,327	-	-	-	-	-
11	Market share price, KZT*	-	-	40.00	-	140.00	140.00	-	-

* *market share price as of 1 January 2016, determined and published by KASE (www.kase.kz) on a daily basis.*

"Holding Group ALMEX" ("ALMEX") is a holding company that, in addition to its controlling interest in the Bank, has an interest in "Insurance broker AON Kazakhstan".

The Single Accumulated Pension Fund ("SAPF") collects obligatory pension payments, obligatory professional pension payments and voluntary pension payments and disburses pension payments and is one of the leading institutional investors on the Kazakhstan stock market. Its assets are held, accounted and managed by the National Bank of the Republic of Kazakhstan.

The sole shareholder of the SAPF is the State Property and Privatisation Committee of the Ministry of Finance of Kazakhstan (100%). ■

1 *Shares of the Bank have been listed on the Kazakhstan Stock Exchange since 1998 and common shares in the form of global depositary receipts on the London Stock Exchange since 2006.*


HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
BUSINESS MODEL

Solid financial position, capable of withstanding negative macroeconomic developments

- High level of capitalisation (according to BIS guidelines): Tier 1 capital adequacy ratio of 18.0% and total capital adequacy ratio of 18.2%
- Sufficient liquidity: liquid assets to total assets ratio of 36.1%
- High-quality funding base: loans to deposits ratio of 71.5%
- Sufficient provisioning: the share of non-performing loans (overdue by 90 days or more) has been reduced to 10.3% and the provision coverage ratio is 118.5%
- Highest long-term credit ratings among second-tier Kazakh banks with no major overseas shareholders:
  - Moody's Investor Services – Ba2
  - Fitch Ratings – BB
  - Standard & Poor's – BB

Systemically important financial group in Kazakhstan with a strong market position

- High-quality assets, sustainable profitability, high level of capitalisation
- Kazakhstan's leading universal financial group, with the largest client base and branch network in the country
- One of the leaders in terms of total equity, retail deposits, retail current accounts, net income, payment cards, portfolio of letters of credit and guarantees, and payroll programmes
- Active participant in government business-support programmes

Market share

- Largest branch network, with 521 outlets, 2,251 ATMs and 20,169 POS terminals
- Market share among second-tier banks is 20.6% of retail deposits, 19.7% of term deposits and 30.0% of demand deposits
- Share of the retail lending market is 16.0%
- Share of total cards issued is 43.4%

Solid and low-cost funding base

- "Safe haven" for deposits during a crisis
- One of the lowest deposit rates among second-tier banks
- 77.5% of the funding base consists of deposits, of which 29.5% pay 0% interest
- 15.2% of total liabilities are debt securities

Diversified sources of income and high cost efficiency ratio

- High profitability is supported by diversified stream of commission income, which generated 16.4% of total revenues in 2015
- Strict control of operating expenses: cost to income ratio of 29.2% ■

CHAIRMAN OF THE BOARD'S STATEMENT

CHAIRMAN OF THE BOARD'S STATEMENT

Alexander Pavlov
Chairman of the Board of Directors

Dear shareholders, clients and partners,

Kazakhstan's economy faced major challenges in 2015: rising geopolitical tension; economic sanctions involving Russia, a fellow member of the Eurasian Economic Union; and a slump in world prices for oil and metals, our main exports. All of these factors impacted GDP growth. In response to the external shocks, in August 2015, the government and the National Bank of Kazakhstan decided to pursue a new monetary policy aimed at containing inflation, stop managing the tenge and allow the currency to float freely.

The high volatility on the market and lack of tenge liquidity impacted the whole financial sector and every institution in particular. Despite these difficulties, Halyk Group continued to finance the real sector of the economy in 2015, maintaining a balanced approach to risk and asset quality

In 2015, the Group achieved significant results in many parts of its business, earned net income of KZT120.3 billion and reinforced its market positions substantially. In addition, the results of the year confirmed that acquiring Altyn Bank was the right move, and there were clear synergistic effects: Altyn Bank reported net income of KZT6.6 billion, a record. I would also like to highlight the success of our insurance companies: the Halyk Life subsidiary was number one in Kazakhstan in terms of life insurance premiums collected, while Kazakhinstrakh generated net income of KZT4.7 billion.

The ratings of the Bank and its subsidiaries are among the highest among Kazakh commercial financial institutions. Standard & Poor's noted that its rating reflects the Bank's extremely strong and stable business position and its ability to withstand negative macroeconomic developments due to its high capitalisation. Fitch also noted the Bank's high capitalisation and profitability and sufficient liquidity. Moody's highlighted the Bank's strong competitive positions in Kazakhstan and low dependence on external sources of funding.

Clearly, having sufficient equity is vital for banks, particularly in volatile times. In this light, the Bank intends to increase its equity by boosting and capitalising part of its income. Given the substantial capital adequacy, the Bank has no plans to use external sources of capital to increase its equity.

The events in the economy confirm the timeliness and relevance of Halyk Group's new development strategy, for 2016-18. The Group's main objective is to maintain and reinforce its leading positions in all segments of the financial services market and, as a result, its strong growth rates, which are higher than those of peers, in key areas. The Group intends to defend and improve its market positions over 2016-18 by transforming its business model and remaining focused on satisfying the growing requirements of customers for high standards of service and access to cutting-edge financial services and products. The strategy places a particular emphasis on improving efficiency, reducing costs and enhancing risk management.

I would also like to highlight the importance that the Group places on increasing the transparency of its business. The Group works continuously to improve its corporate governance system. More detailed information can be found in the corresponding sections of this report.

Halyk Group is committed to being a socially responsible corporate citizen: in 2015, it donated more than KZ530 million to charitable causes. Initiatives included providing financial support to the Ayala and Sabi charity funds, sponsoring children's homes and specialised child care institutions nationwide, and giving grants to talented students through the Halyk Students and "Halyk Education with Union Pay" programmes. In addition, on the 70th anniversary of the end of World War II, the Bank spent more than KZT41 million: from 7 to 9 May 2015, in towns and cities throughout Kazakhstan, major events were organised with its support. The Bank also contributed to initiatives aimed at stimulating people's interest in culture, business and sport, such as the Almaty marathon, the Astana opera and many others.

On behalf of the Board of Directors, I would like to thank every one of our shareholders, employees and partners for their cooperation, trust, understanding and support of the Group's strategic development course. ■


HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
CHAIRPERSON OF THE MANAGEMENT BOARD'S REVIEW

Umut Shayakhmetova
Chairperson of the Management Board

Dear shareholders, customers and partners,

In 2015, Kazakhstan entered another phase of crisis, and the majority of market players and observers now believe that a "new reality" has begun for the country. While we learned important lessons and invaluable experience from the 2009 crisis, this new reality will oblige people in Kazakhstan to learn how to live amid low prices for natural resources for a long period of time.

The decline in world prices for commodities in 2015 impacted Kazakhstan's economy, balance of payments and state budget. The National Bank of Kazakhstan's new monetary policy, which the regulator began to follow in late 2015, reduced the pressure on the budget and the National Fund.

Throughout the year, the country witnessed a volatile tenge exchange rate, while a decline in confidence in the monetary authorities exacerbated the lack of tenge liquidity and long-term tenge loans in the banking sector, impacting lending and its growth rate. Despite these challenges, in 2015, Halyk Group proved that its business model is solid and its balanced approach to risk management is prudent. Compared with 2014, the Group's assets rose by 58.6% to KZT4,454.9 billion and the net loan portfolio by 28.3% to KZT2,481.2 billion, while net income increased by 5.2% to KZT 120.3 billion and net interest income by 12.9% to KZT 138.2 billion.

The Group's success was recognised by international publications. In Forbes' annual rating of the world's 2,000 largest companies, Forbes Global 2000, Halyk Bank was the only Kazakh company to feature. Euromoney named Halyk Bank the "Best Bank in Kazakhstan" for 2015, while The Banker named it "Bank of the Year". Halyk Finance won Global Finance's "Best Investment Bank in Kazakhstan 2015" award and entered the publication's list of the best investment banks in the world for the year. At the EMEA Finance Achievement Awards, it also won nominations for the fifth year in a row.

In 2015, the Bank strengthened its leading positions in the retail business further. Its share of deposits among second-tier banks reached 20.6%, while its retail deposits increased by KZT512.2 billion over the year. The retail loan portfolio expanded by 22.1%, driven mainly by consumer loans, of which the Bank allocated more than KZT297 billion, more than in 2014. In addition, Halyk Bank remains the leading bank in Kazakhstan in the payment card segment, where its share is 43.4%.

In autumn 2015, the Bank launched a new product, a free mobile application for retail customers that use its internet banking. By the year-end, it had been downloaded almost 100,000 times and it is in the top three on App Store and Google Play. The Bank is also streamlining its multi-channel approach to sales and service, expanding its range of services available through remote sales channels. The Bank is positioning itself wherever clients need it: via smartphones, in branches and in social media.

Given the increasingly challenging operating environment, the Bank is placing a particular emphasis on monitoring risk and the quality of its loan portfolio.

Halyk Bank is actively involved in refinancing lenders under the state mortgage refinancing programme: as at the year-end, there were 1,918 applications amounting to KZT11 billion, of which 1,551 totalling KZT7.7 billion were refinanced.

The Bank also plays an active role in state programmes with the Damu Entrepreneurship Development Fund. In a programme to support entrepreneurship, the Bank is one of the leading commercial banks in terms of volume of loans and number of approved borrowers. For more than a year, the Bank has been working with the National Chamber of Entrepreneurs: specially trained employees provide free advice to owners of small and medium-sized businesses at all branches, even remote ones.

In 2015, the successful work of subsidiaries was acknowledged by international rating agencies. Fitch issued Altyn Bank a long-term issuer default rating of "BB', in foreign and local currency, the outlook 'stable', and Halyk Bank Georgia a long-term issuer default rating of "BB-", in foreign and local currency. In April, A.M. Best confirmed its financial strength rating of "B+" and issuer credit rating of "bbb-" for Halyk Life. In March, it issued a financial strength rating of "B++" (Good) and an issuer credit rating of "bbb" to Kazakhinstrakh. The subsidiaries are growing rapidly: over the year, Halyk Bank Kyrgyzstan opened a branch in Osh, Halyk Bank Georgia a branch in Tbilisi and NBK Bank a cash settlement unit in Novosibirsk.

In 2015, Halyk Group began preparations to implement its development strategy for 2016-18, which priorities are customer focus and convenience. The Bank is aiming to be the number one financial institution of choice in Kazakhstan.

The coming year looks set to be a challenging one for the economy. The Bank is confident that the situation can be turned around through prudent reform to liberalise the economy. A predictable monetary policy is needed from the National Bank of Kazakhstan. Halyk Bank's strategic priority is to expand steadily in all key segments while progressively enhancing efficiency, service and processes. ■


HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
BOARD OF DIRECTORS

Alexander Pavlov

(b. 1953)

Chairman, Independent Director

Mr. Pavlov was elected Chairman of the Board in March 2004 and re-elected to the same post in April 2014. Between 1994 and 2000, he was Minister of Finance, then Deputy Prime Minister, and finally First Deputy Prime Minister of the Republic of Kazakhstan. From 2000 to 2002, he was Vice Chairman of the Management Board and Vice Chairman of the Board of Directors of copper mining company Kazakhmys. Between 2002 and 2004, he was First Deputy Prime Minister of the Republic of Kazakhstan. From 2006 to 2008, he was a member of the Board of Directors of Kazakhstan Holding for Management of State Assets "Samruk". Mr. Pavlov is Chairman of the Guardian Council of the Zhana Alatau social fund. Mr. Pavlov is a graduate of the Belarus State Institute of People's Economy, where he specialised in economics, and of the Academy for Social Sciences of the Central Committee of the Communist Party of the USSR, where he specialised in political sciences. He is an honorary professor at Karaganda State University named after E. A. Buketov. ■

Ulf Wokurka

(b. 1962)

Independent Director

Mr. Wokurka was elected to the Board in April 2011 and re-elected to the same post in April 2014. Between 1990 and 1999, he held various positions in both the head office and foreign offices of Deutsche Bank. From 2006 to 2008, he was Deputy CEO and a member of the Management Board of Kazakhstan Holding for Management of State Assets "Samruk" and Chairman of the Board of Directors of Kazpochta. From 2007, Mr. Wokurka has been a member of the Board of Directors and Independent Director of Kazyna Capital Management, as well as a member of the Kazakhstan Independent Directors Association. From 2008 to 2010, he served as Managing Director of Metzler Asset Management, Frankfurt-am-Main, and Independent Director of the Board of Directors of BTA Bank. In 2010, Mr. Wokurka was appointed a Managing Director of Deutsche Bank, Frankfurt-am-Main, and Head of Deutsche Bank's representative office in Kazakhstan; in the same year, he was elected a member of the Board of Directors of Sekerbank T.A.S., Turkey. Since June 2012, Mr. Wokurka has been Independent Director of the National Investment Corporation of the National Bank of Kazakhstan. He graduated from Martin Luther University (Germany) and Moscow State Institute of International Relations. ■

Arman Dunaev

(b. 1966)

Independent Director

Mr. Dunaev was elected to the Board in September 2013 and re-elected to the same post in April 2014. From June 2003 to March 2004, he was the Chairman of the Management Board of the National Innovation Fund. From March 2004 to April 2004, he was First Deputy Minister of Finance of the Republic of Kazakhstan. From April 2004 to January 2006, he was Minister of Finance of the Republic of Kazakhstan. From January 2006 to January 2008, he was the Chairman of the Agency of the Republic of Kazakhstan for Regulation and Supervision of the Financial Market and Financial Organisations. From January 2008 to October 2008, Mr. Dunaev was the Chairman of the Board of the Sustainable Development Fund Kazyna. From November 2008 to May 2011, he was the Deputy CEO of the Sovereign Wealth Fund "Samruk-Kazyna". From December 2011 to February 2012, he was the Adviser to the CEO of the Sovereign Wealth Fund "Samruk-Kazyna". Since December 2008 till present he has been the Chairman of the Board of Baiterek Development (former Distressed Assets Fund). From November 2014, he was appointed the Chairman of the Board of Altyn Bank. Mr. Dunaev is a graduate of Kazakh State University named after S. Kirov with a degree in Political Economy and Moscow State University named after M. Lomonosov with a Ph.D. ■

Franciscus Cornelis Wilhelmus (Frank) Kuijlaars

(b. 1958)

Independent Director

Mr. Kuijlaars was elected to the Board in April 2009 and re-elected to the same post in April 2014. From 1990 to 2007, he served at ABN AMRO Bank and later at RBS as Head of Corporate and Investment Banking in Belgium, Regional Manager in Brazil and Country Manager in Russia and Argentina. Mr. Kuijlaars was a Member of the Supervisory Board in Russia, Kazakhstan and Uzbekistan. After his appointment as Corporate Executive Vice President in 2001, in addition to supervision of global energy issues, he was a member of the Executive Committees of the countries of Europe, Central and Eastern Europe, the Middle East and Africa, as well as a member of the Corporate and Investment Banking Committee. He is an adviser to several international organisations, and for a long time was a member of the Foreign Investor Council of the President of the Republic of Kazakhstan. Since 2006, he has been an Independent Director and member of the Board of Directors and from March 2014, Chairman of the Board of Directors of National Company KazMunayGas. He is the owner and the Managing Director of Eureka (Energy) Ventures B.V., as well as an Independent Non-executive Director and independent member of the Supervisory Council of Amsterdam Trade Bank N.V. Mr Kuijlaars received a Masters degree in Law from Erasmus University, Rotterdam, the Netherlands. He studied at the Dutch Institute of Banks and Insurance Companies and studied in a number of postgraduate programmes in such international institutions as Fontainebleau (France), Cambridge (UK) and Harvard Business School (US). ■

Mazhit Yessenbayev

(b. 1949)

Member of the Board of Directors, Representative of Holding Group ALMEX

Mr. Yessenbayev was elected to the Board in April 2014 and re-elected to the same post in April 2014. From October 1972 to November 1975, he was an economist at the Economic Research Institute, part of the State Planning Committee of the Kazakh SSR. From January 1979 to September 1981, he held various positions at Karaganda Pedagogical Institute. He served in various positions on the Karaganda Regional Executive Committee from August 1989 to February 1992 and then the Karaganda Regional Administration from February 1992 to December 1994. From December 1994 to July 1997, he held various positions in state tax authorities. From July 1997 to October 1999, he served as the Governor of Karaganda Region. From October 1999 to January 2002, he was Minister of Finance of the Republic of Kazakhstan. From November 1999 to September 2002, he was a Director for Kazakhstan at the Islamic Development Bank. From November 1999 to September 2002, he was a Member of the Board of the National Bank of Kazakhstan. From January to August 2002, he served as Minister of Economy and Trade of the Republic of Kazakhstan; and from August 2002 to March 2004, as Minister of Industry and Trade of the Republic of Kazakhstan. From June 2003 to March 2004, Mr. Yessenbayev was an Adviser to the President of the Republic of Kazakhstan. From March 2004 to January 2008, he was the Governor of Akmola Region. From January 2008 to February 2012, he was Chairman of the Agency of the Republic of Kazakhstan for Competition Protection . From February 2012 to September 2013, he served as Chairman of the Customs Control Committee of the Ministry of Finance of the Republic of Kazakhstan. From November 2013 to February 2014, he was Adviser to the Chairman of the Board of Directors and General Representative of Halyk Bank. In February 2014, he became Chairman of the Management Board and a Member of the Board of Directors of Holding Group ALMEX. Mr. Yessenbayev graduated from the Kazakh Polytechnic Institute named after V.I. Lenin with a degree in Economics and the Mining Industry. ■

Christof Ruehl

(b. 1958)

Independent Director

Mr. Ruehl was appointed to the Board in June 2007 and re-elected to the same post in April 2014. He previously worked at the University of California, Los Angeles, where he was an Assistant Professor of Economics. From 1998 to 2005, he worked for the World Bank Group, as Senior Economist in Washington from 1998 to 2001, Chief Economist in Moscow from 2001 to 2004, and Lead Economist and Sector Leader in Brazil from 2004 to 2005. In 2005, he became Deputy Chief Economist of British Petroleum and in 2007 he became Group Chief Economist and Vice President of British Petroleum. In 2008, he became Chairman of the British Institute of Energy Economics, London. In July 2014, Mr. Ruehl was appointed First Global Head of Research by Abu Dhabi Investment Authority. He holds an MBA from the University of Bremen, Germany. ■

Umut Shayakhmetova

(b. 1969)

Member of the Board of Directors, Chief Executive Officer

Ms. Shayakhmetova was appointed CEO of Halyk Bank on 22 January 2009. In April 2009, she was elected a member of the Board of Directors and re-elected to the same post in April 2014. In 1997, she began working at ABN AMRO Bank Kazakhstan, where she held a number of positions in structured finance before becoming Chairperson of the Management Board of ABN AMRO Asset Management in 1998 and, in 2000, Deputy Chairperson of the Management Board of ABN AMRO Bank Kazakhstan. She became Deputy Chairperson of Halyk Bank in November 2004. Ms. Shayakhmetova is an economics graduate of the People's Friendship University, Moscow, and holds an MBA from Rutgers University, New Jersey, US. ■


HALYK
BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
MANAGEMENT
BOARD

Umut Shayakhmetova

(b. 1969)

Chairperson of the Management Board

See above ■

Marat Almenov

(b. 1976)

Deputy Chairman: Retail Banking

Mr. Almenov started his career at Halyk Bank in 1997 as a corporate lending banker. He then held the positions of Risk Manager and Head of the Retail unit in the Credit Risk Department. In 2003, he served as Deputy Director responsible for retail banking in the Astana regional branch of the Bank. Between 2004 and 2009, he was Deputy Director of the Retail Sales Department, Director of the Retail Sales Support Department and Director of the Banking Products and Agency Services Department. In 2009, he was appointed Director of the Almaty regional branch of the Bank. In June 2010, Mr. Almenov was appointed Deputy Chairman. He is an economics graduate of the Kazakh State Academy of Management. ■

Aivar Bodanov

(b. 1962)

Deputy Chairman: Security and Problem Loans

Mr. Bodanov was appointed Deputy Chairman on 19 January 2015. From September 2014 to January 2015 he was Director of the Security Department of Halyk Bank. He started his career in 1984 as a high-voltage overhead specialist for Dzhambul Grid Operating Company. In 1985, he worked as a specialist and senior producer at the Grazhdanstroy construction enterprise. In 1986-1988, he was a chief engineer at the Kultbytstroy construction enterprise of the Dzhambulstroy construction group. In 1988-1989, he attended Sverdlovsk Higher Educational Courses of Internal Affairs. In 1990-2014, Mr. Bodanov held numerous posts in the Department of Internal Affairs, the State Investigative Committee and the Tax and Financial Police. These included Deputy Head of the Agency of the Republic of Kazakhstan for Combating Economic Crimes and Corruption; Head of the Department for Combating Economic Crimes in Almaty and West Kazakhstan Regions; Head of the Department for Investigating Economic and Financial Crimes under the Agency of the Republic of Kazakhstan for Combating Economic Crimes and Corruption; Deputy Head of the Financial Police Department for in Kyzylorda, South Kazakhstan and Atyrau Regions; and others. He holds the rank of Major General in the Financial Police and has received the Aibyn II Order of Valour and other medals. In 1984, Mr. Bodanov graduated from the Dzhambul Irrigation and Construction Institute, where he specialised in hydraulic engineering of river constructions and hydroelectric power plants. In 1996, he graduated from the Karaganda Higher School under Ministry of Internal Affairs of Kazakhstan as a lawyer. ■

Dauren Karabayev, CFA

(b. 1978)

Deputy Chairman: International Activities and Subsidiaries

Mr. Karabayev was appointed Deputy Chairman on 1 March 2007. He has been working at the Bank since 2004 and has held the positions of Managing Director – Director of the Investment Banking and Managing Director – Director of the International department. He previously held a number of positions in credit analysis and project finance at ABN AMRO Bank Kazakhstan from 2001 to 2004. Mr. Karabayev is an economics graduate of the Kazakh State Academy of Management and holds an MBA from the University of Texas (US). ■

Aliya Karpykova

(b. 1970)

Deputy Chairperson: Finance, Accounting and Property

Ms. Karpykova has worked in the Kazakh banking system since 1992. From 1992 to 1996 she held various positions at the National State Bank of the Republic of Kazakhstan. From 1996 to 1997, Ms. Karpykova worked in Barents Group as an adviser on a USAID project on accounting reform in the Kazakh banking system. From 1998 to 2001, she was the Director of the Financial Control and Administration department and then a Member of the Management Board – Chief Accountant of Citibank Kazakhstan. From 2001 to 2004, she was Managing Director and then First Deputy Chairman of the Management Board of Nauryz Bank Kazakhstan. In 2004, she became Managing Director responsible for risk management at Halyk Bank, before becoming Head of Risk Management and then Finance Director of Halyk Bank. On 15 October 2011, she was appointed Deputy Chairperson of Halyk Bank. Ms. Karpykova is a graduate of Al-Farabi Kazakh National University, where she specialised in political economy. ■

Murat Koshenov, CFA, FRM

(b. 1973)

Deputy Chairman: Corporate Banking

Mr. Koshenov joined Halyk Bank in January 2010 as Chief Risk Officer and then became Compliance Controller. On 8 September 2014, he was appointed Deputy Chairman in charge of Corporate Banking. Mr. Koshenov has been working in the banking sector since 2000. Between 2000 and 2002, he was Head of Broker-Dealer Operations at ABN AMRO Asset Management. From 2002 to 2010, he worked at SB ABN AMRO Bank Kazakhstan (later SB RBS (Kazakhstan)), first as Risk Manager, then as Head of the Risk Management Division, before becoming Deputy Chairman of the Management Board. In 1996, Mr. Koshenov graduated from the Al-Farabi Kazakh National University with a degree in Physics. In 1998, he obtained an MBA from the Kazakhstan Institute of Economics, Management and Strategic Research. ■

Kuat Kussainbekov

(b. 1966)

Deputy Chairman: IT

Mr. Kussainbekov was appointed Deputy Chairman on 2 February 2015. He joined Halyk Bank in November 1999. He has extensive experience in IT at the Bank, having been Head of Banking Systems Design in the IT Department; Head of Banking Information System Design and Development – Deputy Director of the IT Department; Deputy Director of the IT Department; Deputy Director of the Information Systems Department; Director of the IT Department; Managing Director – Director of the Information Systems Department; Director of the Information Systems Department at Head Office; Managing Director; and Chief IT Director. Mr. Kussainbekov graduated from Kazakh Polytechnic Institute named after V.I. Lenin in 1988. ■

Yertai Salimov

(b. 1974)

Deputy Chairman: Operations and Treasury

Mr. Salimov was appointed Deputy Chairman on 2 February 2015. He joined Halyk Bank in August 1995. He has extensive experience of operations at the Bank, having worked as Deputy Head of the Non-Trading Operations and the Precious Metals desks in the Foreign Exchange Operations Department; a leading banker on the Precious Metals Handling and the Precious Metals desks in the International Operations Department; chief banker on the Commodity Desk in the Trade Finance Department; chief banker on the Commodity Desk in the Commercial Department; senior dealer in the Treasury; Head of Forex, Money Market Operations and Head of Trading Operations in the Treasury; Deputy Director and Director in the Treasury; Head of the Chief Operations Department; and Chief Operating Officer. Mr. Salimov graduated from the Kazakh State Academy of Management in 1995. ■

Zhannat Satubaldina

(b. 1961)

Deputy Chairperson: Interactions with Government and National Companies

Ms. Satubaldina was appointed Deputy Chairperson of Halyk Bank on 1 July 2014. She started her career in 1982 as a Junior Associate in the Research Institute of Planning and Governance Process Automation, part of the State Planning Committee of the Kazakh SSR. From 1983 to 1986, she worked as a research assistant at Moscow State University. From 1987 to 1993, she worked in different positions at the Kazakh State Academy of Management (formerly Alma-Ata Institute of National Economy). From 1993 to 1994, Ms. Satubaldina was Head of the Planning Department and of the Depositary of Kazmetalbank. From 1994 to 1999, she held various positions at Metalinvest, investment privatisation fund. From 1999 to 2001, she worked at the National Securities Commission of the Republic of Kazakhstan as Executive Director and Member of the Committee, and Head of Licensing and Supervision. From 2001 to 2002, Ms. Satubaldina was Deputy Director of the Department of Securities Market Regulation of the National Bank of Kazakhstan. From 2002 to 2006, she held numerous positions at Kazakhstan Temir Zholy, the national railways operator, namely Finance Managing Director, Vice President and Chief Accountant. From 2006 to 2007, she was Deputy CEO for Economics and Finance at KazTransOil, as well as a Member of the Board of Directors of Halyk Bank's Accumulating Pension Fund and of North-West Pipeline Company MunaiTas. From 2007 to 2009, she served as Managing Director of National Company KazMunayGas and a Member of the Board of Directors of Exploration and Production KazMunayGas and KazTransOil. From 2009 to 2014, Ms. Satubaldina was Deputy Finance Director and Deputy Director of KMG-Kashagan B.V. She is a graduate from Almaty Institute of People's Economy and Moscow State University named after M. Lomonosov with a Ph.D. ■

Askar Smagulov

(b. 1975)

Deputy Chairman

Mr. Smagulov started his career at ABN AMRO Bank Kazakhstan in 1998 and served as a Treasury Dealer, Head Dealer, Director of the Trade Division of the Treasury, and Director of the Treasury. In 2005, Mr. Smagulov joined Halyk Bank as Director of the Treasury. In September 2007, he became Deputy Chairman of the Management Board. In November 2014, he was appointed Chairman of the Management and was elected to the Board of Directors of Altyn Bank. Mr. Smagulov graduated from Al-Farabi Kazakh National University with a degree in economics. In 1998, he received an MBA from the William Simon School of Business, University of Rochester (US). ■

Aslan Talpakov

(b. 1975)

Deputy Chairman: SME Banking, Marketing and PR

Mr. Talpakov was appointed Deputy Chairman on 7 July 2015. He joined Halyk Bank in July 2011 and was most recently Head of Corporate Client Department No. 1. He began his career in 1999 as an Accountant and then a Financial Analyst at the Allied Support joint venture. In 2000, he was a Lead Specialist in the Dealing and International Settlement Department at Nurbank and then an Accountant in the Transport and Financial departments at Allied Support. From 2000 to 2009, he worked at ABN AMRO Bank Kazakhstan in Atyrau, where he was a Specialist in the Retail Customer Department, an Account Manager, Settlement Unit Manager and a Branch Director. From 2009 to 2011, he worked as a Manager in the Corporate Client Department at SB RBS (Kazakhstan) in Almaty. In 1996, Mr. Talpakov graduated from Varna Free University with a bachelor's degree in International Business Management. In 1996-1997, he attended language courses at Carroll College (US). ■

KEY EVENTS IN 2015

JANUARY

- Fitch Ratings confirms its long-term issuer default rating for Halyk Bank and its subsidiary Halyk Finance at BB, the outlook "stable"
- Kozhamurat Uskimbayev, Deputy Chairman of the Management Board, steps down at his own initiative
- Aivar Bodanov is appointed Deputy Chairman of the Management Board on 19 January
- In partnership with Halyk Bank, Kazakhstan Temir Zholy launches an online system for paying freight companies
- As of 1 January, Halyk Bank is among Kazakhstan's leading second-tier banks taking part in the government's "Road Map for Business 2020" programme in terms of loan portfolio and number of borrowers on the programme

FEBRUARY

- Kuat Kussainbekov and Yertai Salimov are elected new members of the Management Board
- International financial publication Global Finance names Halyk Finance as "Best Investment Bank in Kazakhstan 2015"
- Standard & Poor's confirms its long-term credit rating for Halyk Bank at "BB+"
- In the "Success is Guaranteed" campaign by the Damu Entrepreneurship Development
- Fund, Halyk Bank is the leader in terms of regional coverage
- Halyk Bank begins placing the first tranche of its fourth bond, totalling KZT170 billion and with a duration of 10 years; overall, five tranches totalling KZT131.7 billion are placed at a yield of 8.3%

MARCH

- Halyk Bank arranges an KZT8 billion loan with the Development Bank of Kazakhstan to finance major companies in the processing sector
- Halyk Finance wins awards at the EMEA Finance Achievement Awards for the fifth year in a row
- A.M. Best issues a financial strength rating of "B++" (Good) and an issuer credit rating of "bbb" to Kazakhinstrakh

APRIL

- Fitch Ratings issues a long-term issuer default rating for Altyn Bank of "BB", in foreign and local currency, the outlook "stable"
- Fitch Ratings issues a long-term issuer default rating for Halyk Bank Georgia of "BB-", in foreign and local currency
- A.M. Best confirms its financial strength rating of "B+" and issuer credit rating of "bbb-" for Halyk Life
- Halyk Bank repays in full its 10-year subordinated bond with a coupon equal to inflation + 1%
- Halyk Finance wins the "Best Investment Bank in Kazakhstan" nomination in the "Europe Banking Awards 2014", organised by EMEA Finance, marking the fifth time in a row that it has won the title
- The Bank completes the disbursement of funds under the programme to finance female entrepreneurship (as of 1 April, the Bank had distributed KZT801 million to 67 borrowers)
- Halyk Bank and the Development Bank of Kazakhstan (a subsidiary of the Baiterek National Management Holding) sign a banking loan agreement as part of the programme to support the automotive industry

MAY

- Halyk Bank Georgia launches an mPOS mobile acquiring project
- In a ranking of corporate and municipal bond underwriters for January to April by Cbonds, Halyk Finance comes first
- The Bank becomes the only Kazakh company to feature in Forbes' annual rating of the world's 2,000 biggest public companies, ranking 1,608
- Halyk Finance wins the "Best Investment Bank in Kazakhstan" and "Best Financial Market Analyst in Kazakhstan" awards for 2015 from Cbonds
- At UnionPay International's sixth international conference, in Beijing, the company and Halyk Bank sign a memorandum of cooperation
- Halyk Bank Georgia and Visa announce the start of the first mobile acquiring project in Georgia

JUNE

- In a ranking of corporate and municipal bond underwriters for January to May by Cbonds, Halyk Finance comes first
- In Forbes' annual rating of the world's 2,000 biggest public companies, Halyk Bank places second among CIS banks and first in terms of net income among Kazakh companies
- Halyk Bank and UnionPay International launch the "Halyk Education with Union Pay" grant programme
- Halyk Bank signs a KZT33.6 billion, 10-year bank deposit agreement with the Distressed Assets Fund as part of the government mortgage refinancing programme
- Stanislav Kosobokov, Deputy Chairman of the Management Board, steps down at his own initiative
- As part of a drive to streamline its capital structure, Halyk Bank buys back 172,713,805 preferred shares and convertible preferred shares at KZT140 per share totalling KZT24.2 billion (1.5% of total shares)

JULY

- Aslan Talpakov is elected a member of the Management Board on 7 July
- At the Euromoney Awards for Excellence Central and Eastern Europe 2015, Halyk Bank is named the best bank in Kazakhstan
- Halyk Bank repays in full its 10-year subordinated bond with a coupon equal to 7.5%

AUGUST

- Halyk Bank unveils a new-format personal service centre in the APORT Mall shopping and entertainment complex
- A group of around 160 volunteers from Halyk Group visits Karagaily to help local residents clean their apartments and yards
- The application period for the "Halyk Education with Union Pay" programme ends, and 50 of the 88 applicants are chosen to receive grants
- Altyn UnionPay Gold payment cards are given to successful applicants to the "Halyk Education with Union Pay" grant programme, a joint initiative by Halyk Bank and UnionPay International
- Halyk Bank Kyrgyzstan opens a cash settlement unit in Osh

NOVEMBER

- Halyk Bank Georgia opens a branch in Varketili
- NBK Bank opens a lending and cash settlement unit in Novosibirsk
- Halyk Bank repays in full its 10-year subordinated bond with a coupon equal to 15% minus inflation

DECEMBER

- Halyk Bank opens a new, modern bank service centre in the historical centre of Astana
- At the 16th annual "Bank of the Year" awards by international financial publication The Banker in London, Halyk Bank is named "Bank of the Year in Kazakhstan" in 2015
- Based on results for 2015, Halyk Life is named the number one life insurer in Kazakhstan in terms of insurance premiums collected
- Shares in Halyk Pension Fund are cancelled in accordance with Kazakh legislation
- NBK Bank opens a cash settlement unit and closes a branch in Chelyabinsk ■


ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK
BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
AWARDS

Halyk Finance

"Best Investment Bank in Kazakhstan 2015"

Halyk Bank

Number one in terms of regional coverage

The Bank was also in the top three in terms of the number of guarantee agreements signed on business loans

Halyk Finance

"Best Investment Bank in Kazakhstan 2014"

Halyk Finance

"Best Privatisation IPO" (KEGOC)
"Best Swiss Franc Bond" (Kazakhstan Temir Zholy)
"Best Supranational Bond"
(Eurasian Development Bank)

Halyk Finance

Arnat Abzhanov – "Dealmaker of the Year"

Halyk Bank

Number two CIS bank and leading Kazakh company in terms of net income

Halyk Bank

Best Bank in Kazakhstan

Halyk Bank

Bank of the Year in Kazakhstan 2015

Halyk Bank

Nominated in the "Best Annual Report in the Financial Sector" category

Halyk Bank

Umut Shayakhmetova, Chairperson of the Management Board – Financier of the Year


HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
MACROECONOMIC
AND BANKING
REVIEW

KAZAKHSTAN'S ECONOMY IN 2015

Against a backdrop of volatility on global markets and falling oil prices, Kazakhstan's GDP grew by 1.2% in 2015. As currencies of emerging markets devalued, the tenge remained overvalued by 30-60% in the first half of the year due to the fixed exchange rate policy, impacting Kazakhstan's competitiveness.

In August 2015, the National Bank of Kazakhstan changed its policy to inflation targeting and allowed the tenge to float freely. As a result, the currency declined from KZT187 against the dollar in August to KZT340 in December. The devaluation provided support for fiscal revenues and resolved the issue of the overvalued currency.

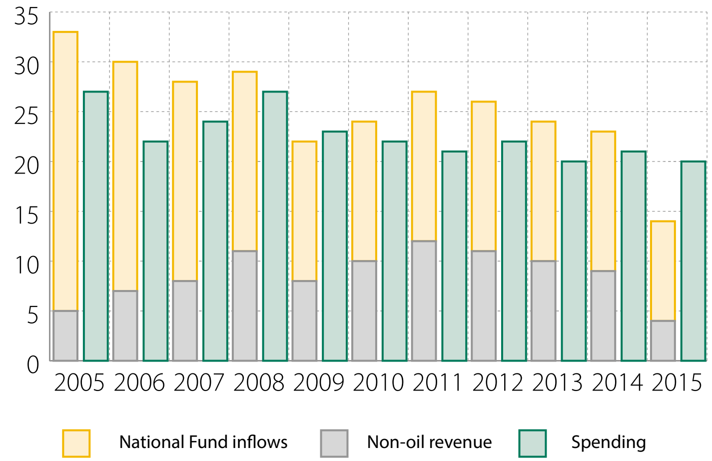
Alongside changing the exchange rate policy, the National Bank of Kazakhstan began to manage liquidity on the money market more actively, in accordance with the plans to target inflation. On 2 September 2015, it launched an instrument with a base rate of 12% +/- 5 percentage points, while on 2 October, it increased this to 16% +/- 1 percentage point. This caused REPO rates to stabilise.

As the Kazakh economy slumped, the need grew for greater structural reform, a key part of which is privatisation. In late December 2015, the government approved a new comprehensive privatisation plan for 2016-20.

In April, the government approved the Nurly Zhol programme for 2015-19, which envisages significant investment in the economy to develop industries and stimulate GDP growth.

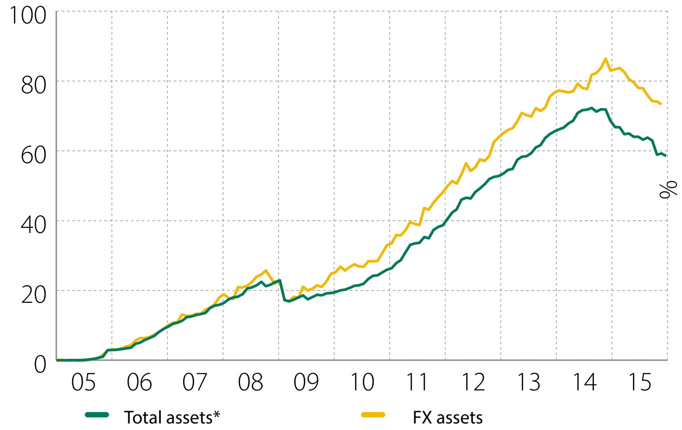
The challenging external environment impacted Kazakhstan's balance of payments and foreign direct investment. The budget for 2015 was balanced with a deficit of 2.2% GDP. This was financed by issuing US$4 billion in Eurobonds and by sourcing US$12 billion from the National Fund. Despite the unfavourable external conditions, the Kazakh economy remains stable. At the end of 2015, the country's external public debt stood at US$12.7 billion, while its gold and foreign currency reserves (including the National Fund) amounted to US$91.4 billion. At the end of September, external quasi-Sovereign corporate debt totalled US$22 billion. As such, national external assets remain higher than external debt. ■

Primary budget balance (including the National Fund), % of GDP



Sources: Ministry of Finance, Statistics Committee of the Ministry of National Economy, Halyk Finance

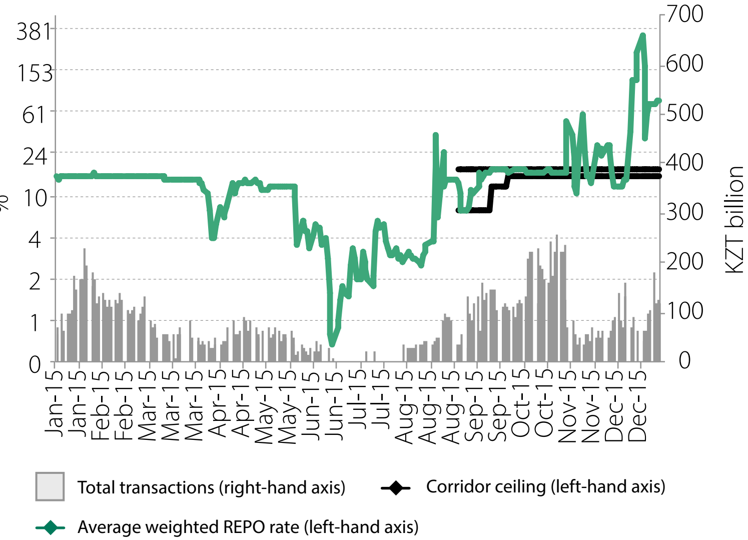
National Fund assets, US$ billion



** Including assets in tenge*

Sources: Ministry of Finance, National Bank of Kazakhstan, Bloomberg, Halyk Finance

One-day REPO rates



Source: KASE

KAZAKHSTAN'S BANKING SECTOR

The main challenge for Kazakhstan's banking sector in 2015 was the lack of tenge liquidity, which was partly resolved using funds from the Accumulating Pension Fund (by placing deposits and buying bank bonds, issued by Kazakh commercial banks).

A prolonged period of high rates on the money market caused the cost of funding to increase.

Lending remained limited amid lower demand, the lack of liquidity and a shortage of long-term funding in tenge. Substantial support came from the government programme to refinance non-performing loans (NPLs) and support small and medium-sized enterprises (SMEs). Retail lending decreased by 4.1% in 2015, down from 12.5% growth in 2014, while corporate lending increased by 4.1%, compared with a decrease of 6.1% in 2014.

Asset quality indicators improved due to write-offs of NPLs, a transfer of NPLs off the regulatory balance sheet and the deconsolidation of BTA Bank. The share of loans overdue by more than 90 days stood at 8.0% at the end of 2015, compared with 23.6% a year earlier.

The tenge devaluation did not impact asset quality, due to efforts to implement regulatory requirements to reduce the share of NPLs to 10% of total loans by the beginning of 2016, as well as a decline in the volume of foreign-currency loans. However, the slowdown in economic growth could place pressure on borrowers' creditworthiness in the future. Loan portfolio quality in the sector improved in 2015: the cost of risk was 2.2%, compared with 3.5% in 2014.

Deposits in tenge totalled KZT5 trillion in 2015, down 4.8% year-on-year, while those in foreign currency increased to KZT11 trillion, up 69.7% year-on-year, due to a revaluation. In dollar terms, the volume of foreign-currency deposits amounted to US$32.4 billion, down 9.2% year-on-year. As a result of the revaluation, the share of foreign-currency deposits reached new records: 79% in the retail and 62% in the corporate sectors.

In 2015, tenge deposit rates in the corporate sector rose, driven by the rising rates on the money market. After the reporting period, on 1 February 2016, the retail deposit rate ceiling was increased to 14% for tenge and reduced to 2% for foreign currency. This could encourage savers to switch from foreign-currency to tenge deposits in the medium term.

Net interest income increased by 12.6% and fees and commissions by 5.4% year-on-year in 2015.

Profitability for the banking sector totalled 9.4% in 2015. In addition, return on equity fell (excluding Kazkommertsbank, BTA Bank and ForteBank), mainly due to the decline in lending. ■


FINANCIAL
REVIEW

In 2015, the Bank's net income increased by 5.2% year-on-year to KZT120.3 billion, driven by a rise in net interest income of 9.9% and non-interest income of 61.2%

CONSOLIDATED INCOME STATEMENTS

Compared with 2014, interest income increased by 21.0%. This was mainly due to average balances of net loans to customers growing by 19.6%, which was partly driven by the tenge devaluation in August 2015, and an overall rise in interest rates on interest-earning assets.

In 2015, the interest expense increased by 35.0% year-on-year. This was due to an increase in average balances of interest-bearing liabilities, which was partly driven by the tenge devaluation in August 2015, and an overall rise in interest rates on interest-bearing liabilities.

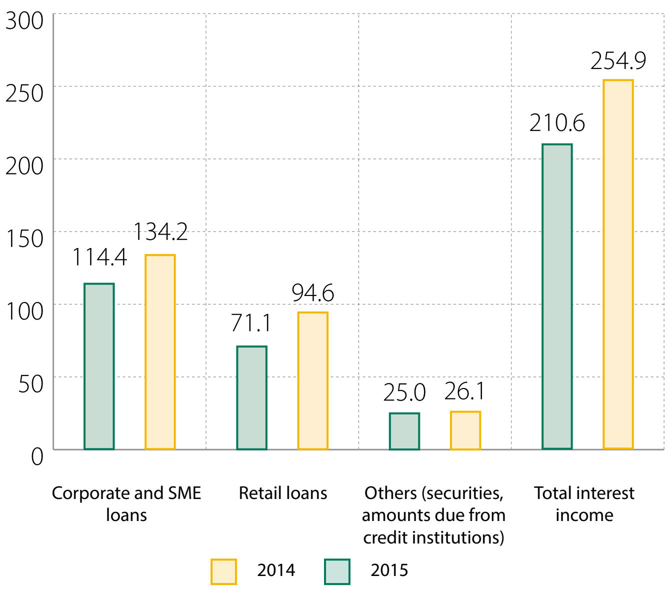
As a result, net interest income before impairment charges increased by 12.9% year-on-year to KZT150.3 billion.

Compared with 2014, the impairment charge increased by 64.0%. This was mainly due to loan portfolio growth and the one-off repayment of a large impaired corporate loan in 2014. The impairment charge for 4Q 2015 decreased by 48.3% quarter-on-quarter, mainly on the back of some impaired loan repayments during 4Q 2015 and an improvement in the financial standing of several corporate borrowers.

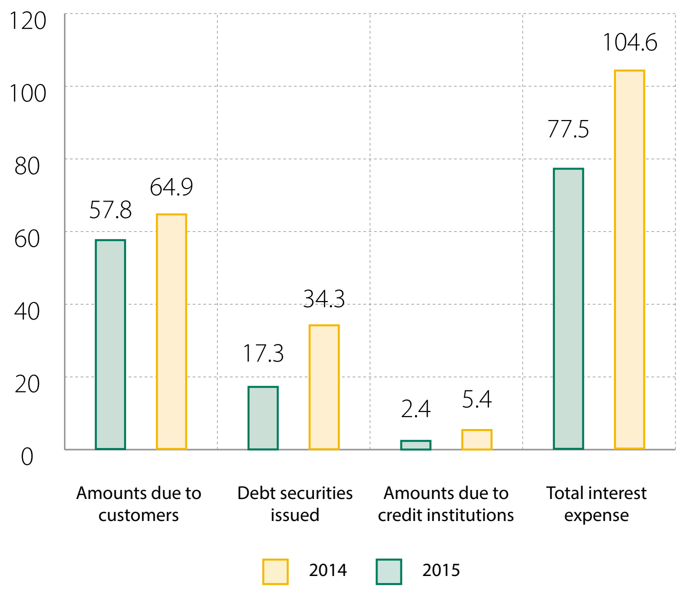
The cost of risk was flat at 0.4% for the year, while it was also 0.4% for 4Q 2015, compared with 1.2% for 3Q 2015. Provisioning decreased to 12.3% as at 31 December 2015, compared with 13.1% as at 30 September 2015 and 14.8% as at 31 December 2014. The fall was mainly due to write-offs of fully provisioned non-performing loans totalling KZT18.3 billion and, to lesser extent, loan portfolio growth.

In 2015, fee and commission income from transactional banking (i.e. excluding pension fund

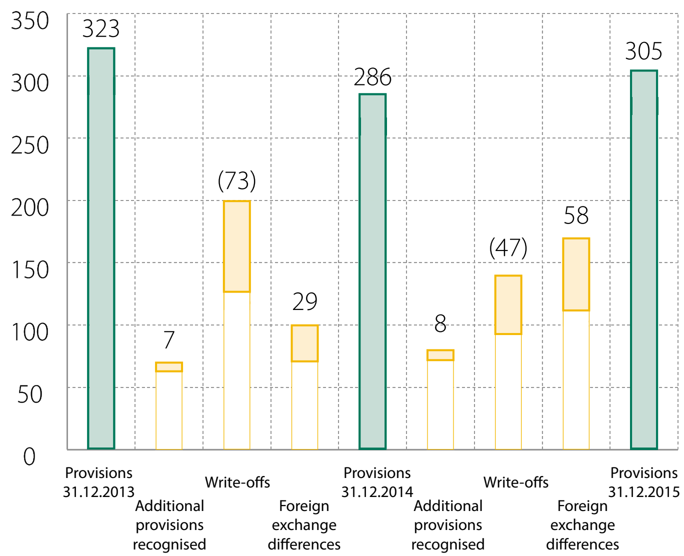
Interest income, KZT billion



Interest expense, KZT billion



Provisions on loans to customers, KZT billion



	For the years ended 31 December	
	2015 KZT million	2014 KZT million
Bank transfers – settlements	14,102	11,165
Cash operations	9,369	8,757
Payment cards maintenance	9,471	7,934
Bank transfers – salary projects	6,862	6,456
Servicing customer pension payments	5,867	5,047
Letters of credit and guarantees issued	3,363	3,183
Maintenance of customer accounts	1,684	1,327
Other	2,590	2,904
	53,308	46,773

Effect of FX operations on P&L, KZT million

	12M 2015	12M 2014
Realised (loss)/gain on trading operations	33	168
Net gain on derivative operations	39,122	6,383
Net unrealised gain on trading operations	153,169	1,291
Subtotal	**192,324**	**7,842**
Dealing, net	8,463	10,527
Translation differences, net	(169,485)	(3,441)
Subtotal	**(161,022)**	**7,086**
Total (through P&L)	**31,302**	**14,928**

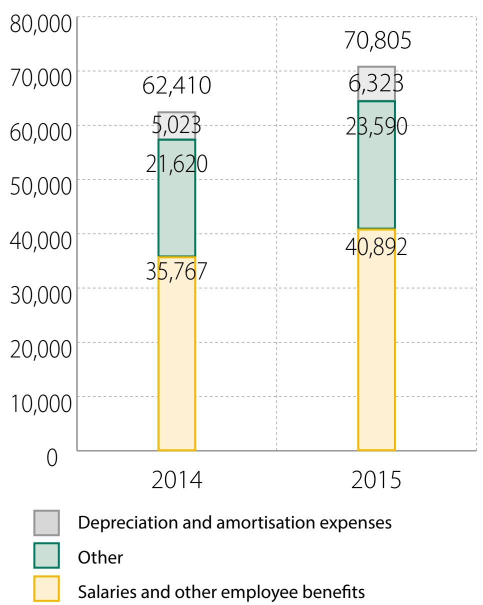
and asset management) rose by 14.0% year-on-year, as a result of higher volumes of payments and increases in certain tariffs.

Other non-interest income (excluding insurance) doubled year-on-year in 2015, mainly due to positive revaluation gains of KZT 153.2 billion on derivative and trading operations (US$/KZT swaps, off-balance sheet) as a result of the ongoing tenge devaluation. This gain was partly offset by a loss on translation differences of KZT169.5 billion stemming from a short US dollar position on the balance sheet.

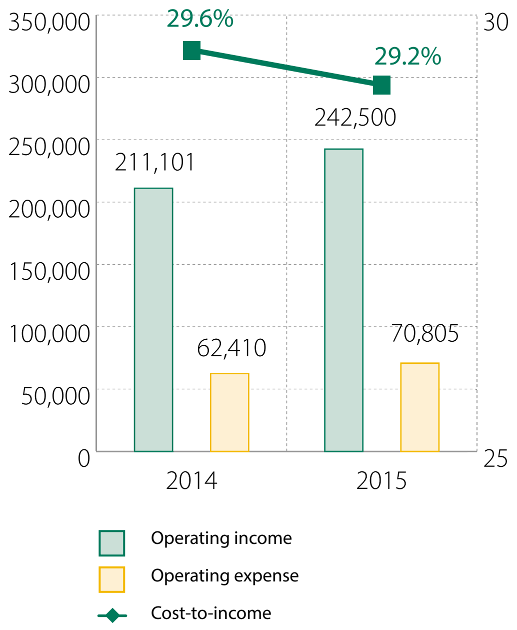
In 2015, operating expenses grew by 13.5% year-on-year, mainly due to an increase in Bank employees' salaries from 1 July 2014 and the consolidation of Altyn Bank in 4Q 2014.

The Bank's cost-to-income ratio decreased to 29.2% in 2015, from 29.6% in 2014. This was due to higher operating income in 2015, driven by interest income growth and gains on US$/KZT swaps. ■

Operating expenses, KZT million



Cost-to-income, KZT million



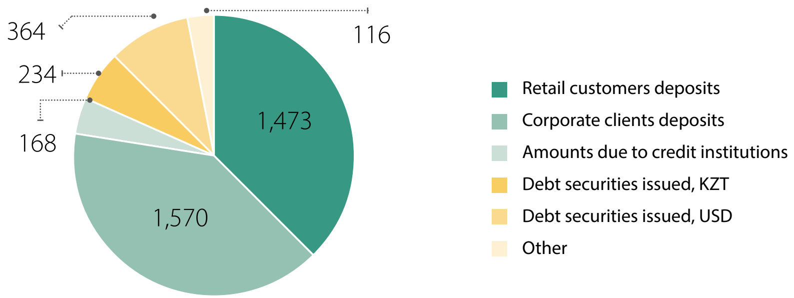
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In 2015, total assets increased by 58.6% year-on-year, driven mainly by cash and cash equivalents (up 2.6 times), loans to customers (up 32.0%) and financial assets through profit or loss (up 11.3 times).

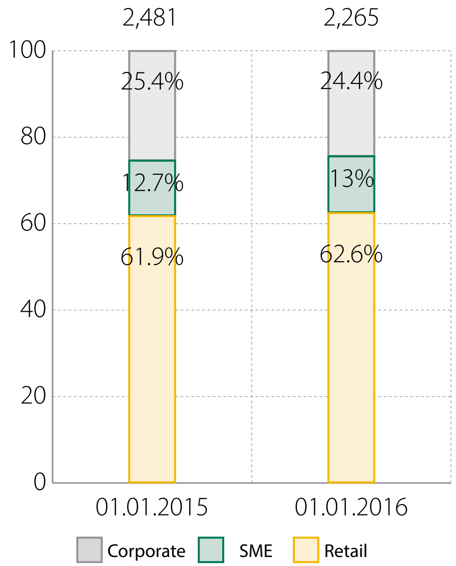
Compared with 2014, loans to customers increased by 28.3% on a gross and 32.0% on a net basis. Gross loan portfolio growth was attributable to a rise in loans across all types of businesses: corporate loans by 29.8%, SME loans by 30.7% and retail loans by 23.3%.

The 90-day NPL ratio had decreased to 10.3% as at 31 December 2015, compared with 12.8% as at 30 September 2015. The decrease was due to a combination of repayments and the restructuring of several corporate loans overdue by more than 90 days, bad loan write-offs and the loan portfolio growth in 4Q 2015. As at 31 December 2015, the Bank's IFRS provisions covered 90-day NPLs by 118.5%.

At 31 December 2015, the breakdown of the Bank's funding was as follows:

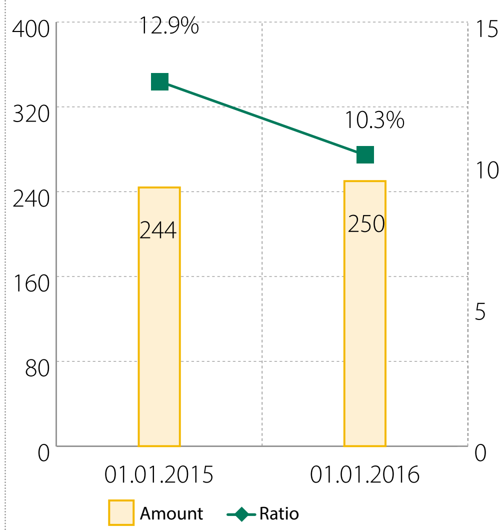


Loans to customers, KZT billion



In 2015, deposits of legal entities and individuals increased by 72.6% and 57.0%, respectively. This was due to new funds placed with the Bank in 2015, as well as a positive revaluation of FX deposits after the tenge devaluation in August.

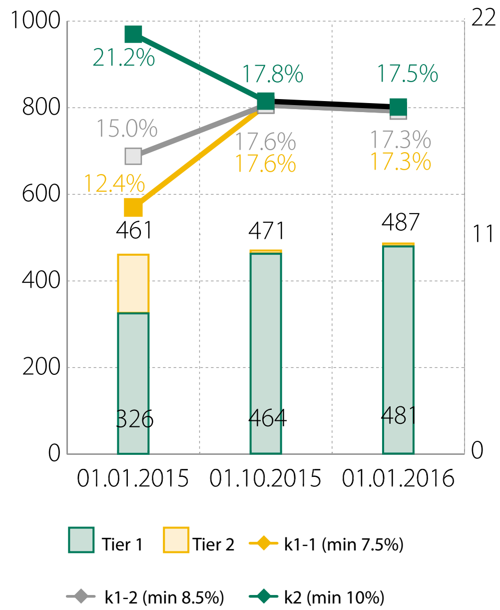
NPL 90 days+, KZT billion



Compared with 2014, amounts due to credit institutions increased by 57.0%. This was mainly due to loans drawn by the Bank in 1Q 2015 from the Damu National Fund and Development Bank of Kazakhstan under state programmes supporting certain sectors of economy, as well as higher volumes of REPO transactions made through the Kazakhstan Stock Exchange in 3Q and 4Q 2015.

In 2015, debt securities issued increased by 92.1% year-on-year. This was mainly due to senior unsubordinated local bonds placed by the Bank with the Accumulating Pension Fund during 1H 2015 and, to lesser extent, the revaluation of US$-denominated Eurobond issues at a new tenge exchange rate after the devaluation in August. The local bonds were placed in several tranches

NBK capital adequacy ratios



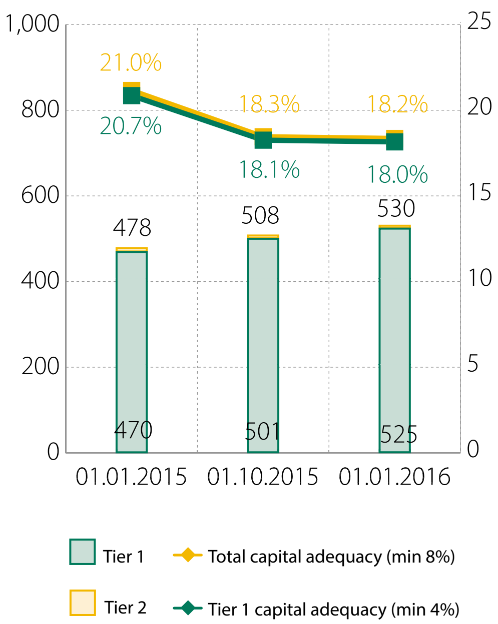
totalling KZT 131.7 billion with a coupon of 7.5% and mature in February 2025. The increase in debt securities issued was partly offset by the timely repayment of three subordinated local bond issues: of KZT4.0 billion with a coupon of inflation plus 1% on 13 April 2015; KZT3.0 billion with a coupon of 7.5% on 10 July 2015; and KZT5.0 billion with a coupon of 15% minus inflation on 3 November 2015.

Compared with 2014, total equity increased by 11.5% due to rise in net profit in 2015 and partly offset by the Bank's preferred share buy-back totalling KZT24.2 billion during the reporting period.

The Bank's regulatory capital adequacy ratios were 17.3% for k1, 17.3% for k1-2 and 17.5% for k2 as at 31 December 2015, compared with 17.6% for k1, 17.6% for k1-2 and 17.8% for k2 as at 30 September 2015.

The Basel Tier 1 and total capital adequacy ratios were 18.0% and 18.2%, respectively, as at 31 December 2015, compared with 18.1% and 18.3%, respectively, as at 30 September 2015. ■

Basel capital adequacy ratios



Selected financial ratios

	31 Dec 2015	31 Dec 2014
Amounts due to customers / total liabilities	77.5%	79.2%
Loans / deposits ratio	71.5%	89.2%
Liquid assets / total assets	36.1%	25.6%
IFRS provisioning rate	12.3%	14.8%
Return on average common shareholders' equity (RoAE)	24.4%	27.1%
Return on average assets (RoAA)	3.7%	4.1%
Net interest margin	6.2%	5.8%
Net interest spread	6.6%	5.7%
Cost-to-income	29.2%	29.6%
Operating expenses / average total assets	2.2%	2.3%
Cost of risk (loans to customers)	0.4%	0.4%

BUSINESS REVIEW

HALYK BANK'S CORE BUSINESS FOCUSES ON RETAIL, CORPORATE AND SME BANKING. THROUGH SUBSIDIARIES, THE BANK ALSO PROVIDES INSURANCE, LEASING, ASSET MANAGEMENT AND BROKERAGE SERVICES.

RETAIL BANKING

Retail deposits

Halyk Bank continues to hold one of the leading positions on Kazakhstan's retail deposit market. At the end of 2015, its share of deposits held by second-tier banks was 20.6%, compared with 20.4% a year earlier. Its share of term deposits was 19.7%, compared with 19.1% at the end of 2014, while the figure for demand deposits was 30.0%, compared with 32.7% at the end of 2014.

The Bank's retail deposits expanded by KZT512.2 billion in 2015.

Halyk Bank is actively involved in government and social programmes. Within the framework of a property legalisation programme (Law "On an Amnesty for Citizens of the Republic of Kazakhstan, Repatriates and People with Residency Permits Regarding the Legalisation of Property"), the Bank opens current accounts to legalise money, and promotes them on its website and in branches.

As part of the move to a floating exchange rate, the National Bank of Kazakhstan developed a system and approved a procedure for compensating retail holders of tenge deposits. Following this, Halyk Bank launched a new deposit, Halyk Compensation, and accepted applications for deposit re-execution and compensation from 14 September to 1 December 2015 inclusively.

Under the terms approved, tenge term deposits with a balance of up to KZT1 million and 49 tiyn as of the close of business on 18 August 2015 are eligible for compensation.

As part of its work to financially support charities, within the government educational savings system, in 2015, the Bank and the Bobek private fund opened 881 accounts for young people who have grown up in orphanages, and transferred money from Bobek to them. This followed another 7,000 accounts in 2014.

Retail lending

Halyk Bank's retail loan portfolio grew by 22.1% year-on-year in 2015. The main driver of retail lending was consumer loans in tenge, which accounted for more than 56% of the Bank's overall loan portfolio growth in 2015.

In 2015, the Bank's share of the retail lending market was 16.0%, while the amount of retail loans issued totalled KZT297 billion, higher than in 2014.

In the reporting period, the Bank continued to play an active role in state and social programmes including the state mortgage refinancing programme, led by the National Bank of Kazakhstan and the Distressed Assets Fund. In addition, as part of the state programme to support the automotive industry, it continued lending to individual buyers of domestically produced light vehicles using funds from the Development Bank of Kazakhstan.

Payment cards

As of the year-end, Halyk Bank remained the leader in the Kazakh banking sector in terms of payment card services. The number of active payment cards issued by second-tier banks was 8,481 thousand, of which the Bank accounted for 43.4% (3,685 thousand).

In September 2015, as part of the project to issue unique co-branded payment cards, Altyn UnionPay and Altyn UnionPay Gold (which offer greater security during transactions), Halyk Bank and UnionPay International launched a joint social project for Kazakh students studying in China. Through a competitive selection process, the National Education in China initiative chose 50 of the most promising students, giving priority to those from large families, in the care of guardians and orphans. A US$5,000 grant was given to each person towards their studies, or a total of US$250,000, and the funds will be transferred from September 2015 to June 2016.

For the convenience of customers, the Bank has begun to issue Altyn UnionPay Plus chip-and-PIN debit cards to individuals.

As of 15 June 2015, together with bank cards services, the Bank began giving each customer a Kazakhinstrakh insurance certificate, which covers individual possessions while travelling abroad.

One of the Bank's main strategic services is payroll programmes. In 2015, the volume of payroll transfers increased by 7.7% year-on-year, while the number of active cards in circulation rose by 7.2%.

To offer the best possible service, the Bank is expanding its payment card network (ATMs and POS terminals) and developing its services in this area.

In 2015, Halyk Bank continued to develop its Pay-me mobile POS terminal project. At the year-end, more than 6,100 merchants had joined the network. Over the year, more than 21,000 transactions exceeding KZT257 million had been made using Pay-me terminals, while the number of POS and mobile POS terminals rose by 18.7% compared with 2014.

At the year-end, Halyk Bank accounted for 7.4% of the banking kiosks and payment terminals, 25.7% of the POS terminals and 24.6% of the ATMs in Kazakhstan.

Social payments

As one of the main financial institutions that have been disbursing social payments in Kazakhstan since 1996, Halyk Bank serves more than 1.6 million pensioners and recipients of benefits. It accounts for 58.4% of social payments in Kazakhstan.

Payments

The Bank has extensive experience of handling utility, tax and other payments from individuals, and it is systematically developing IT, telecommunications, terminals and software products. One of the main drives to improve customer service quality in this area involves offering payment services through remote sales channels. In 2015, the number of payments made through these rose by 544.3 thousand, up 3.9% year-on-year, while the overall amount reached KZT8.4 billion, up 30.4% year-on-year.

Remote services for individuals

Internet banking for individuals

In July 2015, new functionality was added to Halyk Bank's internet banking system:

- More detailed information about accounts, deposits and loans;
- The option of creating a loan repayment schedule;
- A function to block lost or stolen cards;
- A card re-issue request;
- Applications for preliminary approval for unsecured loans and credit cards;
- Deposit withdrawals;
- Transfers to accounts of third parties at Halyk Bank and other financial institutions in Kazakhstan;
- Feedback: the option of requesting consultation or help with technical issues and receiving a response via email.

In May 2015, the Bank began sending one-time passwords by SMS to confirm individual internet banking transactions. The service can be activated and deactivated through two channels: the internet banking system itself and ATMs.

In August, the Bank introduced internet banking functionality that enables customers to pay fines for traffic offences online. In the same month, a mobile version of the internet banking system, adapted for smartphones, was launched.

Halyk Bank released the myHalyk mobile application on GooglePlay for Android in September and in the App Store for iOS in October.

In 2015, the number of service providers increased by 416 to more than 1,400, while the number of users rose by 58% to 699.9 thousand customers. Over the year, the internet banking service handled more than 2.4 million payments and transfers.

Payment terminals

In 2015, Halyk Bank bought another 290 payment terminals, taking the total to 577 across its network. Some 361 service providers were also added. The number of payments handled exceeded 1.9 million, up more than 100% year-on-year, while the overall number of transactions handled by the Bank's terminals exceeded 4.4 million, up more than four times year-on-year.

SMS banking

In 2015, the number of active users of Halyk Bank's SMS banking service rose to 1,288,849, up 52% year-on-year. To increase the number of active users and make the service available on a 24/7 basis, without the need to visit a branch:

- On 20 July 2015, in a regional branch in Astana, a pilot project was successfully launched, "Activating the SMS Banking Service When Issuing or Reissuing Bank Cards Through Specialised Programme Module Software". In August, the project was extended to all units in the Astana branch;
- As of 5 October 2015, the project was rolled out at all local and regional branches.

In 2015, the Bank also upgraded the SMS banking interface and launched additional functionality:

- Display the balance after each transaction;
- Give the address of the branch to customers collecting replacement cards;
- Promote the bonus club through advertising when congratulating customers on their birthdays.

HalykBank / Halyk+Beeline mobile application

Following the introduction of mobile number portability when switching from one mobile operator to another in Kazakhstan on 1 January 2016, the Bank introduced options whereby customers can:

- choose mobile operator when making a payment;
- make payments for the Activ mobile tariff;
- top up the mobile account of an Activ subscriber by SMS.

In 2015, as part of the retail business development strategy to 2020, the Bank:

- developed and approved new sales channel formats, including a new design for sales channels, and opened its first bank service centre in the Grand Alatau residential complex in Astana;
- conducted a pilot project featuring electronic tariff comparison rate equipment that enables counter employees to offer a comprehensive range of over-the-counter and retail banking products;
- launched a new retail internet banking system;
- completed the work to differentiate prices between sales channels in branches and remote ones.

SME banking

Halyk Bank's SME services include lending, transactional banking, insurance, bank card issuance and trade finance.

At the year-end, the Bank had 58,178 active SME clients, including 6,095 borrowers, and had issued 17,632 SME loans. In addition, there were 58,178 active SME clients using its cash settlement services, of which:

- 16,415 were using more than one product, up 10.3%;
- 13,753 were using more than two products, up 9.4%;
- 2,662 were using more than three products, up 15.2%.

The following trends were visible in SME lending in 2015:

- Loans to small businesses increased monthly, totalling around KZT33.4 billion in 2015, up 23.2% from the KZT27.1 billion in 2014;
- Loans to medium-sized business totalled around KZT181.8 billion in 2015.

By regions, in 2015, the largest shares of SME portfolio were 17.6% for Almaty Region, 7.4% for East Kazakhstan Region, 6.7% for South Kazakhstan Region, 6.7% for West Kazakhstan Region and 6.5% for Astana Region.

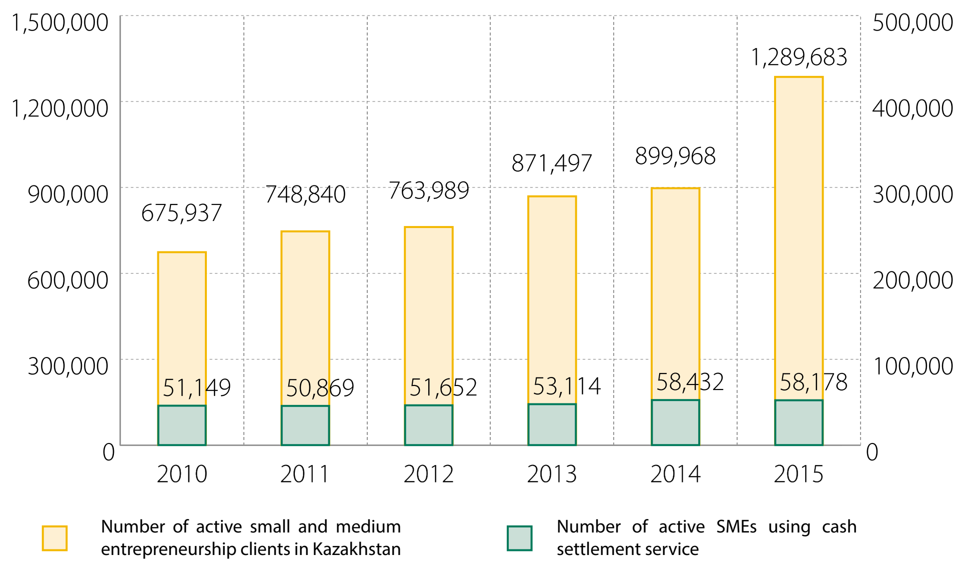
In 2015, Halyk Bank continued to play an active role in state programmes with the Damu Entrepreneurship Development Fund to support business in Kazakhstan.

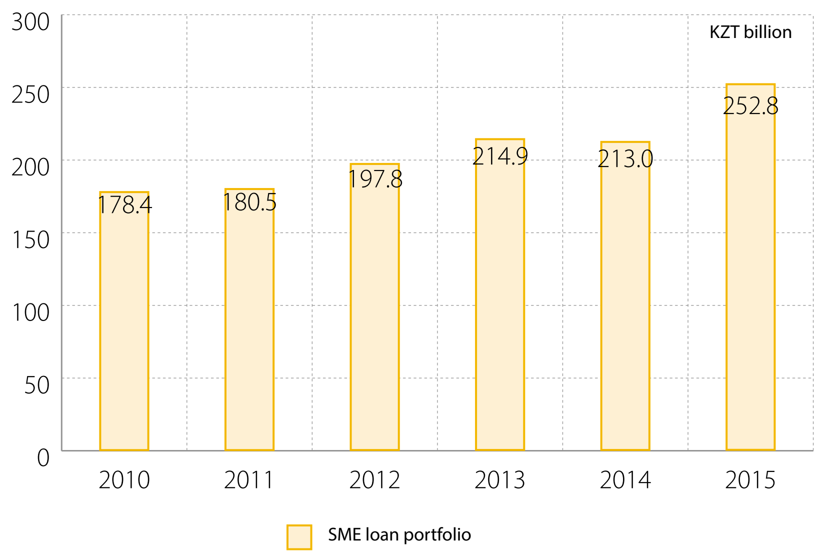
As of the end of 2015, it was the leading second-tier bank in the "Business Roadmap – 2020" programme in terms of loan portfolio and number of borrowers that received loan approvals under the initiative. Halyk Bank's portfolio of loans under the programme equals KZT147.6 billion (including the corporate loan portfolio), or 10.9% of overall loans from second-tier banks in the programme, placing it second.

Of the 7,521 participants in the programme, the Bank works with 16.7%, or 760 borrowers (1,252 projects).

The Bank also provides Damu guaranteed loans to private businesses under the programme. Since beginning this, the parties signed 362 deeds of guarantee, or 20.5% of the 1,769 applications approved by the Damu fund. At the same time, the overall amount of guarantees allocated to the Bank by the Damu fund is KZT5.0 billion, or 17.8% of the overall volume of guarantees provided by the fund to second-tier banks. For each of these indicators and overall, the Bank ranks second in the programme.

In addition to "Business Roadmap – 2020", Halyk Bank is involved in numerous other joint programmes to finance private business with the Damu fund. As of the year-end, as part of the ongoing Damu-Ondiris programme, established in 2009, the Bank had allocated more than KZT3.0 billion to 12 projects.





Halyk Bank also secured the full amount of funding made available under the government programme to support SMEs in the processing industry. The Bank is the undisputed leader among second-tier banks in the programme, having financed 104 projects, or 24% of the total. It has allocated KZT20 billion to these, while approval has been received for 110 projects exceeding KZT21.5 billion.

In 2015, the Bank was also involved in disbursing the second tranche of funds allocated under the programme to support SMEs in the processing industry and related areas (KZT6 billion among 28 projects) and the third tranche (KZT6 billion among 48 projects). The Bank is among the top three in terms of funds allocated and disbursed under the initiative.

There is also a programme whereby second-tier banks and other financial organisations receive conditional funding for subsequent lending to private businesses in the city of Zhanaozen. As part of this, Halyk Bank has financed eight projects totalling KZT292.2 million.

In March 2014, Halyk Bank signed an agreement on KZT800 million in conditional funding for further lending to female entrepreneurs. This initiative focuses on women who have registered as individual entrepreneurs or established legal entities. By the year-end, 65 projects had received KZT772 million.

In 2015, to increase lending to SMEs, Halyk Bank conducted a three-stage marketing campaign to raise awareness about the financing available to small businesses. As a result, the volume of loans to small businesses that it issued rose by 23.2% year-on-year.

In Astana in June 2014, Halyk Bank and the National Chamber of Entrepreneurs signed memorandum of cooperation on providing consultancy services to SMEs, and the Bank has been actively involved since. Specially trained employees are available at all branches to provide advice on a wide range of services free of charge, including about:

- how to structure financing based on the specifics of their business;
- tax issues, taking into account the corporate and legal structure of their business;
- the conditions for receiving support under state SME programmes involving second-tier banks;
- the full list of services provided by the Bank and the best terms to suit their needs and interests.

In addition, in 2015, the Bank and the National Chamber of Entrepreneurs organised seminars with representatives from regional chambers, the Damu fund and other specialised organisations.

As part of the memorandum, the Bank and the National Chamber of Entrepreneurs agreed and are implementing a plan to provide consulting services on the financial instruments available to support entrepreneurs.

In 2015, to achieve the objectives related to expanding SME banking as part of Halyk Group's development strategy for 2016-18, the following work was conducted.

- To segment customer groups and know clients better, information about their revenues was gathered, while a new client segmentation system based on revenues and use of Group services was introduced;
- As part of the project to introduce a "client wallet" model and a new business planning process, a "client wallet" model was devised, clustering and calculation of the wallet was conducted for all SME customers, and the SME customer base was ranked in order of priority based on potential for revenue growth for banking products;
- To increase sales, the Bank conduced trials of pilot SME client-product teams based on a new sales model, which was then made permanent;
- As part of the strategy approved, measures were undertaken to improve pricing. ■

CORPORATE BANKING

Halyk Bank's Corporate Banking division offers clients traditional financing, trade finance, cash settlement, payroll, foreign-exchange risk hedging and investment banking, insurance, cash collection and other services (in conjunction with subsidiaries).

The Bank continues to focus closely on developing remote service technologies, adding new features to its internet banking for legal entities. For most corporate clients, the features of the system have been customised to companies' organisational structures and business profiles. Cash flow management services are available for groups of companies.

Halyk Bank's corporate clients include large national enterprises, as well as large and medium-sized companies that hold leading positions in their industries or specific niches. In terms of its scope, corporate banking remains one of the Bank's core activities. Halyk Bank supports and develops partnerships with corporate clients in various industries, focusing on attracting and servicing first-tier clients.

The Bank continues to focus on establishing and maintaining long-term relationships with such clients, strengthening partnerships with existing clients and attracting new large ones. The Bank offers its clients a range of solutions that cover almost all financial matters faced by large companies of various types. This approach to corporate clients is based on partnership and was chosen to maintain the Bank's image, as well as to meet large companies' demands for customised solutions to certain problems. Halyk Bank carefully examines customers' needs, taking into account their activities, seeking a deep understanding of the specifics of their businesses, and looking to improve the structure and content of the products and services provided.

As a result of this work in 2015, Halyk Bank signed several new cooperation agreements with well known local and large foreign companies operating in Kazakhstan that did not have accounts in local banks. Throughout the year, the Bank also continued to work closely with national companies, including by financing companies in leading state holdings. The main projects were in the energy, telecommunication and transport sectors, while the Bank also funded major infrastructure initiatives.

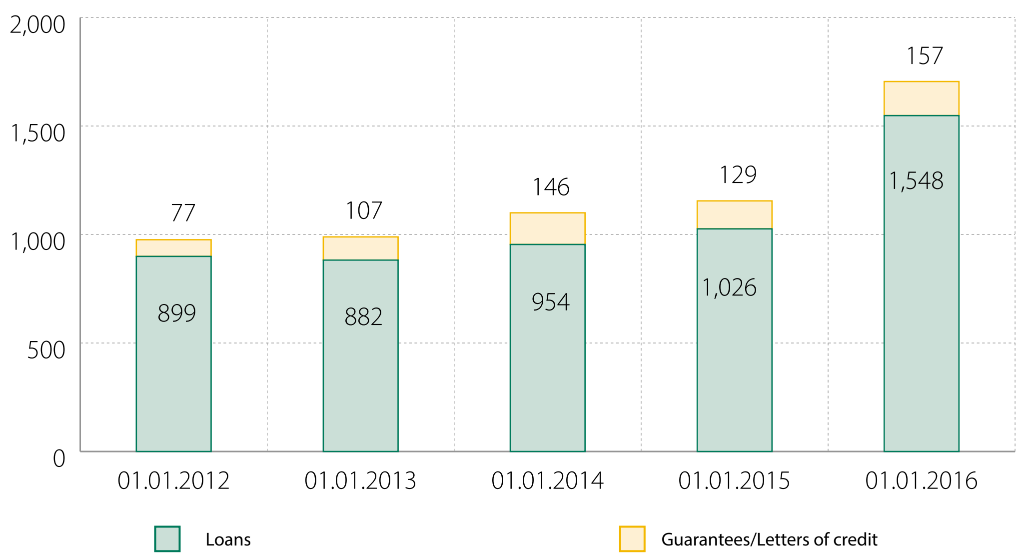
Since December 2014, Halyk Bank has been actively involved in a state programme to support large enterprises, which is being implemented through the Development Bank of Kazakhstan. Overall, the Bank has allocated KZT16 billion, while in 2015, using resources provided by the National Fund, it financed seven major enterprises in the pharmaceutical, chemical, textile and food industries, as well as the production of construction materials and lubricants. Many clients continue to feel the positive effects of state support through such programmes as the Unified Programme (previously Business Road Map-2020) and the Post-Crisis Recovery Programme.

In the reporting period, the number of corporate borrowers participating in various programmes increased to 59. The Bank remains involved in the "Agrobusiness-2020" agricultural business support programme. This year, there are plans to increase the number of projects under such initiatives further.

In 2015, the economic environment in Kazakhstan was challenging, particularly in the banking sector, which was impacted by a lack of tenge liquidity and a rise in the cost of tenge financing. In addition, on 20 August 2015, the National Bank of Kazakhstan decided to pursue a new monetary policy and abolish the trading corridor for the local currency and move to a freely floating exchange rate. As a result, the tenge declined sharply against major currencies. Despite these events, thanks to a solid funding base, Halyk Bank's positions on the market proved superior and it was able to focus on the most attractive opportunities, which helped it to enhance its loan portfolio in terms of both volume and quality over the year.

Halyk Bank also conducts individual work with all distressed borrowers to improve their financial

Change in Halyk Bank's corporate portfolio (KZT bln)



position. In the reporting year, these financial rehabilitation measures yielded good results. At the end of 2015, Halyk Bank's NPL 90+ portfolio equalled KZT55.8 billion (NPL 90+ ratio of 3.8%[1]), down KZT30.9 billion from a year earlier, including KZT17.4 billion in write-offs of bad debt without legally forgiving claims against the borrowers.

1 *Calculated as total loans overdue by more than 90 days ((total principal amount of loans with principal and/or interest overdue by more than 90 days), divided by the gross loan portfolio, unconsolidated (Bank only); National Bank of Kazakhstan*

The Corporate Banking division delivered solid results overall in 2015. Halyk Bank retained all major corporate clients, attracted new, reliable borrowers and increased the income from its loan portfolio by over 12%. By the year-end, the corporate client base stood at 1,498 corporate clients, including 278 borrowers. Amid fierce competition and volatility on the capital markets, the Bank maintained its market share in the corporate business by offering the most comprehensive range of services, providing an extensive regional network and maintaining strong relationships with clients.

In 2015, with a view to achieving the objectives regarding the development of the corporate banking business in Halyk Group's strategy for 2016-18, the following preparatory work was conducted:

- To segment customer groups and know clients better, information about their revenues, affiliation with holdings and number of employees was gathered, while a new client segmentation system based on revenues and affiliation with holdings was introduced;
- As part of the project to introduce a "client wallet" model and a new business planning process, a "client wallet" model was devised, clustering and calculation of the wallet was conducted for all corporate banking clients, and the corporate banking client base was ranked in order of priority based on potential for revenue growth from banking products;
- To increase sales, the Bank conducted trials of pilot corporate banking client-product teams based on a new sales model, which was then made permanent;
- As part of the strategy approved, measures were undertaken to improve pricing. ■

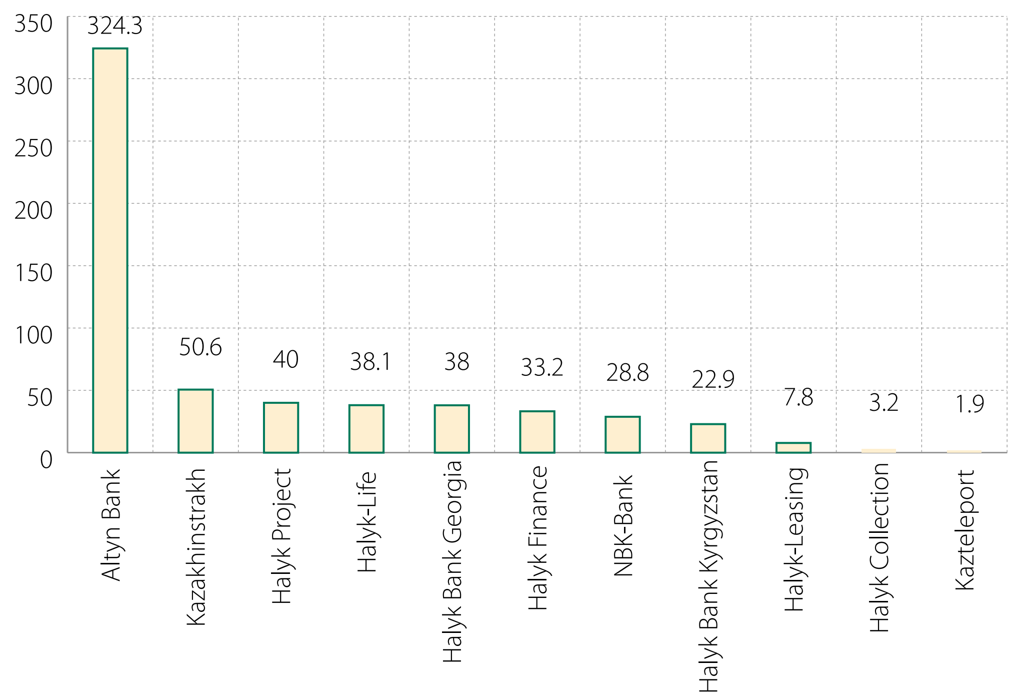
SUBSIDIARIES

Name	Market share by assets, %	Equity (share in the Group), %
Altyn Bank	1.4%	6.4%
Halyk Finance	26. 5%	3.2%
Halyk-Leasing	N/A	1.4%
Kazakhinstrakh*	23.1%	5.4%
Accumulated Pension Fund	-	-
NBK-Bank	0.0%	0.9%
Halyk Bank Georgia	1.0%	1.4%
Halyk-Life**	6.3%	1.6%
Halyk Bank Kyrgyzstan	2.9%	1.1%
Kazteleport	N/A	0.2%
Halyk Collection	N/A	0.5%
Halyk Project	N/A	0.9%

** Market share by assets is based on general insurance companies*

*** Market share by assets is based on life insurance companies*

Assets of subsidiaries at the end of 2015, KZT billion*



**Based on audited information*

INSURANCE

Kazakhinstrakh and Halyk-Life

Kazakhinstrakh is a non-life insurance company that provides a comprehensive range of insurance services to all types of legal entities and individuals in numerous sectors.

At the end of 2015, Kazakhinstrakh was one of the largest insurance companies in Kazakhstan, with a share of gross premiums of 13.9% and net premiums of 9.9%, according to National Bank of Kazakhstan statistics.

As of 31 December 2015, Kazakhinstrakh had total assets of KZT50.6 billion, while its net income for the year was KZT4.7 billion. At the year-end, it had 215 points of sale.

Halyk Life offers various types of personal insurance products, including life, annuity, accident and medical insurance products. As of 31 December 2015, it had total assets of KZT38.1 billion. In 2015, it generated net income of KZT5.1 billion. At the year-end, its share of net insurance premiums was 23.9%, according to the National Bank of Kazakhstan, the largest on the life insurance market. ■

BANKING

Altyn Bank

Altyn Bank is a universal bank that offers a wide range of products and services to both retail customers and corporate clients. It has four branches in Astana, Almaty, Aktau and Atyrau and two sub-branches in Almaty.

At the year-end, Altyn Bank had assets of KZT324.3 billion, gross loan portfolio of KZT84.8 billion and total equity of KZT34.0 billion. In 2015, it generated net income of KZT6.6 billion.

In April 2015, Fitch Ratings issued a long-term issuer default rating for Altyn Bank of "BB", in foreign and local currency, the outlook "stable". ■

OVERSEAS BANKS

The Bank provides banking services in Georgia, Kyrgyzstan and Russia through subsidiaries.

Halyk Bank Georgia

Halyk Bank Georgia is a commercial bank incorporated in Georgia that focuses on corporate, SME and retail banking. As of 31 December 2015, it had total assets of GEL265.9 million (KZT38.0 billion), a gross loan portfolio of GEL204.4 million (KZT29.2 billion) and total equity of GEL50.5 million (KZT7.2 billion). In 2015, it generated net income of GEL6.0 million (KZT857.9 million). Last year, it opened the new Varketili branch, its sixth, close to a metro station in the densely populated district of the same name in Tbilisi, and launched a joint mPOS mobile acquiring project in Georgia.

In April 2015, Fitch Ratings issued a long-term issuer default rating for Halyk Bank Georgia of "BB-", in foreign and local currency, the outlook "stable". ■

Halyk Bank Kyrgyzstan

Halyk Bank Kyrgyzstan is a commercial bank incorporated in Kyrgyzstan that positions itself as a universal bank. As of 31 December 2015, it had total assets of SOM5.2 billion (KZT22.9 billion), SOM1.5 billion (KZT6.6 billion) higher than a year earlier, while its total equity was SOM1.4 billion (KZT6.0 billion). In 2015, it reported net income of SOM126.1 million (KZT558.6 million).

NBK Bank

NBK Bank is a regional Russian bank with its head office in Moscow and two lending and cash settlement offices, one each in Novosibirsk and Chelyabinsk. As of 31 December 2015, it had total assets of RUB6.2 billion (KZT28.8 billion) and total equity of RUB1.1 billion (KZT5.0 billion). In 2015, its gross loan portfolio increased by 34.2% year-on-year to RUB3.8 billion (KZT17.9 billion). ■

LEASING

Halyk Leasing

Halyk Leasing operates in both Kazakhstan and Russia, through a branch in Chelyabinsk. As of 31 December 2015, it had total assets of KZT7.8 billion, while it reported net profit for the year of KZT919.5 million. ■

INVESTMENT BANKING

Halyk Finance

Halyk Finance provides a full range of investment banking and asset management services, including sales and trading (with market-making on the KASE), investment portfolio management, consulting, underwriting, M&A advisory, debt restructuring and research. As of 31 December 2015, Halyk Finance had total assets of KZT33.2 billion. Its net income in 2015 was KZT3.3 billion.

As of 31 December 2015, Halyk Finance's own investment portfolio was KZT29.5 billion.

In July 2015, Halyk Finance was the Joint Lead Manager for Kazakhstan's US$4 billion Sovereign Eurobond issue. The paper was placed in two tranches: US$2.5 billion in 10-year and US$1.5 billion in 30-year bonds. It was the largest Sovereign placement by an emerging-market issuer in the year.

In 2015, Halyk Finance again won numerous awards from leading international financial publications for professionalism and leadership in investment banking:

- "Best Investment Bank in Kazakhstan 2015" (Global Finance);
- "Best Investment Bank in Kazakhstan 2014" (EMEA Finance);
- Three awards at the EMEA Finance Achievement Awards for international capital markets transactions in 2014: "Best Privatization IPO" (KEGOC), "Best Swiss Franc Bond" (Kazakhstan Temir Zholy) and "Best Supranational Bond" (European Development Bank);
- Dealmaker of the Year, one of the most prestigious nominations in international investment banking from EMEA Finance, which was received by Halyk Finance CEO Arnat Abzhanov;
- "Best Investment Bank in Kazakhstan" and "Best Financial Market Analyst in Kazakhstan" awards for the year in the Cbonds CIS 2015 awards.

In the fourth quarter of 2015, the National Bank of Kazakhstan registered the rights to the Halyk-Currency, Halyk Finance's first mutual fund. ■

TELECOMMUNICATIONS

Kazteleport

Kazteleport provides a wide range of telecommunication services for automating the activity of Halyk Bank and its subsidiaries and processing services to route authorisation requests among banks connected to Kazteleport. It is the main provider of connection channels to the Kazakhstan Interbank Settlement Centre, KASE and the First Credit Bureau in Kazakhstan.

In 2015, Kazteleport continued to expand in various areas:

- data processing centre services;
- IP telephony services;
- POS terminal services;
- installation of video surveillance, fire protection and structured cabling systems;
- maintenance of data processing equipment;
- supply of printing equipment and consumables.

At the end of 2015, on the market for processing services for financial organisations, of the 27 second-tier banks with card businesses (including Kazpochta), 17 used Kazteleport, underscoring the quality of its services.

At its two data processing centres in Almaty, Kazteleport has launched cloud technology infrastructure featuring cutting-edge virtualisation, server and network equipment. This has been used to develop the following services: IaaS (IT infrastructure for lease as a service or virtual data centre); "Cloud Data Storage"; "Cloud 1C"; and "Cloud videoconferencing". In Astana, a data processing centre has been established to offer cloud services to clients there.

As of 31 December 2015, Kazteleport had total assets of KZT1.9 billion. Its net income in 2015 was KZT331.9 million. ■

CASH COLLECTION

Halyk Collection

Halyk Collection provides collection services for banknotes, coins and valuables. While it is positioned in Halyk Group as a subsidiary providing services independently, its activity is closely related to the core business in that it provides cash to sales channels of the Bank — retail banking, which is the financial and consolidating centre of Halyk Group.

Halyk Collection is one of the leading providers of cash and valuable collection in Kazakhstan. All of its vehicles are fully armoured. To track their movement, a GPS monitoring system was launched in 2014.

As of 31 December 2015, Halyk Collection had total assets of KZT3.2 billion. Its net income for 2015 was KZT1.5 billion. As of the year-end, its branch network included a City cash collection division (in Almaty), 18 branches and 37 outlets that offer collection services in regions, cities, towns and smaller settlements throughout Kazakhstan. ■

PENSIONS

Accumulated Pension Fund

As a result of the national pension reforms, on 31 December 2014, the Board of Directors of Halyk Bank voted to voluntarily liquidate Accumulated Pension Fund of Halyk Bank. This was done in accordance with Kazakh legislation. ■

SPECIALIST ORGANISATIONS

Halyk Project

According to Resolution No. 308 of the National Bank of Kazakhstan dated 21 September 2012, Halyk Bank has been granted Permit No. 1, dated 4 October 2012, to establish a subsidiary to manage distressed assets, Halyk Project.

Halyk Project was established in accordance with the Concept on Improving the Quality of Second-Tier Bank Assets, approved by a resolution of Kazakhstan's Council for Financial Stability and Development of the Financial Market.

On 12 October 2012, Halyk Project was registered with the authorised body of the Ministry of Justice of Kazakhstan and founding documents were received. Halyk Bank was the first second-tier bank in Kazakhstan to receive the regulator's permission to establish a subsidiary to manage doubtful and bad assets.

Halyk Project's main objective is to deal with the distressed assets in Halyk Bank's loan portfolio. It aims to do this by acquiring them from Halyk Bank using borrowed funds and seeking to turn them around before selling them and repaying its loan to Halyk Bank.

In 2015, Halyk Project undertook a major project to resuscitate distressed assets of both the Head Office and regional branches. Over the year, it received 23 projects totalling KZT29.5 billion. At the year-end, its portfolio of doubtful and bad assets received from the Bank (previously on its balance sheet) stood at KZT41.5 billion. ■


RISK
MANAGEMENT

Halyk Bank's risk management policy is focused on creating an integrated risk management system in line with the scope and scale of Halyk Group's activity and accepted risk profile, as well as supporting its business development requirements. Halyk Group seeks to continuously develop its risk management system and improve the way in which it identifies, manages, assesses and controls risks

CREDIT RISK MANAGEMENT

To ensure effective credit risk management, the Bank has implemented a risk management system and business processes that take into account the segregation of the sales and risk management functions. It has also created an organisational structure that facilitates credit risk management, including collegiate bodies and subdivisions that take part in the credit risk management process.

The Bank manages credit risk by:

- adhering to the principle of "three lines of defence", namely initial analysis of credit risk by the primary subdivision, analysis by the risk management function, and control by the internal audit function;
- setting limits for counterparts depending on the type of (credit) transactions or products;
- diversifying the loan portfolio to mitigate a concentration of risk related to any one borrower, sector or geographical area;
- monitoring the loan portfolio to identify any deterioration in quality at an early stage;
- maintaining adequate provisioning to cover potential losses.

The Bank's system of making lending decisions is based on the delegation of certain powers by the Board of Directors to appropriate collegiate bodies and the establishment of credit limits for each body. For corporate borrowers, loan applications are reviewed by the Commercial Directorate. Loan applications that exceed the limits set for Commercial Directorate, as well as transactions with related parties, require further approval by the Board of Directors. For SME borrowers, lending powers are delegated to Credit Committees in the branches and the Credit Committee of the branch network, while retail banking decisions are delegated to the Centre for Decision-Making and the Retail Credit Committee of the Head Office (hereinafter referred to as "RCC"). Standard loans under unsecured retail lending programmes are approved automatically after being reviewed by the programme module, which includes automated underwriting, internal and external data-base checks, scoring estimates of an applicant and so on. Applications for non-standard unsecured lending are subject to credit approval by the Centre for Decision-Making and/or the RCC.

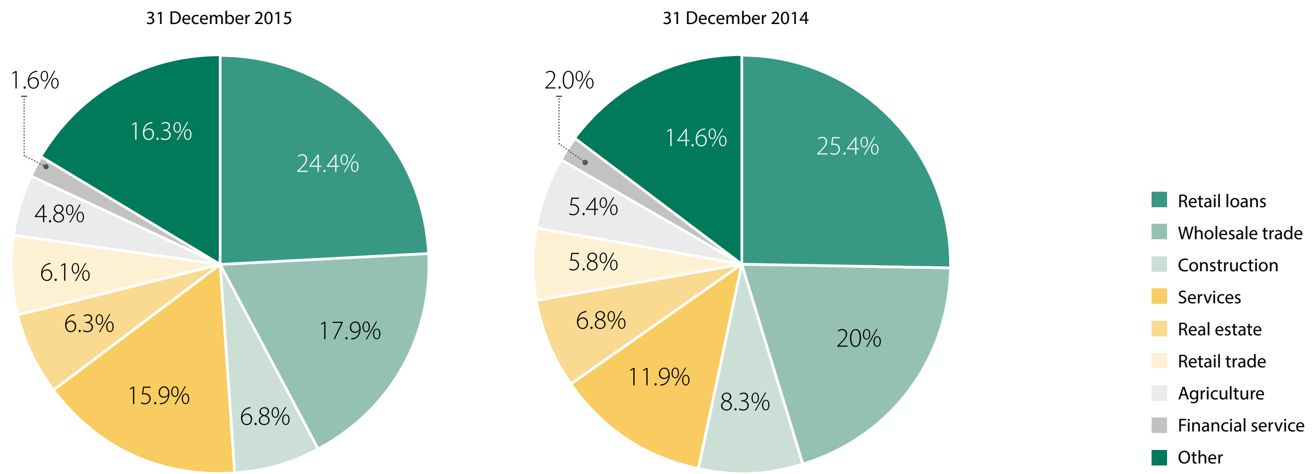
Credit committees of subsidiary banks are also authorised to make lending decisions within specific limits. The Bank regularly monitors independent decision-making limits and the authority of the credit committees in subsidiary banks and revises the limits, if necessary.

In accordance with its development strategy and Kazakh legislation, the Bank has devised a method for determining and calculating risk premiums by client in the retail, corporate and SME banking segments. It is based on key parameters determining acceptable risk, which the Bank then monitors.

To assess its exposure to adverse changes in foreign and domestic macroeconomic conditions and determine the effect of stress scenarios (level of provisions, migration of credit ratings, ratio of non-performing loans), the Bank conducts regular stress tests on its loan portfolio, including annual "bottom-up" stress tests required by the regulator.

In 2014-15, following a validation of the rating model, Moody's Analytics and Bank employees devised a new scorecard (Risk Analyst rating

Breakdown of Halyk Group's loan portfolio by sector, %



model) to assess the likelihood of a default and the associated rating on corporate clients. The model has been introduced at all branches.

In 2015, the Bank introduced a scoring evaluation system for retail lending that gauges risk based on the statistical probability of default, calculates risk-based pricing and enables retail lending policy to be managed in accordance with changes in the economic environment.

To mitigate tenge exchange-rate risk – and based on regular monitoring of loan portfolios, including analysis of portfolio quality, market positions, returns, etc. – the Bank approved various measures and restrictions on borrowers in 2015. These included adjustments to the terms of existing loans and lending procedures.

Over 2015, the drive to write off problem loans continued. In the year, the Bank wrote off KZT43.6 billion in NPLs (both with and without forgiving claims) using accumulated provisions. In addition, to manage problem loans more effectively, it transferred KZT29.5 billion in NPLs to its problem loan subsidiary. These measures reduced the volume of overdue loans.

As of 31 December 2015, retail loans represented a significant share of the loan portfolio (24.4%), with consumer and mortgage loans accounting for 16.4% and 8.0%, respectively. In terms of industry breakdown, the largest segments were wholesale trade (17.9%), services (15.9%), construction (6.8%) and real estate (6.3%). ■

ASSET/LIABILITY MANAGEMENT

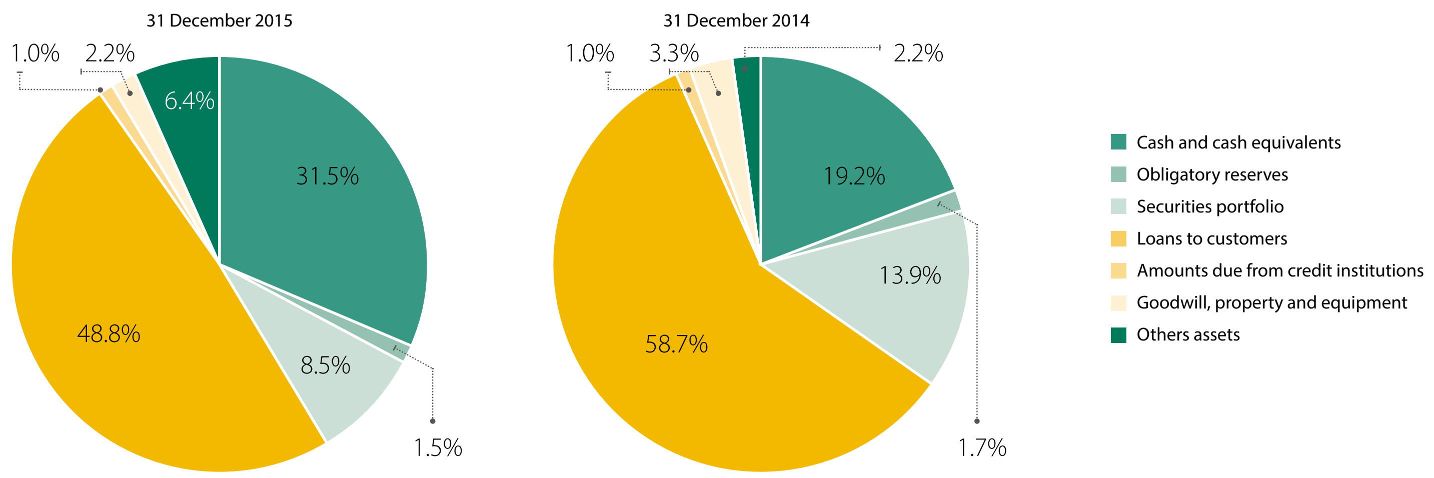
To create an optimal structure of bank assets that ensures a balanced approach to managing the risk-return ratio, the Group invests in a spread of domestic and overseas assets, diversified in terms of banking products, industry, currency and maturity.

In 2015, the breakdown of the Group's assets changed insignificantly and was as follows.

In 2015, the Group's total assets soared by 58.6%. This was mainly due to the decision by the National Bank of Kazakhstan on 20 August 2015 to move to a new monetary policy based on inflation targeting and a freely floating exchange rate, which caused the tenge value of the Group's assets denominated in foreign currency to increase substantially. Cash and cash equivalents also rose significantly to KZT864.1 billion (up 159.9% year-on-year), as did the loan portfolio, which expanded by KZT528.1 million (up 32.0% year-on-year). The loan portfolio remains the largest item among the Bank's assets: as of 31 December 2015, it accounted for 48.9% of the total. Other key assets are cash and equivalents (share of 31.5%) and investments in securities (trading and investment portfolio; share of 8.5%).

The rise in cash and equivalents was due to changes in Kazakh banking regulations. In accordance with these, to increase domestic lending potential, banks were obliged to inject some of their available funds (equity) into the local economy. As a result, Halyk Bank undertook measures that caused a change in the composition of its balance sheet, notably an increase in funds in its correspondent account with the National Bank of Kazakhstan and a decrease in the volume of deposits in overseas banks. Halyk

Breakdown of Halyk Group's assets, %



Bank also increased cash and cash equivalents to satisfy the greater demand for foreign currency following the tenge devaluation and expectations of further local-currency weakness.

The Group regularly checks its limits for counterparty banks for consistency with its risk appetite. Whenever the Group identifies any negative factors affecting the operations of its counterparty banks and/or their countries of operation, it makes immediate relevant adjustments to reduce the amount and term of such limits.

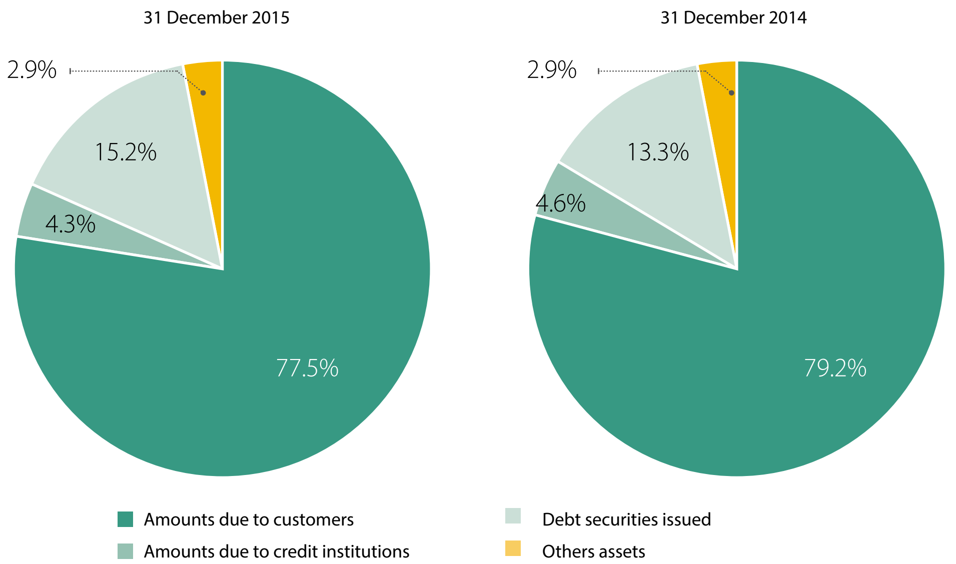
For liquidity management purposes, the Bank maintains a stable and diversified structure of liabilities, which consists of borrowings and deposits with fixed maturities and liabilities payable on demand.

The breakdown of the Group's liabilities in 2015 and 2014 was as follows.

In 2015, the main changes in the breakdown of liabilities were to debt securities issued and amounts due to customers. Debt securities issued rose by KZT286.5 billion (up 92.1% year-on-year), mainly due to a revaluation of Eurobonds, as well as the placement in February 2015 of KZT131.7 billion in 10-year bonds with a fixed semi-annual coupon of 7.5%.

In 2015, the main sources of funding included deposits and current accounts from legal entities and individuals. At the year-end, amounts due to customers had increased to KZT1.2 trillion (up 64.7%) in absolute terms and remained the largest liability item, accounting for 77.6% of total liabilities in 2015, compared with 79.2% in 2014.

Breakdown of the Group's liabilities, %



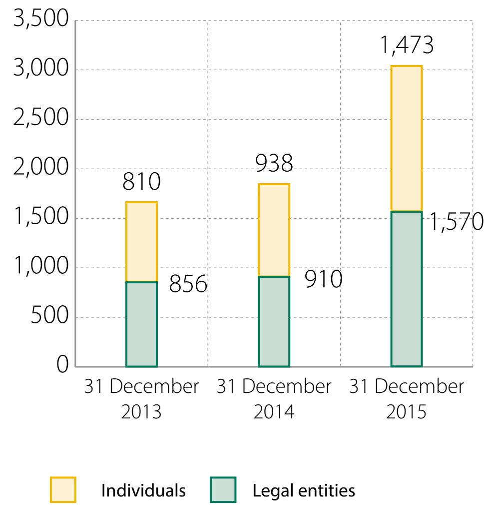
At the same time, the breakdown of the deposit base changed, mainly due to expectations of tenge devaluation. This caused clients to switch to term deposits, which soared by 87.3%, while current accounts grew by 27.9%. Overall, the main change was in amounts due to legal entities, while the positive trend in retail deposits amid growing current accounts, seen in 2014, continued in the year.

In 2015, amounts due to retail customers had increased by KZT535.2 billion (up 57.1% year-on-year) and amounts to legal entities by KZT660.3 billion (up 72.6% year-on-year).

The Bank's focus on raising funds in the domestic market helped it to maintain leading positions in the customer account market. The Bank is a market leader in terms of retail deposits, with a market share of 20.6% as of 31 December 2015 (compared with 20.4% a year earlier).

To assess its exposure to liquidity risk, the Bank conducts regular stress tests showing the impact of the outflow of customers with the highest concentration on the Bank's liquidity position, as well as annual "bottom-up" stress tests as required by the regulator. ■

Amounts due to customers, KZT billion



Market share by amounts due to customers, %

MARKET RISK MANAGEMENT

In 2015, the Bank adhered to its conservative policy on currency position management, maintaining neutral positions in all currencies, except for US dollars.

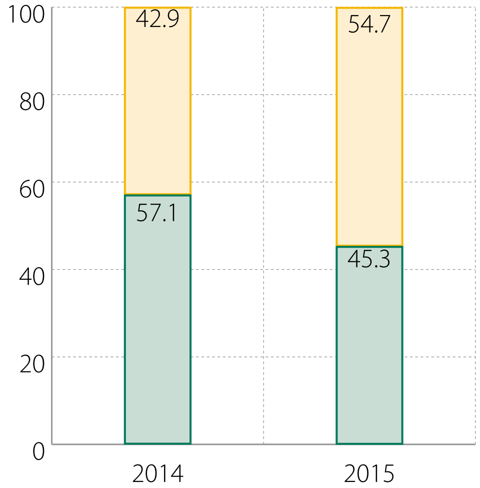
In 2015, the breakdown of assets by currency changed, amid a lack of tenge liquidity caused by expectations of local-currency devaluation. As a result, assets in tenge amounted to 45.3% of the Group's financial assets, compared with 57.1% in 2014, while the share of liabilities in tenge stood at 67.6%, down from 72.7% in the previous year.

Amid the tenge devaluation and expectations of a further decline in the currency's value against the US dollar, the Group's deposits in foreign currencies, particularly US dollars, soared by 92.9%, while those in tenge rose by 12.1%.

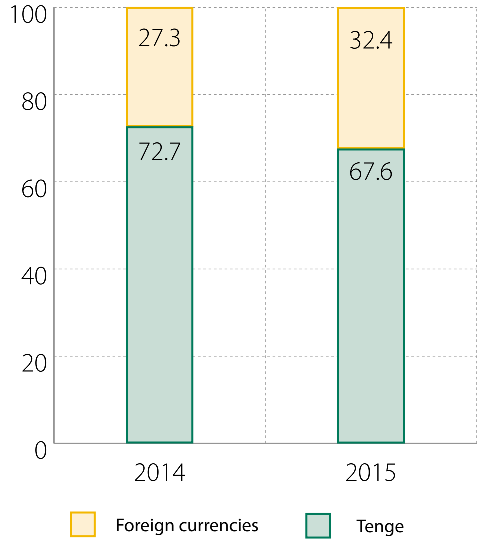
The Group has identified the following sources of interest rate risk: interest rate risk on securities portfolios and interest rate risk resulting from the mismatch of maturities (interest rate re-pricing) of assets and liabilities sensitive to interest rate changes (risk of interest rate changes). The Group manages the risks of changes in interest rates and market risk by adjusting its interest rate position and maintaining a positive interest margin.

Internal limits that restrict the level of market risk (currency, interest rate, price risks) are established by the authorised bodies within the stop-loss limits, and are monitored daily. The limits are regularly reviewed for relevance and correlation with market conditions and the Group's risk appetite. ■

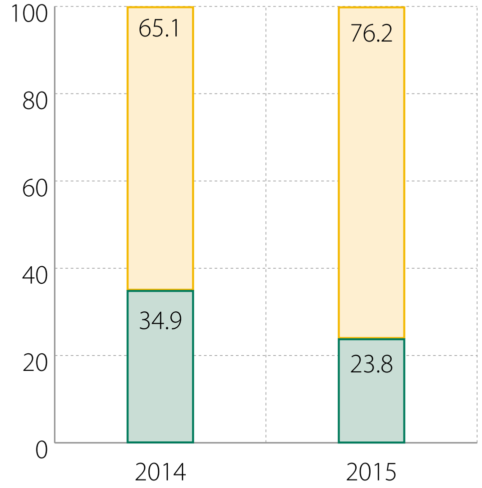
Breakdown of the Group's assets by currency, %



Breakdown of the Group's net loans by currency, %



Breakdown of amounts due to the Group's customers by currency, %



OPERATIONAL RISK MANAGEMENT

In the normal course of its business, the Bank is exposed to operational risk. This is defined as the risk of losses resulting from inadequate internal processes or systems, human factors or external events. These include legal risk (and exclude strategic and reputational risk).

The operational risk management unit within the risk management function of the Bank has developed and uses various operational risk management tools, such as:

- The Bank performs operational risk assessments when launching new products/services, systems and business processes, or implementing major changes thereto. ORAP is a fully functional and widely used tool, and it has covered the most significant areas of the Bank's operations since 2010. In 2015, ORAP covered such business areas as remote banking for individual and legal entities, lending, new sales channels, etc.
- Assessments of existing risk management practices and systems were conducted at two subsidiaries, Kazakhinstrakh and Halyk Bank Georgia. As a result, appropriate risk-mitigating measures have been developed to improve control over the most significant risks.
- The Bank regularly collects and analyses information about operational risk events, which are registered and classified as appropriate in a special database. The information collected is used to generate management reports on operational risks to support decisions about corrective actions to minimise overall operating losses.
- The Bank continues to develop an operational risk management tool, Key Risk Indicators (KRI), which enables the most significant risks to the Bank's IT systems and critical business processes to be identified;
- The Bank has conducted a scenario analysis project, "Lack of Access to the Acquiring Network (ATMs not Working)". This highlighted the main shortfalls in the processes and the departments involved have presented

corresponding recommendations in the event of such a scenario occurring;

- The operational risk management unit is a permanent member of working groups on various projects at the Bank, as well as focusing on fraud elimination, investigating the causes of damage to the Bank, and creating commissions to analyse problems and risk areas with a view to minimising them and to developing appropriate mitigation measures.

BUSINESS CONTINUITY MANAGEMENT

To ensure that it can respond rapidly and effectively to emergency situations, the Bank maintains systems and resources to manage and support business continuity, which include legal documents, infrastructure, competent employees and other items.

The core of the Bank's business continuity management infrastructure consists of a Disaster Recovery site in Astana and two backup facilities in Almaty, which feature all of the necessary equipment and technology for dealing with incidents.

In 2015, the Bank conducted the following business continuity work:

- a business impact analysis and an analysis of risks relating to unforeseen eventualities;
- a study (testing) of business continuity and restoration plans; transfers to IT backup systems and servers; and test restores of reserve copies from critical information systems;
- the approval of a business continuity concept for the branch network and the development and approval of a business continuity plan for branches.

IT AND INFORMATION SECURITY RISK MANAGEMENT

IT risk covers the likelihood of damage to the business arising from poorly designed IT processes related to the development and exploitation of the Bank's IT.

Information security risk covers the likelihood of damage to the business arising from a breach of the integrity, confidentiality and accessibility of the Bank's IT assets due to deliberately destructive actions by employees and (or) third parties.

In early 2015, the Bank established an IT and information security risk management division and devised and approved internal documents regulating its work.

In the year, a pilot project to evaluate the IT and information security risks of two IT systems was conducted (Internet banking for legal entities and Way4, in the acquiring segment). As a result, an IT and information security risk register and map were compiled, as was a plan to minimise IT and information security risks.

CAPITAL MANAGEMENT

In 2015, the Bank continued to manage its capital to ensure the business continuity of all Group companies and optimise its debt-to-equity ratio. In the reporting period, the Bank ensured compliance with the capital requirements set by regulatory standards and Basel Accords.

In 2015, the implementation began of Basel III, which envisages gradual reform of capital adequacy requirements and levels by 2019. Following the tenge devaluation and accompanying domestic liquidity issues, the National Bank of Kazakhstan adjusted its transition plan by keeping the minimal capital adequacy requirements in place for 2016, including the buffers at the same levels as for 2015. The question was considered of extending the transition time to Basel III to 2021 and of reducing the target capital adequacy ratio from 12% to 10.5%.

The Bank believes that the transition to the new standards will not require an additional capitalisation. To assess its exposure to the risk of adverse changes in the macroeconomic situation, the Bank runs regular stress tests to test the sensitivity of capital adequacy ratios to changes in various macroeconomic factors, including annual "bottom-up" stress tests required by the regulator.

COMPLIANCE RISK MANAGEMENT

Halyk Bank defines compliance risk as the threat of losses arising from non-compliance by it and its employees with Kazakh legislation, regulatory requirements, internal documents, regulating services provided by the Bank and its operations on financial markets, and legislation of other countries governing the Bank's activities. An integral part of the internal risk management system, the Bank's compliance risk management is based on a four-step approach: identification, evaluation, monitoring and control.

To ensure an effective system of corporate governance and internal control, the Bank has established a cross-functional system based on three "lines of defence".

- The first line identifies and monitors risks across all subdivisions with a view to minimising compliance risk and taking corrective measures;
- The second implements compliance risk management policy, while compliance control is carried out by the Compliance Service. It consists of the Compliance controller, who reports to and is elected by the Board of Directors, and the Compliance Division, which the controller oversees.
- The third is responsible for independently evaluating the performance of the compliance risk management subdivision by internal audit.

The Bank manages compliance risk by:

- Continuously monitoring Kazakh legislation;
- Monitoring the compliance of authorised persons and employees of the Bank with Kazakh legislative requirements;
- Ensuring that employees and subdivisions correctly understand and apply Kazakh legislation and the Bank's internal documents;
- Identifying, evaluating, monitoring and mitigating compliance risks, including when developing and structuring new banking products and services, introducing new business processes and technologies, and so on;
- Ensuring that mandatory requirements of the regulator and other official bodies are met on time and to the required standard;
- Organising compliance monitoring (checks) of subdivisions' activities by appropriate compliance staff;
- Using various tools to identify and evaluate compliance risks, including appraisal and self-appraisal methods for subdivisions;
- Controlling access to insider information and preventing potentially illegal use of such information by insiders, including by maintaining a list of people with access to such information;
- Ensuring that it complies with measures to combat money laundering and the financing of terrorism (AML/CFT);
- Ensuring that employees comply with the internal requirements on the prevention of conflicts of interest, etc.

When carrying out its duties as the main compliance channel, to minimise and prevent potential compliance risks, the Compliance Division:

- Organises and coordinates self-assessments by subdivisions of their compliance with Kazakh legislation and the Bank's internal documents. Self-assessment compliance risk reports are submitted to the Management Board and Board of Directors for review. Based on the findings, action plans to mitigate the risks identified are prepared and the Compliance Division oversees their implementation.
- Identifies and evaluates the level of compliance risk faced by the Bank, appraises the effectiveness of the Bank's control system, and evaluates the residual compliance risk. The results are sent to the Management Board and Board of Directors. To enhance control and mitigate residual compliance risks, an action plan is prepared and overseen by the Compliance Division.
- Organises regular compliance training for the Bank's employees, including in AML/CFT. New recruits and existing employees in the subdivisions responsible undergo annual training. In 2015, both face-to-face and e-learning courses were held, in accordance with the approved training plan. Their aim was to raise awareness among the employees responsible about compliance and AML/CFT procedures, which also helps to minimise compliance risk.

In addition, one of the Compliance Division's main objectives is to ensure that the Bank complies with Kazakh legislation on AML/CFT, for which the following procedures have been established.

The Bank has implemented all of the necessary systems aimed at preventing money-laundering and the financing of terrorism, including various KYC procedures that:

- group customers based on risk (risk-based approach), depending on which simplified, standard or enhanced due diligence (namely collecting and recording client data) will be conducted;
- check whether potential or existing customers feature on sanctions lists (international or local);
- check whether a potential customer is a foreign publicly exposed person;
- analyse a customer's reputation;
- other checks (transactions, deals, etc).

If such checks cannot be completed satisfactorily, a commercial relationship will not be established.

In accordance with Kazakh AML/CFT legislation, the Bank has a duty to inform the relevant official bodies about client transactions that are subject to financial monitoring (threshold and suspicious). The Bank has implemented all of the necessary information systems to recognise transactions that are subject to financial monitoring, based on various identified types, schemes and scenarios, and to send the respective data to the authorised body. In addition, there are subdivisions responsible for identifying suspicious non-automated transactions, based on certain criteria, that then forward the information to the Compliance Division. ■


HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
SOCIAL
REPORT

As a systemically important financial institution in Kazakhstan, Halyk Bank adheres to the principles of business being actively involved in solving social issues. In particular, it promotes traditional social values, the country's cultural heritage, education, sport and medicine and supports disadvantaged social groups.

Halyk Bank places a special emphasis on sponsorship and charity. Accordingly, in April 2012, the Bank established a Social Responsibility Committee under the Board of Directors, which controls and evaluates corporate social responsibility policies. Proposals developed by the Committee are of an advisory nature. The Committee monitors the compliance of the Bank's operations with legislative requirements regarding corporate social responsibility, and prepares recommendations to the Board of Directors for decisions on issues within the Committee's jurisdiction. Since its establishment, the Committee has had eight meetings to hear reports and approve action plans for the next year.

Over the last 14 years, the Bank has established a key objective in its social policy: to provide support to disadvantaged social groups (orphans, disabled people, veterans, and children with disabilities). The Bank has been following the above policy and recognises that it underpins the main social responsibility principles of a large financial institution that is working to increase the welfare and prosperity of Kazakh society. ■

CARING FOR THE COUNTRY'S FUTURE

One of the main objectives in the Bank's social policy is to support orphans, children from disadvantaged families and children in care. Young people represent the future of Kazakhstan, so the Bank actively supports charitable projects that provide assistance to medical and social facilities for children.

1) Ayala Charity Fund projects

Halyk Bank has been a partner of the Ayala Charity Fund since 2008. Since 2011, all clients and employees of Halyk Bank have been able to make donations to the fund through the internet banking system for individuals. Since then, internet banking clients have donated KZT15.2 million, which has gone to the "Breathe in Life" project in Ekibastuz. As part of it, medical equipment has been bought for the children's intensive care unit at the Ekibastuz maternity hospital: a resuscitation table, a ventilator and an intravenous tubing dosage device. The equipment was presented at an official event on 10 November 2015.

In December 2012, the Bank signed a five-year memorandum on cooperation with the fund. The main objective is to develop cooperation in the implementation of the fund's social projects to support children's medical and educational institutions in Kazakhstan.

Since 2008, the Bank has participated in several large-scale projects of the fund, namely:

- "Health of a Nation Starts from Birth" – a project to supply phototherapy equipment for the treatment of neonatal icterus in maternity hospitals and maternity units of central district hospitals in Almaty Region.
- "I Also Want to Live" – a project to develop children's cardio surgery in Kazakhstan. Under the project, the Syzganov National Surgery Research Centre was given medical equipment for the surgical wing and the intensive care unit.
- "Breathe, Baby" – a project to supply medical equipment for intensive care units in maternity hospitals and perinatal centres across Kazakhstan.
- "Breathe in Life" – a project to supply medical equipment for the Akmola regional children's hospital and the Uralsk regional children's multi-purpose hospital.

In 2015, the Bank took part in other projects by the fund, such as the "Healthy Child, Healthy Family" programme (more than KZT10.8 million).

In addition, as part of a memorandum signed in 2015, KZT148 million was allocated.

Overall, the Bank has donated more than KZT678 million to Ayala fund projects, including KZT158.8 million in 2015. ■

In 2016, the Bank has allocated KZT150 million for the fund.

2) Sabi Charity Fund projects

In 2012, the Bank signed a five-year memorandum on cooperation with the Sabi Charity Fund to assist it with social projects to support children's medical and educational institutions in Kazakhstan. Projects include the "Educational Project", "Alem Programme to Support Young Talent", the construction of the "Family Care Village for Children" in Astana, the construction of sports and children's facilities, the Invo Taxi, and others.

Under the memorandum, KZT148 million was pledged for projects. Overall, the Bank has donated more than KZT558 million to the fund's projects, including KZT148 million in 2015 alone.

In 2016, the Bank has allocated KZT148 million to the Sabi Charity Fund.

3) Bobek private fund projects

Since 2012, the Bank has been helping to implement various projects organised by the Bobek private fund. Bobek's projects aim to provide social help and training for talented orphans, children living in care and children from large or disadvantaged families. To date, the Bank has allocated more than KZT40 million to Bobek.

4) Projects to sponsor children's homes

Through its branches, the Bank provides assistance to 36 orphanages, boarding schools and specialised children's homes across the country. Regular assistance includes the improvement of material and technical conditions: the purchase of furniture, equipment, clothes and office supplies; and the organisation of holidays, sports activities and educational events.

In 2015, for sponsored children's facilities, the Bank conducted various events for Nauryz (the spring equinox), Children's Day and Knowledge Day. The Bank's employees were particularly active in helping to organise events and collect clothes, books, toys and donations, which were used to buy vital goods for the children facilities in Almaty and Almaty Region.

The annual budget for supporting children's homes is KZT21.6 million, or around KZT50 thousand for each home every month. Branch budgets also provide for expenses related to public holidays like Nauryz, Children's Day, Knowledge Day, Senior Citizen's Day and New Year (around KZT100 thousand for each public holiday, or around KZT11 million overall).

For example, in March 2015, the Bank bought carpets and rugs for a sponsored children's psychoneurological home in Petropavlovsk; and in April, it bought concert costumes for children from a sponsored home in Semey to participate in the Zhuldyzai festival. ■

NURTURING THE TREE OF KNOWLEDGE

Halyk Bank has traditionally helped children from children's homes receive a higher education and establish their own independent life with pride.

1) Halyk Students (Narodniye Studenty), a project for graduates of sponsored children's homes

Another large social project that Halyk Bank continued to sponsor in 2015 was the Halyk Students Programme, launched in September 2007. This special charity initiative was designed for young people from sponsored children's homes and boarding schools from different regions of Kazakhstan. It provides them with the opportunity to receive a higher education and receive a Kozhakhan Abenov scholarship, established by Halyk Bank.

The programme has helped 44 young people from sponsored children's homes and boarding schools to receive a university education, while 14 graduates were employed by the Bank. At present, 6 children participate in the programme. They have the unique opportunity of pursuing a career at Halyk Bank and other Halyk Group companies. Some have already become permanent employees of Halyk Bank.

Overall, the Bank had invested more than KZT48 million in the Halyk Students Programme, including over KZT4 million in 2014-15 alone, and it has allocated around KZT1 million for 2015-16.

2) "Halyk Education with Union Pay" grant programme

In 2015, Halyk Bank and UnionPay International launched the "Halyk Education with Union Pay" grant programme, which provides financial support for one academic year to Kazakh graduates of national and overseas secondary and higher educational institutions seeking to study in leading Chinese universities. More than 100 people applied for the programme and 50 of the most promising were chosen. One part of the competitive selection process, alongside high scores in national tests and exams, was to write an essay on the theme of "How I See the Bank of the Future". UnionPay International donated US$250,000 to the programme and Halyk Bank donated KZT1 million. ■

ENCOURAGING CREATIVE POTENTIAL

For several years, Halyk Bank has been providing various types of support to promote the culture and art of Kazakhstan, a key part of its heritage.

- Each year since 2013, the Bank has acted as the general sponsor of the Astana Opera Theatre as part of its support for opera and ballet. In 2015, the Bank acted as the general sponsor for the third theatre season of 2015-16, pledging KZT71.6 million.
- In 2015, Halyk Bank gave a special gift to Baikonur, sponsoring sculptures in an installation called The Doves of Peace, located opposite the central marriage registry office as part of the celebrations of the city's 60th anniversary. The Bank gave KZT1 million to the project. ■

CONQUERING THE HEIGHTS OF SPORT

Halyk Bank plays an active role in sponsoring Kazakh sportspeople who represent their country at international events, sportspeople with disabilities and participants from children's homes. It also supports sporting events and helps to develop sport within the country where possible, as part of one of the main priorities in its social policy.

"Halyk League (Narodnaya Liga)"

1) Established in 2005, Halyk League is a social sport project to promote healthy lifestyle and support an active basketball movement involving young people from sponsored children's homes and boarding schools. The project promotes passion for the sport and helps to organise children's free time. Given the growing level of team training and desire of children to participate in the Hope Cup Basketball Championship of Kazakhstan, in 2012, the Championship was reorganised into the official Basketball Championship of Kazakhstan among children's homes and boarding schools, with the support of the National Basketball Federation of Kazakhstan.

In May 2015, the Bank successfully organised the 2015 Championship, supported by the National Basketball Federation of Kazakhstan. Eighteen children's homes and boarding schools participate in the project; more than 500 children take part in training annually. Over the 10 years of the project, the Bank has invested over KZT257.3 million in it. Branch budgets also finance the cost of a trainer for the project, which is KZT50,000 a month, or KZT8.1 million overall (there are 18 homes and boarding schools, and the training takes places over nine months).

In 2015, the Bank pledged around KZT20 million to the project.

2) Another major sports project aimed at promoting healthy lifestyle in 2015 was the fourth "Courage to Win" marathon in Almaty, of which Halyk Bank was an Honorary partner for the third year in a row. The event was organised with the "Courage to Win" charity marathon fund, and as part of an official agreement KZT15 million in sponsorship was donated. More than 15,000 people registered for the event, while around 19,000 people took part. Over the four years of the marathon, the number of participants has grown by seven-fold.

3) In 2015, Halyk Bank continued to support the Paralympian movement, giving financial aid to the Special Olympics Public Association. The Bank donated KZT1.5 million in 2015, bringing the total for the last four years to KZT4 million. The funds were used to organise a national mini-football tournament for children and young people with intellectual disabilities as part of the International Day of Persons with Disabilities.

4) Each year, Halyk Bank provides financial support to the Gymnastics Federation of Kazakhstan. The funds have helped professional gymnasts to excel at international level: at the second Youth Sport Games, the Kazakh team won the maximum number of medals.

Since 2011, the Bank has donated more than KZT55 million to the federation, including KZT20 million in 2015. ■

HONOURING THE HEROES

The Bank seeks to support veterans of World War II through various initiatives, in recognition of their heroic deeds.

Victory Marathon

1) Victory Marathon is a traditional event organised by Halyk Bank on Victory Day each year. As part of the event, the Bank provides charitable assistance to key veteran organisations in Almaty every year. Regional branches of the Bank arrange special presents for World War II veterans who are their customers.

Over the last seven years, the Bank has donated more than KZT64.5 million to World War II veterans and veteran organisations under the event. In 2015 alone, veteran organisations of Almaty, Astana and Talgar received more than KZT9.5 million in charity aid. The amount includes around KZT5 million in gift vouchers for Sulpak domestic appliances from regional branches for World War II veterans who are customers of the Bank.

In addition, as part of the 70th anniversary of the end of World War II in 2015, Halyk Bank organised events in all of the towns and cities where it is present. These were part of an advertising campaign by the Bank and included concerts featuring stars of the national stage and entertainment shows for children. Veterans were sent invitations to the concerts, transport for them and presents were organised, and everything was done so that they could enjoy the events without worry. The concerts were also free for local residents. The Bank spent KZT41.2 million on the 70th anniversary celebrations.

2) In 2015, Halyk Bank donated KZT1 million to the State Security Services Veterans' Union. ■

EMERGENCY SITUATIONS

As a leading financial institution in Kazakhstan, Halyk Bank understands the importance of helping to protect the environment and deal with any emergency situations that arise.

In 2015, Halyk Bank Georgia provided humanitarian assistance following the floods in Tbilisi, allocating the equivalent of KZT1.5 million to the cause.

Also in 2015, a landslide hit the Nauryzbai, Auezov and Alatau districts of Almaty. To help local residents affected, Halyk Bank donated KZT5 million to the Novy Alatau social fund. In addition, Bank employees, led by members of the management team, volunteered in the clean-up efforts. As part of this, the Bank bought vital supplies and clothes and organised transport. Volunteers from the Bank were divided into groups and sent to help repair houses and business affected by the landslide.

In 2015, Halyk Bank also pledged KZT1.6 million to other social projects.

HALYK BANK'S HR SYSTEM

Halyk Bank's HR system is governed by the Kazakh Labour Code, Tax Code, and Law on Banks and Banking Activities in the Republic of Kazakhstan.

The main objectives of the Bank's HR policy are to:

1) streamline the organisational structure and HR planning
2) select and deploy employees
3) train and develop employees and create a talent pool
4) oversee productivity, employee incentivisation and salaries
5) foster a positive corporate culture and provide social support for employees

Between 2007 and 2015, the Bank conducted a project to optimise and automate its business processes, which streamlined headcount by 8% and boosted labour productivity.

In 2015, as part of its corporate strategy, the Bank restructured the IT division. To reduce costs, the call centre was relocated from Almaty to Pavlodar, while a new flagship sales channel, a Banking Service Centre, was launched in Astana.

Headcount by business area at the year-end

Business area	2008	2009	2010	2011	2012	2013	2014	2015	Difference 2015/2008	
Branches	8,306	7,792	7,725	7,471	7,394	7,395	7,308	7,368	-11,3%	-938
Head Office	1,602	1,522	1,463	1,491	1,496	1,534	1,638	1,744	8.9%	142
Total	**9,907**	**9,314**	**9,188**	**8,962**	**8,890**	**8,928**	**8,946**	**9,112**	-8.0%	-795
Difference	101	-594	-126	-226	-72	38	18	166		
% Branches	0.6%	-6.2%	-0.9%	-3.3%	-1.0%	0.0%	-1.2%	0.8%		
% Head Office	3.1%	-5.0%	-3.9%	1.9%	0.3%	2.5%	6.8%	6.5%		
Total	**1.0%**	**-6.0%**	**-1.4%**	**-2.5%**	**-0.8%**	**0.4%**	**0.2%**	**1.9%**		

In 2015, the Bank continued to implement software that standardises IT access for employees. The Bank switched to a new localised SAP HCM system, while the migration to a self-service HR system, including employee activity and reporting, continues.

Staff recruitment is governed by the Bank's Staff Search and Recruitment Rules. To increase the efficiency and quality of its recruitment process, the Bank is constantly looking for new and updating its existing internationally recognised personality tests and individual questionnaires. To find local talent, the Bank works with leading Kazakh higher educational institutions to offer internships and also takes part in recruitment fairs.

Halyk Bank has an active professional development and motivation programme for key employees. vIn accordance with the programme, the most experienced employees are included in the Talent Pool, so that they are ready to meet the Bank's requirements for management personnel and quickly fill other key positions in the Bank's units, as well as to improve the quality of staff required for the Bank to achieve its strategic goals. Members of the Talent Pool are entitled to financial support from the Bank for MBA and master's degree programmes. In 2015, 588 employees were added to the Group Talent Pool, including 536 people from the Bank and 52 people from other subsidiaries.

In 2015, the Bank overhauled its approach to creating and developing the Talent Pool, adjusting the selection process to ensure continuous availability and conducting centralised training and development events for Talent Pool members. As a result, in 2015, 83% of managerial vacancies were filled from the Talent Pool, while the overall share of internal promotions or appointments was 93%.

Staff motivation and loyalty

As part of an initiative to increase staff loyalty and encourage two-way communication between employees and the management, the Bank analyses its working environment from social and psychological perspectives.

In 2015, work was begun on creating a new, modern financial incentive system aimed at increasing the productivity of individual employees and making everyone accountable for his or her results, in line with international best practice in HR.

The new system will enable the Bank to evaluate every employee based on his or her merits.

In addition, the Bank has devised a way of acknowledging employee achievements using more precise and transparent criteria, based on appraisals of their work and skills. The number of categories and the size of payments have been increased.

During the year, various bonuses were paid.

- Bonus payments for annual performance based on reviews
- One-off bonuses for public holidays
- Bonuses for certain categories of staff based on the results of subdivisions and individuals
- Benefits and compensations:
  - Various types of insurance, including health and life cover;
  - Financial assistance in connection with certain personal events;
  - Additional paid leave in connection with certain personal events;
  - Seniority bonuses;
  - Compensation for employment/transfer to other regional offices of the Bank and its subsidiaries;
  - Sport and recreational activities for employees, organisation of various sporting events for Group employees;
  - Support for unemployed retirees of the Bank;
  - Organisation of corporate activities;
  - Initiative development programme;
  - Parking spaces for managers of the Bank;
  - Benefits for maternity leave;
  - Subsidised mortgages for employees;
  - Help towards paying to undergo MBA, master's and professional courses
- There are regular induction days, at which new employees receive branded goods and materials
- Each year, Bank employees feature on a list prepared by the Financial Institutions' Association of Kazakhstan of recipients of national and social awards, such as "Honoured Finance Professional" and "Best Finance Professional"
- Bank employees have access to information resources: an intranet (Halyk Info), a corporate newspaper (Halyk Janalyk) and the Bank's radio station
- The Bank holds various contests to foster team spirit and corporate morale among employees
- Each year, Bank employees take part in the "Courage to Win" marathon
- Each year, the Bank organises charitable events and initiatives for:
  - for orphans and children with disabilities. Over 2015, Bank employees raised more than KZT600,000 for vital goods, stationery and clothes for the Nur and the Kovcheg children's homes in Talgar and the Oral charitable fund in Almaty;
  - pensioners, including World War II and labour veterans (1,720 people), ahead of Victory Day on May 9, International Day of Older Persons on October 1, anniversaries and by occasional application;
  - residents of Almaty affected by the landslide on 23 June 2015. People from the Bank, including the Chairperson and

Deputy Chairman of the Management Board and managers from subsidiaries, helped to deal with the aftermath of the landslide. In addition, employees raised a significant sum for those affected and provided support to employees affected.

Personnel development

As part of professional development and training, the Bank focuses on corporate training for Halyk Group employees to develop their abilities to cross-sell the full range of Halyk Group services, client-oriented operations and high-quality professional growth of employees, middle and top management.

To ensure a systematic approach to training and personnel development, the Bank has a dedicated Personnel Development Unit.

In 2015, the Bank introduced a new system of remote training, which offers higher-quality training and testing using the latest methods, expands the course base and enables all employees to take part, including those in cities, suburbs and districts. Over the year, 30,736 remote courses and tests were taken, and many employees underwent courses and tests on various subjects several times in the year (between two and four on average).

Each area of corporate training is based on a staged approach, while learning material is structured by information complexity and depth of detail. This approach ensures continuous improvement of professional knowledge and practical skills.

Separate sets of learning materials and programmes have been produced for the professional development of employees across all business areas, as well as for key personnel categories within each of those.

The Bank provides obligatory training and certification for certain personnel categories as required by applicable regulations. Employees undergo professional training, professional certification and MBA programmes, and programmes related to new technologies and to the implementation of the Bank's new strategy. If necessary, the Bank can arrange training for employees in other divisions. Employees often participate in local and international forums, congresses and conferences.

Corporate training is provided in the following key areas:

- Basic skills for line managers;
- Sales and effective customer service skills;
- Products offered by the Bank and its subsidiaries;
- Internal rules and standards;
- Personal development for employees in the Talent Pool
- Financial analysis.

In addition, employees with work experience of more than 6 months at the Bank are entitled to external training and professional certification in Kazakhstan and abroad, with all training, travel and accommodation expenses covered by the Bank.

In 2015, 381 employees participated in external training and professional certification programmes in Kazakhstan and abroad; 629 underwent in-house corporate professional development programmes with external providers involved; and 1,656 received training in branches from business trainers from the Bank. ■


HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
CORPORATE GOVERNANCE

The Bank recognises that high standards of corporate governance are vital for its success on a free and competitive market. The Bank seeks to maintain an effective system of corporate governance that regulates interaction among the Board of Directors, the Management Board and shareholders, increases its capitalisation, and generates returns for investors.

Since the initial public offering (IPO) on the London Stock Exchange in 2006, the Bank has placed particular importance on these principles. The IPO was more than simply a way of raising finance: it was also an indication of the Bank's commitment to pursuing the standards expected of a modern financial institution of international standing.

The Bank develops and streamlines its corporate governance system based on:

- New Kazakh legislative requirements relating to the risk management systems of second-tier banks;
- New risks that financial organisations might encounter in the current environment due to the slower economic growth in both Kazakhstan and the other member countries of the Eurasian Economic Union;
- Its ongoing efforts to build an efficient, transparent, stable and innovative financial institution that adheres to the best practices in corporate governance observed in OECD countries.

Compliance of the Bank's Code of Corporate Governance

The Bank's current Code of Corporate Governance, which was approved by the General Meeting of Shareholders in December 2006, defines the main standards and principles applied in managing the Bank, including relations between the Board of Directors and the Management Board, and between shareholders and employees, and the internal decision making procedure.

The Bank's Code of Corporate Governance has been developed in accordance with Kazakh legislation, recommendations by the regulator, the Model Code, corporate governance best practice by companies whose shares are listed internationally, ethical standards and the actual conditions of the Bank's activities at its current stage of development.

To determine key guidelines that the Bank follows when creating, operating and streamlining its corporate governance system, the Code of Corporate Governance includes the following principles:

1. Shareholders should be realistically able to exercise their rights to take part in managing the Bank;
2. Shareholders should be realistically able to take part in the distribution of the Bank's net income (receive dividends);
3. The Bank should ensure that shareholders are provided with accurate, timely and complete information regarding its financial position, economic indicators, results and management structures to ensure balanced decisions by shareholders and investors;
4. The Bank should ensure that all groups of shareholders are treated equally;
5. There should be maximum transparency regarding the actions of employees;
6. The Board of Directors should conduct the strategic management of the Bank and oversee the Management Board's activities, while Directors should report to shareholders;
7. The Management Board should be able to manage the Bank effectively and in good faith and report to the Board of Directors and shareholders;
8. Ethical standards should be set for shareholders;
9. There should be an effective system of internal control that is evaluated objectively.

The Board of Directors and the Management Board confirm that the Bank conducts its activities in accordance with the principles, resolutions and procedures in the Code of Corporate Governance.

By accepting, streamlining and adhering strictly to the Code of Corporate Governance, the Charter and other internal documents, the Bank confirms its intention to encourage the development and improvement of corporate governance best practice.

UK Corporate Governance Code Compliance

This section has been prepared in accordance with section DTR 7.2. of the UK Financial Conduct Authority's Disclosure and Transparency Rules (corporate governance statements).

As a foreign company with global depository receipts admitted to the Official List of the London Stock Exchange, the Bank is not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council – the independent regulator of the United Kingdom – in September 2012 and amended in September 2014. However, in accordance with DTR 7.2, the Bank is obliged to disclose information about its compliance with both the Kazakh Code of Corporate Governance and the existing corporate governance principles to which it adheres above those stipulated in Kazakh legislation.

The Bank considers the UK Corporate Governance Code a guideline for further development of corporate governance.

The Bank's existing Corporate Governance Code differs from the UK Corporate Governance Code, as disclosed below. These differences are partly caused by requirements of the Kazakh Code of Corporate Governance, legal requirements and rules of the Kazakh regulator – the National Bank of Kazakhstan – and partly by the domestic environment of the Bank's activities.

The Bank's Code of Corporate Governance and the UK Corporate Governance Code

The Bank's Code of Corporate Governance includes several distinctions from the UK Corporate Governance Code. Below are the main differences:

	UK Corporate Governance Code	*The Bank's Code of Corporate Governance*
1	The Bank's Code of Corporate Governance does not require a regular re-election of the Board. Instead, the scope of the General Meeting covers determining the Board's term of authority. The General Meeting of 25 April 2014 set a three-year term for the current Board.	The UK Corporate Governance Code stipulates a maximum three-year term for the re-election of Directors.
2	The UK Corporate Governance Code provides for the appointment of one of the independent non-executive directors as the senior independent director.	The Bank's Board has not appointed a senior independent director. This issue will be considered in the future.
3	The UK Corporate Governance Code provides for meetings of non-executive directors at least annually, in particular, to appraise the chairman's performance.	In 2015, non-executive directors held informal meetings, also attended by the corporate secretary, to discuss strategic issues, ways to improve corporate governance processes, the Board's activities, and to assess the work of the corporate secretary.
4	The UK Corporate Governance Code stipulates that at least half of the Board, excluding the chairman, consists of independent non-executive directors.	The Bank's Code of Corporate Governance does not directly require this due to Kazakh legal requirements, which state that at least three members of the Board must be independent directors. However, the composition of the Board, as appointed by the General Meeting on 25 April 2014, includes four independent non-executive directors out of seven (excluding the Chairman).
5	The UK Corporate Governance Code stipulates that non-executive directors should carefully analyse to what extent the Management Board's work fulfils the aims and objectives set, monitor its activities, and check that financial information published is complete and that financial controls and the risk management system are effective and reliable.	Under the Bank's Code of Corporate Governance, all members of the Board of Directors are responsible for this.
6	The UK Corporate Governance Code stipulates that the Board of Directors should ensure that an appropriate succession plan is in place when appointing members of the Board of Directors and the senior management, in order to create an appropriate balance of skills and experience in the Group and on the Board of Directors, and to continuously refresh the talent pool;	The Bank's Code of Corporate Governance defines a procedure for creating the Board of Directors and requirements for candidates to it, the aim being to ensure an optimal balance of experience and knowledge needed for the Board of Directors to function effectively.

Kazakh Code of Corporate Governance and the Bank's Code of Corporate Governance

The Kazakh Code of Corporate Governance means the Code of Corporate Governance approved by the Issuers Board in February 2005 and by the Council of the Financial Institutions' Association of Kazakhstan in March 2005 (amended in July 2007). When developing the Kazakh Code of Corporate Governance, extensive international and Kazakhstan experience was considered. This Code is typical for Kazakh companies.

The Bank's Code of Corporate Governance was developed taking into consideration the Kazakh Code of Corporate Governance, legal requirements, recommendations of the Kazakh regulator, ethical norms and other factors. Therefore, the Bank's Code of Corporate Governance includes more extended provisions compared with the Kazakh Code of Corporate Governance, which promotes improvement of corporate governance practice.

In addition, the Bank implements similar corporate governance practices in other companies of Halyk Group, and believes that this also helps to improve and foster a common understanding of corporate governance principles throughout the Group.

The major differences between the Bank's Code of Corporate Governance and the Kazakh Code of Corporate Governance are:

- Added restrictive criteria for candidates for the Board of Directors and Management Board in accordance with recommendations of the Kazakh regulator intended to raise the quality of the Bank bodies and prevent conflicts of interest;
- Added principles of responsibility for Directors and the Management Board;
- Description of how the activities of the Board and Management Board are organised with a clear segregation of duties;
- Principles for consideration in determining the remuneration of the Directors and the Management Board.

The Bank's Code of Corporate Governance can be found on the corporate website: http://www.halykbank.kz/ru/about/shareholders/corporate-governance.

Corporate governance events in 2015

There were changes in the composition of the Management Board

Changes were made to the Bank's Charter, Code of Corporate Governance and Resolution of the Board of Directors to bring them into line with the requirements of Kazakh legislation

Halyk Group's development strategy for 2016-18 was approved

The Bank conducted a stress test based on a general economic scenario for 2016 (through scenario analysis). ■

Corporate governance structure

The Board of Directors has numerous Committees: Strategic Planning Committee, Audit Committee, Nominations and Remunerations Committee, Social Responsibilities Committee. For more details on their work, please see the respective subsection below.

The Management has created numerous working bodies: directorates, committees and working groups. This allows it to consider major issues in detail in separate segments. Where necessary and if required by the law, decisions made by the working bodies are brought to the Management or Board of Directors for approval.

To ensure best practice in corporate governance, the Board is assisted by internal and external auditors, a compliance controller (who is at the same time the chief risk officer), a corporate secretary, and others.

The Bank carries out internal auditing, risk management and compliance control services, while the institution of corporate secretary regulates issues of conflicts of interest, among other matters.

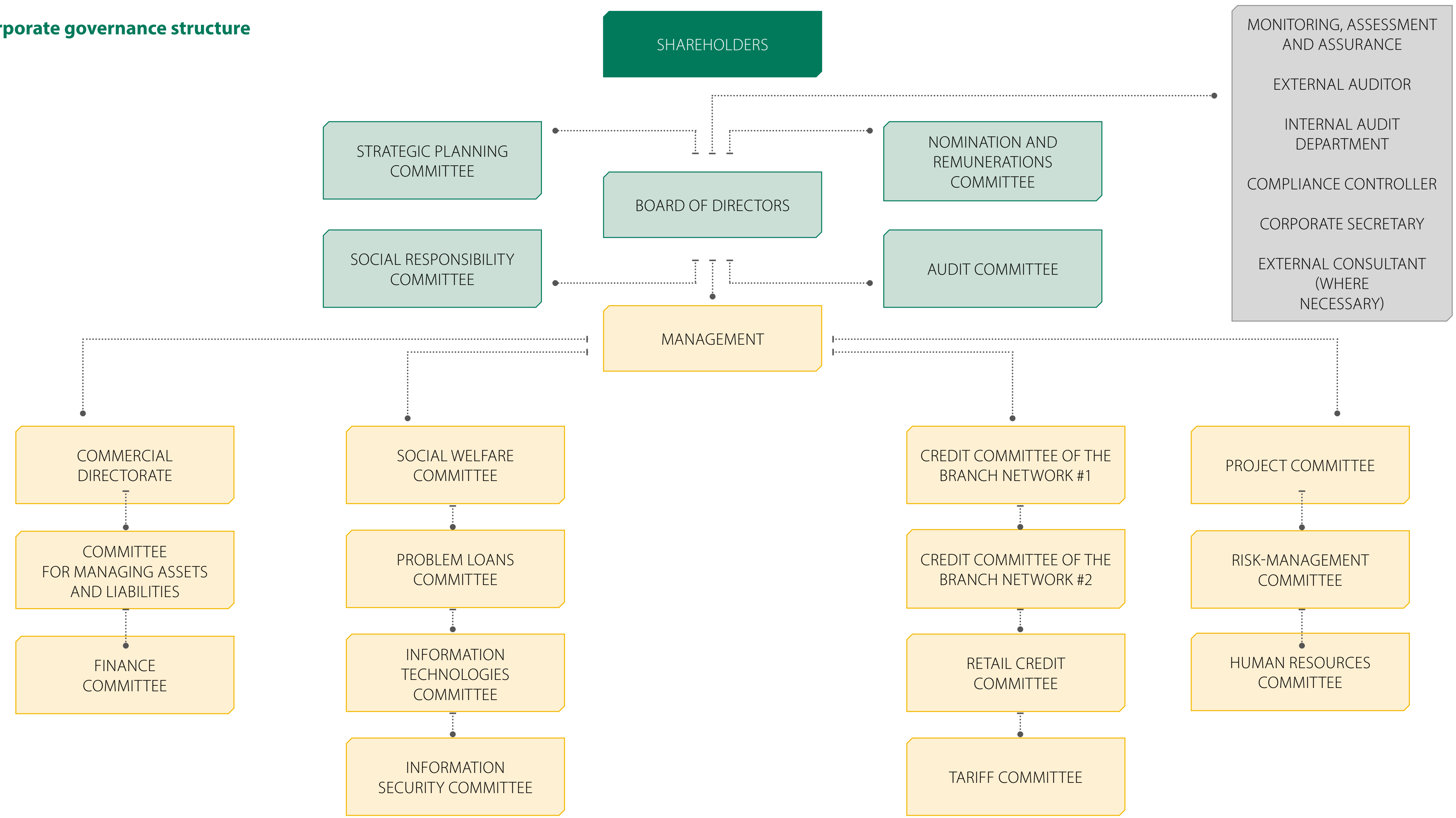
The Bank engages "Big 4" professional services firms to audit the financial statements of Halyk Group. In 2015, this was carried out by Deloitte.

The diagram below shows the structure of accountability in the corporate governance system.

Functions between the Board and the Management are allocated in accordance with Kazakh law. For instance, the Board is responsible for the following important issues:

- defining the priority areas of the Bank's activity; approving the Development Strategy; approving a development plan in situations stipulated in Kazakh legislation; as part of approving the Development Strategy, setting and approving acceptable levels of risk; overseeing the fulfilment of the Development Strategy and evaluating its conformity with current market and economic conditions, the Bank's risk profile and financial potential, and Kazakh legislation; reviewing appraisals of acceptable risk levels and comparing them with existing risks;
- ensuring that the Bank's Charter complies with Kazakh legislation and keeping it up to date;
- preliminarily approving annual financial reports;
- monitoring, controlling and evaluating the activities of the Management;
- approving the Bank's organisational structure and ensuring that it corresponds to the size, structure, character and complexity of the Bank's activities;
- approving the Bank's budget for the corresponding year and overseeing its execution;
- establishing a transparent and efficient system of criteria and procedures for nominating Management members and employees reporting to the Board, and determining their remuneration;
- ensuring effective risk management and internal control systems, including by:

Corporate governance structure



approving the corresponding internal documents defined by Kazakh legislation; reviewing information and reports on monitoring and control of risk management issues; auditing; ensuring compliance with Kazakh legislation and internal documents in cases stipulated by regulations on creating a system of risk management and internal control, and complying therewith;

- creating a system to identify and resolve conflicts of interest;
- analysing and evaluating applications for loans exceeding 5% of the Bank's total equity and making decisions on issuing such loans;
- approving large and related-party transactions;
- approving acquisitions of 10% or more of shares in other legal entities;
- maintaining an ongoing dialogue with the Bank's shareholders;
- creating authorised collegiate bodies, in accordance with the law, to oversee the creation of a system of risk management and internal control; and approving internal documents governing their activities;
- ensuring that regulatory reports are submitted in full, accurately and on time.

The Management Board is responsible for managing the Bank's day-to-day operations, including:

- implementing strategic decisions made by the Board of Directors;
- developing draft strategic documents for consideration by the Board of Directors;
- determining limits for loans, guarantees and commitments that do not constitute large transactions;
- appointing directors to the Bank's branches;
- interacting with subsidiaries, branches and representative offices of the Bank;
- implementing internal control and risk management mechanisms in accordance with the strategy adopted by the Board of Directors;
- approving the structure and personnel of the Bank.

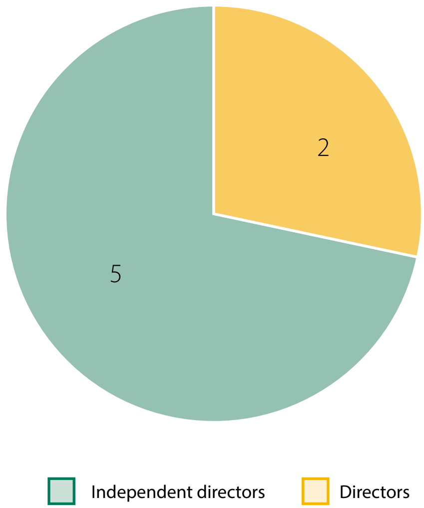
On 25 April 2014, the Annual General Shareholder Meeting approved the composition of the Board of seven people.

At the end of 2015, the composition of the Board of Directors was as follows:

Structure of the Board of Directors

Name	***Position***
Alexander Pavlov	Chairman, Independent non-executive director
Ulf Wokurka	Strategic Planning Committee Chairman, Independent non-executive director
Arman Dunaev	Independent non-executive director
Frank Kuijlaars	Nomination and Remuneration Committee Chairman, Chairman of Social Responsibilities Committee, Independent non-executive director
Mazhit Yessenbayev	Director, Representative of Holding Group ALMEX
Christof Ruehl	Audit Committee Chairman, Independent non-executive director
Umut Shayakhmetova	Chairperson of the Management Board
Total	**7 Directors**

Composition of the Board of Directors



When determining the independence of the Directors, the Board of Directors uses the criteria stipulated by Kazakh law.

Skills and experience of the Directors

Halyk Bank seeks the best balance of experience, skills and vision in its Directors. The presence of a variety of views when discussing issues allows the Board of Directors to exercise its duties and represent the interests of shareholders most effectively.

Independent Directors contribute international experience, strategic vision, insight into the largest industries where the Bank operates, corporate governance and risk management.

At the same time, all Directors possess knowledge of banking activities, finance in general, and human resources management, including issues of remunerations.

Information on the skills and experience of the Board of Directors is summarised below:

Industry	Number of directors
Banking	6
Oil and gas and mining	4
Other industries in the real economy	5
Finance	7
Leadership	7
Risk management	4
International experience	5
Strategic vision	7
Corporate governance	7
Human resource management	7
Total	**7**

Structure of the Management Board

In 2015, there were several changes in the Management Board. In January, Mr. A. Bodanov was elected to the Management Board, replacing Mr K. Uskimbayev, who stepped down that month. In February, Mr K. Kussainbekov and Mr. Y. Salimov were appointed. In June, Mr. S. Kosobokov stepped down at his own initiative. In July, Mr. A. Talpakov was elected. The composition of the Management Board is as follows:

Composition of the Management Board

Name	Position
Umut Shayakhmetova	Chairperson of the Management Board
Marat Almenov	Deputy Chairman Retail Banking
Aivar Bodanov	Deputy Chairman Security and Problem Loans
Dauren Karabayev	Deputy Chairman International Activities and Subsidiaries
Aliya Karpykova	Deputy Chairperson Finance, Accounting and Property
Murat Koshenov	Deputy Chairman Corporate Banking
Kuat Kussainbekov	Deputy Chairman IT
Yertai Salimov	Deputy Chairman Operations and Treasury
Zhannat Satubaldina	Deputy Chairperson Interactions with Government and National Companies
Askar Smagulov	Deputy Chairman
Aslan Talpakov	Deputy Chairman SME Banking, Marketing and PR
Total	**11 members**

Activities of the Board of Directors

In general, the Board of Directors and its Committees work in accordance with the plans for respective periods.

In 2015, the Board of Directors held 420 meetings, including four in person and 416 in absentia.

At the meetings in person, the Board of Directors discussed the most important strategic issues, such as:

- The results of the Group's strategy for 2014-15;
- The Group's strategy for 2016-18;
- The results of the Bank's stress-testing based on a general macroeconomic scenario for 2016 (using scenario analysis);
- Major projects at the Bank;
- 2014 financial statements (preliminary approval) and quarterly performance reports of the Management Board;
- Stress-testing the loan portfolio;
- A review of Halyk Bank's compliance with the regulatory requirements regarding risk management systems for second-tier banks (Resolution of the Management Board No. 29 of the National Bank of Kazakhstan, dated 26 February 2014);
- Approaches to tariff policy;
- Analysis of loan portfolio quality;
- Internal audit issues;
- Analysis of related-party and other transactions and others.

Absentee voting was conducted for routine issues that are legally included in the Board of Directors' duties, and most urgent issues that could not wait until the next ordinary meeting in person.

Detailed reports of Committees

General provisions

The Committees of the Board of Directors are consulting and advisory bodies to the Board of Directors. All of their suggestions are recommendations that are made for the Board of Directors' consideration.

Under Kazakh law, Committee members are Board of Directors' members and experts. More detailed information on the composition of the Committees is provided below in the subsections on the activities of the respective Committees.

All Committees act in accordance with their Statutes.

Audit Committee

The Audit Committee was established in July 2005. It consists of three Directors who are elected by a majority of Board of Directors' votes. At least two of them should be independent non-executive directors. The members of the Committee are:

Christof Ruehl – Chairman, Independent non-executive director;

Alexander Pavlov – Member, Independent non-executive director;

Arman Dunaev – Member, Independent non-executive director.

All members of the Committee are independent non-executive directors, who are knowledgeable and experienced in accounting and tax accounting, internal and external auditing, and risk management.

Committee functions

The Committee assists the Board of Directors on issues of the completeness and authenticity of financial reports, compliance of the Bank and its subsidiaries with legal requirements and internal documents (compliance control), selection and independence of the external auditor, adequacy and efficiency of internal control and risk management systems, and coordination of internal audit activities.

Committee activities

In 2015, the Committee held three meetings in person and 41 in absentia.

To ensure the completeness and reliability of financial statements, the Committee considered interim (quarterly) reports of the external auditor and management letters to the Bank and subsidiaries in this respect, and approved and submitted the 2014 annual financial statements for consideration by the Board of Directors. As part of this work, among other things, the Committee discussed principles of important accounting judgments, policies and procedures with the external auditor and the Bank's financial division.

In 2015, internal audits were conducted regarding various business processes and in various divisions of the Bank and its subsidiaries, and the results were reviewed by the Committee. In addition, the Committee regularly reviews reports on implementation of internal audit recommendations by the Management Board and by the Bank's subsidiaries.

The Committee reviewed the report on the self-assessment of the Internal Audit Department's compliance with international best practices in internal audit, as defined by the Institute of Internal Auditors, for 2015.

The Committee also reviewed the report on the effectiveness of the internal control system in place at the Bank and subsidiaries over the first half of 2015.

When considering the work plan for internal audits for the next year and the long-term working plan for 2016-18, the Committee assessed the resources of the Internal Audit Department. The Committee discussed a number of issues with the Internal Audit Director separately from the executive body. In particular, the Committee was satisfied that the Internal Audit Department was granted access to all of the necessary information. The Committee reviewed a report from the Compliance controller on the effectiveness of the compliance risk management system over the first half of 2015.

In 2015, the Committee reviewed quarterly reports on the quality of the loan portfolio from the risk management team.

The Committee also approved numerous methodological regulations for internal audit for further approval by the Board of Directors, the aim being to bring internal documents in line with existing Kazakh legislation.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established in September 2007. It consists of three Directors who are elected by a majority of the Board of Directors' votes. At least two of them should be independent non-executive directors. The members of the Committee are:

Frank Kuijlaars – Chairman, Independent non-executive director;

Alexander Pavlov – Member, Independent non-executive director;

Umut Shayakhmetova – Member, Chairperson of the Management Board

The majority of the Committee is independent non-executive directors, and all Committee members have extensive experience in human resources management, including issues of remunerations.

Committee functions

The Committee makes recommendations to the Board of Directors regarding candidates for the Board of Directors, the Management Board and the boards of directors of the Bank's subsidiaries, on the remunerations system for members of the Board of Directors and the Management Board, and on salaries of the boards of directors and executive bodies of subsidiaries.

Committee activities

In 2015, the Committee held 14 meetings in absentia and none in person.

Recommendations were made to the Board of Directors on the system of compensation for the Chairman of the Board of Directors, members of the Board of Directors and the Management Board, Internal Audit Department and Corporate Secretary, as well as managers of the Bank's subsidiaries.

The Management Board's remuneration for 2015 was KZT1.2 billion.

The Management Board remuneration is based on the following criteria:

- The estimate of a job position, its importance for the Group, and the contribution to the Bank's operating results by Members of the Management Board;
- Remuneration of similar positions on the job market region-wide;
- An evaluation of the working results of the Members of the Management Board, according to which annual bonuses are paid.

The Committee also made recommendations to the Board of Directors regarding the changes to the Management Board in January 2015 (appointment of A. Bodanov), February (appointment of K. Kussainbekov and Y. Salimov) and July (A. Talpakov). The Committee also considered members of the Talent Pool for executive positions for 2015.

Strategic Planning Committee

The Strategic Planning Committee was established in April 2012. It consists of eight Directors who are elected by a majority of the Board of Directors' votes and one expert, a member of the Management Board, who oversees matters regarding the international business and subsidiaries. The members of the Committee are:

Ulf Wokurka – Chairman, Independent non-executive director;

Arman Dunaev – Member, Independent non-executive director;

Alexander Pavlov – Member, Independent non-executive director;

Frank Kuijlaars – Member, Independent non-executive director;

Mazhit Yessenbayev – Member, Director;

Christof Ruehl – Member, Independent non-executive director;

Umut Shayakhmetova – Member, Chairperson of the Management Board;

Dauren Karabayev – member of the Management Board, expert (silent member).

Committee functions

The Committee provides assistance to the Board of Directors in matters regarding Halyk Group's Strategy, analyses strategy implementation reports and monitors the external environment and its impact on the Group's strategic plans.

Committee activities

In 2015, the Committee held five meetings in person.

The Committee reviewed the results of the implementation of Halyk Group's Strategy for 2013-15 in 2014. Analysis showed that the goals set had been achieved satisfactorily. It also reviewed amendments to the Group's Strategy for 2013-15.

In addition, the Committee reviewed the results of the implementation of Halyk Group's Strategy for 2013-15 in the first and the second half of 2015.

The Committee also reviewed the draft development strategy for Halyk Group for 2016-18.

In addition, the Committee analyses changes in the external environment (regulatory, economic, financial, etc.) and assesses their impact on the Group's Strategy.

Social Responsibility Committee

The Social Responsibility Committee was established in April 2012.

The Committee consists of three Directors, who are elected by a majority of the Board of Directors' votes, and two experts, a Management Board member who oversees issues of sponsorship and charity and the head of Marketing and PR. All of the Members, apart from the experts, are independent non-executive directors. The members of the Committee are:

Frank Kuijlaars – Chairman, Independent non-executive director;

Ulf Wokurka – Member, Independent non-executive director;

Christof Ruehl – Member, Independent non-executive director;

Aslan Talpakov – Member, expert (silent member)

Saginbek Shunkeyev – Member, expert (silent member)

Committee functions

The Committee assists the Board of Directors in issues of Bank policy on corporate social responsibility and sustainable development; Bank compliance with legislative requirements regarding corporate social responsibility; potential risks in corporate social responsibility and the minimisation thereof; the preparation and publication of the report on corporate social responsibility; and preliminary consideration of the social expenses budget for the respective period.

Committee activities

In 2015, the Committee held two meetings in person.

The Committee approved plans to optimise corporate social responsibility work in 2016. It also adopted the Bank's draft budget for sponsorship and charity for 2016.

In addition, the Committee reviewed and approved the Bank's report on corporate social responsibility for 2015.

Relations with minority shareholders

The Bank strives to continuously improve its system for dealing with minority shareholders, which allows them to ask questions and receive the necessary information conveniently (in writing and/or by email).

Communications from minority shareholders and their wishes are regularly analysed, after which existing channels are improved or new ones introduced where necessary. The Bank informs shareholders of all substantial news, corporate events, changes to its activities that relate to holders of its shares and bonds and planned events via its website, the websites of stock exchanges and financial reporting sites.

Results of 2015

- The Bank organised and convened the Annual General Shareholders' Meeting on 23 April 2015, at which nine resolutions were passed on issues under consideration, including information about shareholder responses to actions of the Bank and its officials;
- Where necessary, employees of Head Office provide consultations to employees of branches on shareholder relations and to Bank shareholders on queries about accrued dividends, changes in banking details, conveyance of heritage rights and other matters;
- In 2015, the Bank paid dividends on preferred shares and convertible preferred shares to shareholders as of the year-end 2014 totalling KZT2,605 million, or KZT13.44 per preferred share and convertible preferred share;
- The Bank is paying dividends on common shares for 2014 of KZT3.14 per share, or KZT34,261 million in total. As of 1 January 2016, around 6 thousand shareholders had received KZT34,172 million, or 99.7% of the accrued amount;
- As part of the events to mark the 70th anniversary of the end of World War II, the Bank made a one-off payment to shareholders who had served in the war, workers on the front and other similar people of KZT30,000 each, which totalled KZT6.18 million;
- The Bank considered 13 inquiries from shareholders regarding dividend payments, the share buy-back procedure, other issues regarding the Bank's activities, and securities market legislation.

Dividend policy

Shareholders' rights to dividends and the procedure for the payment thereof are stipulated by the Bank's Charter and the Code of Corporate Governance approved by General Shareholder Meetings.

In September 2012, the Board of Directors approved the Dividend Policy of Halyk Bank. The resolution was based on the strategic plans of the Bank for 2013-15 regarding payment of dividends on common shares for a long-term period and the creation of a clear and transparent mechanism for dividend payment, and because of the need for a separate, flexible internal regulatory document.

The main purpose of the Bank's Dividend Policy is to establish a transparent mechanism for dividend payments, considering the following limitations:

- maintaining (retaining) the Bank's international credit ratings;
- the maximum size of dividends on preferred shares;
- growth of the Bank's RWA in the medium term and its corresponding need for capital;
- average sector indicators for the capitalisation of banks in Kazakhstan and in the regions;
- compliance with covenants.

Concerning existing limitations on payments of dividends on common shares (covenants), the Eurobond prospectus states the following:

- not more than 50% of net profits (as determined by audited IFRS statements) for the period for which the payment is made;
- not more frequently than once per calendar year;
- payment of dividends is restricted if the Bank is in default, or if such a payment may lead to a default on the Bank's liabilities.

The documents are available on the Bank's corporate website: www.halykbank.kz.

Shareholders owning common, preferred and convertible preferred shares are entitled to dividends. The frequency of dividend payments and size of the dividend per preferred share are established in the Bank's Charter and Prospectus.

In accordance with the Bank's Charter, dividends on common shares may be paid to shareholders annually from net profits. Decisions on the frequency and the size of dividend payments are made by the General Shareholder Meeting at the suggestion of the Board of Directors.

Dividends paid for previous financial years are as follows:

KZT billion

	2015 (for 2014)	2014 (for 2013)	2013 (for 2012)	2012 (for 2011)	2011 (for 2010)
Per preferred share	2.61	1.80	2.24	5.24	5.49
Per common share	34.26	18.55	12.22	-	-
Total	36.87	20.35	14.46	5.24	5.49

Director awareness and training

New members of the Board of Directors are provided with an introductory package with basic information about the history and current positions of the Bank and Halyk Group, an organisational chart of the Bank, a Director's responsibilities, and the main reports from the consolidated financial statements as of the most recent reporting date.

Members of the Board of Directors are also given information about the main changes in banking law.

The Bank intends to further develop and improve the knowledge and qualifications of members of the Board of Directors.

Risk management and internal control

Roles and responsibilities

For risk management and internal control, functions within the Bank are distributed as follows:

- The Board of Directors carries out strategic governance on internal control and risk management, and approves and periodically revises risk management policies. The working body of the Board of Directors for risk management and internal controls is the Audit Committee.
- The Board of Directors also considers large transactions of the Bank, transactions where the Bank has an interest, and related-party transactions, including with respect to an absence of preferential conditions.
- The Management Board is responsible for the implementation of risk management policies. The Bank has the following key committees that carry out various risk management and control functions: credit committees (Commercial Directorate (Credit Committee of the Head Office), Credit Committee of the Branch Network, Retail Credit Committee, Bad Loans Committee, Committee for Managing Assets and Liabilities (ALCO).
- Structural divisions of the Bank are directly responsible for identifying and assessing inherent risks, the adequacy of controls and business continuity.
- Independent risk management and compliance services are responsible for organising the risk management system, which ensures identification, assessment, control and monitoring of credit, operational, market, compliance and liquidity risks. The risk management and compliance functions are headed by the Chief Risk Officer and the Compliance Controller.
- The Internal Audit Service provides independent and objective guarantees and consultations aimed at improving Halyk Group's performance. It helps to achieve the goals set for the Group using a systematic and consistent approach to assessing and improving the efficiency of risk management, control and corporate governance processes.
- The diagram on page 74 shows the most active bodies and committees of the Bank that participate in risk management and internal control processes.

Three lines of defence' risk management system

Risk management in the Bank is based on the "three lines of defence' system. The first includes the top management and structural divisions, the second – risk management committees/risk management teams and Compliance, and the third – internal audit.

- The first line of defence represents the controls developed to ensure correct day-to-day operations by various business divisions of the Bank. The controls are developed by the business divisions and are an integral part of business processes. Clearly delineated controls help to ensure an adequate level of risk minimisation and compliance with internal regulations, as well as compliance with external regulatory requirements. Management and monitoring of the controls is carried out by the divisions themselves, enabling them to detect risks, weaknesses of business processes and possible unforeseen events, and to react to them in a timely manner.
- The second line of defence is represented by risk management committees, the risk management function and Compliance. The committees and risk management function are responsible for managing risks within the set risk appetite. The main chain loop of the second line of defence is the risk management function. To ensure an adequate level of control, the risk management team determines procedures for assessing risks (credit, financial, operational), and risk monitoring. The risk management team carries out regular independent monitoring of risks, develops control methods for efficient risk management on the first line of defence and, along with the Compliance Division, assists business divisions with regulatory requirements compliance in the respective areas.
- The third line of defence represents the function of independent assurance regarding internal control efficiency. The third line of defence is represented by the internal audit function. It carries out checks of the internal control system based on the audit plan, which is, in turn, based on the risk level inherent in various divisions. The audit plan covers both the first and second lines of defence, ensuring an efficiency assessment of the Bank's overall internal control system.

The Bank acknowledges that it is impossible to totally exclude risks inherent to banking operations. However, the Bank is confident that its risk management system enables them to be minimised significantly.

Code of Conduct

The Bank builds relations with employees and clients according to the principles of law, mutual respect and trust.

In 2013, the Bank approved Rules of Corporate Ethics, which aim to:

1. secure the mission, values, principles and standards of business ethics and behaviour;
2. develop a uniform corporate culture based on high ethical standards, support an atmosphere of trust, mutual respect and decency;
3. increase and maintain trust in the Bank from shareholders, clients, business partners, public authorities, the public and other interested parties; and strengthen its reputation as an open and honest player on the financial market;
4. assist in interacting effectively with stakeholders;
5. prevent violations of the current laws of Kazakhstan by Bank employees.

These rules cover the professional behaviour of officials and employees of the Bank in discharging their duties, and in relationships with each other and shareholders, clients, business partners, public authorities, the public and other interested parties entering into relations with the Bank.

Board of Directors
- Approves policies
- Sets tone "from top to bottom"
- Large transactions
- Related-party transactions

Audit Committee
- Working body of the Board
- General coordination of risk management process

Management
- Implementation of policies
- Work out control mechanisms

Commercial Directorate

Credit Committee of Branches and of the Network

Retail Credit Committees

Bad Loans Committee

CREDIT RISK

Committee for Managing Assets and Liabilities

Credit risk
Liquidity risk
Market risk

Structural Divisions

Operational risk
Compliance risk

Internal Audit
- Independent assurance of efficiency of risk management, internal control and corporate governance systems

Risk Management Service/ Compliance Division
- Organisation of risk management system (credit, market, liquidity, operational, compliance)
- Ensuring identification, assessment and control over risks
- Development of policies and tools for detecting and control over risks
- Independent assessment of risks and existing controls, work out necessary recommendations
- Calculation and monitoring of limits
- Ensuring compliance with regulatory requirements

Bank executives seek to set a personal example of commitment to the Bank. They allocate time to create a talent pool for the Bank, consult and coach, and gather into the team employees united by a common mission, values and principles.

Every employee is obliged to maintain the image and business reputation of the Bank at a high level.

Internal audit

To ensure the independence and objectivity of the internal audit, the Internal Audit Department functionally reports to the Board of Directors. Working interaction with the Directors is carried out via the Audit Committee and directly. The department has 47 employees and conducts audit checks on Bank subdivisions, business processes, IT systems and subsidiaries.

Selection of subjects for an audit plan is made in accordance with international standards and the requirements of the Kazakh regulator based on risk assessment. The work plan of the Internal Audit Department is considered by the Audit Committee and approved by the Board of Directors. Where necessary, unscheduled audits may be undertaken.

The Internal Audit Department performs audits and consultations. During audits, an assessment is made of the efficiency of internal control, risk management and corporate governance systems. The results of audits and consultations are presented to the Management Board, Audit Committee and Board of Directors.

In addition, for each audit task, the Department makes recommendations on eliminating issues, which the Bank takes into account when undertaking appropriate measures. The Internal Audit Department periodically reports to the Audit Committee and the Board of Directors about the implementation of action plans.

The Internal Audit Department also presents other reports to the Audit Committee and the Board of Directors as required by the regulator and international standards.

The Department conducts an annual self-appraisal in accordance with the International Internal Audit Standards developed by the Institute of Internal Auditors and periodically undergoes an external evaluation of compliance with them.

Nomination and contracting of Directors (general information on procedures)

When nominated, Directors are subject to approval by the Kazakh regulator in accordance with the Rules for Granting Assent to the Appointment (Election) of Managing Persons of Financial Institutions and Bank and Insurance Holdings.

Contracts are concluded with Directors in accordance with the Bank's Policy on Management Personnel Remunerations and Reimbursements and Creating an Annual Performance Results Bonus Awards Reserve.

Decisions on payments and individual amounts of Directors' remunerations (apart from the Chairman and the Chairperson of the Management Board) are made by the Chairman based on recommendations of the Board of Directors' Nomination and Remuneration Committee.

Contracts with Directors, setting individual amounts, the frequency and the conditions for payment of remunerations and withholding of respective taxes in accordance with Kazakh law, (apart from that of the Chairperson of the Management Board) are concluded by the Chairperson of the Management Board on behalf of the Bank.

Insurance of fiduciary liability

The Board of Directors and the Management Board understand the risks arising from incorrect or mistaken management decisions or actions.

To safeguard shareholders from potential damage from such events, the Bank insures the liability of its Directors and officials.

The key areas for improving corporate governance at the Bank

Acknowledging the need to further develop and streamline corporate governance, the Group has identified key areas for improvement over 2016-20:

Expand the rights and responsibilities of the corporate secretary:

- Develop the institution of corporate secretaries within Halyk Group in a high-quality way by reviewing their roles in the organisation and encouraging them to seek additional qualifications;
- Create an integrated corporate secretarial function for all companies within Halyk Group;

Introduce international best practices in corporate governance to ensure the effective functioning of the Board of Directors:

- Automate the corporate governance process in the Bank using the latest IT solutions;
- Create a register of independent Directors at Halyk Group;
- Maintain a corporate governance section on the Bank's corporate website

Additional actions to develop corporate governance at the Bank:

- Develop the institution of corporate social responsibility in the Group;
- Conduct periodic appraisals of the effectiveness of the Bank's dividend policy;
- Develop the practice of insuring Directors against fiduciary liability.

OUTLOOK

Halyk Bank and its subsidiaries ("Halyk Group") is a rapidly expanding universal financial services group and a key player in all financial market segments. In recent years, the Group has achieved a great deal as part of the corporate development strategy for 2013-15, has considerably strengthened its financial position, and has become more IT- and customer-oriented, creating the foundations for stable long-term growth.

The Group enters a new stage of development with sufficient financial strength, a solid financial, resource and IT base, qualified personnel and a proven management team.

While new challenges pose significant risks for the Group, they also create considerable opportunities. These risks and opportunities informed the development strategy for 2016-18, which is a strategy for transforming the Group qualitatively, from passive expectations to a pro-active client approach.

The Group's new vision is reflected in the following slogans:

"Halyk Bank is the number one choice for customers in Kazakhstan", which incorporates four strategic priorities:

Customer convenience

- Convenient customer-oriented solutions and services
- Prompt and attentive service
- Fair and transparent prices
- Convenient communication channels with the Bank

Strong team spirit

- Attentive, engaged and qualified employees
- Entrepreneurial spirit
- "Convenience, responsiveness and efficiency" as a part of the corporate DNA
- Employer of choice among banks

Operational efficiency

- Efficient and transparent processes and high-quality solutions
- Economic efficiency

Social responsibility

- Reliable: the number one choice among banking customers in Kazakhstan and a strong partner abroad
- Active role in society

"Subsidiaries – leading players in their markets", meaning:

- Maintaining leading positions in all of the Group's segments
- Maximising profits
- Expanding the Group's geographic reach
- Offering more products in Kazakhstan
- Devising ways of unifying the Group's sales network
- Monitoring investment returns and minimising losses
- Making cross-selling more effective within the Group
- Maximising synergies

To achieve these objectives, the Group will need to streamline the existing business model further, eliminate any key gaps in business lines, and define concrete Approaches for and the order of implementing measures in 2016-18.

The Bank remains the driver of the Group's business. It is the leader in the sector in terms of net income, total equity, volume of retail current accounts, number of payment cards, portfolio of guarantees and payroll programmes. ■

INTRODUCTION OF NEW SYSTEMS AND PROCESSES

Implementing the new strategy will require a change in corporate culture and new systems and processes:

The Bank knows its clients - New systems allow client information to be analysed, segmented and targeted in the right way

The Bank is developing its own IT systems for the convenience of customers and employees - Advanced IT systems allow external and internal processes to be optimised and enhance work quality for customers and employees

The Bank is a united team - Most important is customer satisfaction: all functions are united by the goal of serving clients as promptly and effectively as possible

Employees at all levels are driven by the desire to succeed - The Bank's incentive system aims to achieve the maximum results, decentralise decision making and increase individual responsibility

Through this strategy, the Bank expects to:

- *Be the leader in terms of convenience and responsiveness for customers by having the best network, remote channels and streamlined processes*
- *Understand the needs of different customers and offer targeted solutions based on these*
- *Be the number one bank of choice in Kazakhstan*

Given that fulfilling the Bank's strategic objectives is key to the overall Group's success, to identify the main areas for development, the Bank has appointed a leading international management and strategic consultancy. It has prepared clear recommendations regarding the steps that the Bank needs to streamline the existing business model, eliminate any key gaps in business lines, and define concrete approaches and subsequent work for implementing measures in 2016-18

In addition, given the number of IT issues to be resolved to implement the strategy, the Bank has appointed a leading international IT consultancy, to devise additional recommendations.

BUSINESS OBJECTIVES

Business objectives are divided into the following groups:

- **Customers and customer information.** Improve the collection and processing of information about customers, which will help to offer products and services in a more focused way, based on their current and potential needs.
- **Proactive sales.** Boost sales of products and services to individual clients by increasing the number of products and services offered to each client, making existing sales channels more effective and launching new ones.
- **Improved pricing.** Conduct a comprehensive review and update pricing methods and introduce packages of products and services.
- **Products.** New products will be introduced for retail clients while new digital solutions will be devised for corporate clients and SMEs. The emphasis will be on promoting key strategic products, taking part in government and social programmes, developing multi-channel service and moving most transactions to remote service channels.
- **Processes.** The main aim will be to automate and improve the system for collecting, storing and processing client information and streamlining the lending process.
- **Personnel:**
  - Introduce a new incentive system that takes into account the contribution of each employee to achieving the overall objectives
  - Train employees
  - Devise a system for career progression

By pursuing these objectives and with the support of customers, partners and shareholders, the Group is confident that it can fulfil the goals set, demonstrate its abilities and re-confirm its reputation as one of the leaders in Kazakhstan's financial sector. ■


ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА
CONSOLIDATED FINANCIAL
STATEMENTS AND
INDEPENDENT AUDITOR'S
REPORT FOR THE YEARS
ENDED 31 DECEMBER 2015,
2014 AND 2013

RESPONSIBILITY STATEMENT

We herewith confirm that, to the best of our knowledge:

- the consolidated financial statements in this annual report are prepared in accordance with International Financial Reporting Standards and give a true and fair view of the financial position, results, cash flow and changes in equity of Halyk Bank and its subsidiaries; and
- the annual report includes a fair review of the development and performance of the financial position of Halyk Bank and its subsidiaries included in the consolidated financial statements and taken as a whole and the principal risks and uncertainties that Halyk Bank faces.

Umut Shayakhmetova
Chairperson of the Management Board

Audited Consolidated Financial Statements for 2015 (Including Independent Auditors' Report) and Notes to Them

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of JSC Halyk Bank ("the Bank") and its subsidiaries (collectively – "the Group") as at 31 December 2015, 2014 and 2013, and the results of its operations, cash flows and changes in equity for the years then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining accounting records in compliance with the Republic of Kazakhstan legislation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the years ended 31 December 2015, 2014 and 2013 were approved by the Management Board on 10 March 2016.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
10 March 2016
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
10 March 2016
Almaty, Kazakhstan

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of JSC Halyk Bank:

We have audited the accompanying consolidated financial statements of JSC Halyk Bank and its subsidiaries (collectively – "the Group"), which comprise the consolidated statements of financial position as at 31 December 2015, 2014 and 2013, and the consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Halyk Bank and its subsidiaries as at 31 December 2015, 2014 and 2013, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 5 to the financial statements for the years ended 31 December 2015, 2014 and 2013, which describes the restatement of corresponding figures in the consolidated statement of cash flows for the year ended 31 December 2014. Our audit opinion is not qualified in that respect.

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

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

10 March 2016
Almaty, Kazakhstan

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2015, 2014 AND 2013
(Millions of Kazakhstani Tenge)

	Notes	*31 December 2015*	*31 December 2014*	*31 December 2013*
ASSETS				
Cash and cash equivalents	7	1,404,680	540,537	486,313
Obligatory reserves	8	68,389	48,225	44,276
Financial assets at fair value through profit or loss	9	177,070	15,727	1,334
Amounts due from credit institutions	10	44,993	27,095	25,808
Available-for-sale investment securities	11	378,520	386,423	350,552
Precious metals		2,436	1,385	16,857
Loans to customers	12, 39	2,176,069	1,648,013	1,482,245
Investment property	13	24,658	5,684	906
Commercial property	14	9,632	-	-
Property and equipment	15	82,462	79,564	63,614
Assets held for sale	17	11,405	8,798	2,912
Goodwill	6	4,954	4,954	3,085
Intangible assets	16	8,659	8,664	5,617
Current income tax assets	24	16,469	530	1,344
Deferred income tax assets	24	1,919	447	301
Insurance assets	18	23,857	20,320	13,379
Other assets	19	18,766	13,416	7,871
TOTAL ASSETS		4,454,938	2,809,782	2,506,414
LIABILITIES AND EQUITY				
LIABILITIES				
Amounts due to customers	20, 39	3,043,731	1,848,213	1,766,648
Amounts due to credit institutions	21	168,258	107,192	107,395
Financial liabilities at fair value through profit or loss	9	5,593	3,131	69
Debt securities issued	22	597,525	311,009	189,515
Provisions	23	982	407	4,163
Current income tax liability	24	379	2,444	2,257
Deferred tax liability	24	37,362	10,673	4,520

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2015, 2014 AND 2013
(Millions of Kazakhstani Tenge) (*continued*)

	Notes	*31 December 2015*	*31 December 2014*	*31 December 2013*
Insurance liabilities	18	50,983	38,807	29,715
Other liabilities	25	20,197	12,685	9,953
Total liabilities		3,925,010	2,334,561	2,114,235
EQUITY				
Share capital	26	143,695	143,695	143,695
Share premium reserve		2,039	1,439	1,415
Treasury shares		(103,175)	(78,994)	(77,534)
Retained earnings and other reserves		487,369	409,081	323,670
		529,928	475,221	391,246
Non-controlling interest		-	-	933
Total equity		529,928	475,221	392,179
TOTAL LIABILITIES AND EQUITY		4,454,938	2,809,782	2,506,414

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
10 March 2016
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
10 March 2016
Almaty, Kazakhstan

The notes on pages 99 to 208 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013
(Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	28, 39	254,856	210,593	182,563
Interest expense	28, 39	(104,552)	(77,458)	(75,932)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	28	150,304	133,135	106,631
Impairment charge	23	(12,117)	(7,387)	(26,021)
NET INTEREST INCOME		138,187	125,748	80,610
Fee and commission income	29	53,308	58,638	51,406
Fee and commission expense	29	(10,837)	(8,559)	(7,139)
Fees and commissions, net		42,471	50,079	44,267
Net gain on financial assets and liabilities at fair value through profit or loss	30	192,324	7,842	261
Net realized (loss)/gain from available-for-sale investment securities		(252)	(230)	1,884
Net foreign exchange (loss)/gain	31	(161,022)	7,086	9,261
Insurance underwriting income	32	25,574	20,678	19,411
Other income		9,037	5,366	1,780
OTHER NON-INTEREST INCOME		65,661	40,742	32,597
Operating expenses	33	(70,805)	(62,410)	(54,820)
Impairment loss of assets held for sale	17	-	(102)	-
(Provisions)/recoveries of provisions	23	(359)	4,036	210
Insurance claims incurred, net of reinsurance	18, 32	(22,793)	(16,195)	(13,933)
NON-INTEREST EXPENSES		(93,957)	(74,671)	(68,543)

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013 (Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge) (*continued*)

	Notes	***Year ended 31 December 2015***	***Year ended 31 December 2014***	***Year ended 31 December 2013***
INCOME BEFORE INCOME TAX EXPENSE		152,362	141,898	88,931
Income tax expense	24	(32,050)	(27,521)	(16,522)
NET INCOME		120,312	114,377	72,409
Attributable to:				
Common shareholders		118,913	112,406	70,903
Preferred shareholders		1,399	1,971	1,234
Non-controlling interest		-	-	272
		120,312	114,377	72,409
Basic earnings per share (in Kazakhstani Tenge)	34	10.79	10.32	6.41
Diluted earnings per share (in Kazakhstani Tenge)	34	10.29	9.40	5.50

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
10 March 2016
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
10 March 2016
Almaty, Kazakhstan

The notes on pages 99 to 208 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013 (Millions of Kazakhstani Tenge)

	Year ended 31 December 2015	***Year ended 31 December 2014***	***Year ended 31 December 2013***
Net income	120,312	114,377	72,409
Other comprehensive income/(loss), net of tax			
Items that will not be subsequently reclassified to profit or loss:			
Gain/(loss) resulting on revaluation of property and equipment (2015, 2014, 2013 – net of tax – KZT Nil, KZT 1,168 million, KZT 127 million)	56	4,170	(518)
Items that may be subsequently reclassified to profit or loss:			
Loss on revaluation of available-for-sale investment securities (2015, 2014, 2013 – net of tax –KZT Nil)	(14,535)	(12,125)	(7,037)
Difference between carrying amount and fair value of investments held-to-maturity at the reclassification date (2013 – net of tax KZT 443 million)	-	-	1,744
Reclassification adjustment relating to available-for-sale investment securities disposed of in the year (2015, 2014, 2013 – net of tax – KZT Nil)	252	230	(1,884)
Reclassification adjustment relating to available-for-sale investment securities impaired during the year (2015, 2014, 2013 – net of tax – KZT Nil)	4,171	813	41
Exchange differences on translating foreign operations (2015, 2014, 2013 – net of tax – KZT Nil)	5,540	(1,447)	(520)
Other comprehensive loss for the year	(4,516)	(8,359)	(8,174)
Total comprehensive income for the year	115,796	106,018	64,235
Attributable to:			
Non-controlling interest	-	-	263
Preferred shareholders	1,347	1,599	1,094
Common shareholders	114,449	104,419	62,878
	115,796	106,018	64,235

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
10 March 2016
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
10 March 2016
Almaty, Kazakhstan

The notes on pages 99 to 208 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013 (Millions of Kazakhstani Tenge)

	Share capital			***Share premium reserve***	***Treasury Shares***		***Cumulative translation reserve****	***Revaluation reserve of available-for-sale investment securities****	***Property revaluation reserve****	***Retained earnings****	***Total equity***
	Common Shares	***Non-convertible preferred shares***	***Convertible preferred shares***		***Common shares***	***Preferred shares***					
31 December 2014	83,571	46,891	13,233	1,439	(39,973)	(39,021)	(845)	(9,292)	17,341	401,877	475,221
Net income	-	-	-	-	-	-	-	-	-	120,312	120,312
Other comprehensive loss/(income)	-	-	-	-	-	-	5,540	(10,112)	46	10	(4,516)
Total comprehensive (loss)/income	-	-	-	-	-	-	5,540	(10,112)	46	120,322	115,796
Treasury shares purchased	-	-	-	(319)	(9)	(24,180)	-	-	-	-	(24,508)
Treasury shares sold	-	-	-	919	8	-	-	-	-	(708)	219
Dividends – preferred shares	-	-	-	-	-	-	-	- -	-	(2,543)	(2,543)
Dividends – common shares	-	-	-	-	-	-	-	- -	-	(34,257)	(34,257)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(971)	971	-
31 December 2015	83,571	46,891	13,233	2,039	(39,974)	(63,201)	4,695	(19,404)	16,416	485,662	529,928

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 and 2013 (Millions of Kazakhstani Tenge) *(continued)*

	Share capital			*Share premium reserve*	*Treasury Shares*		*Cumulative translation reserve**	*Revaluation reserve of available-for-sale investment securities**	*Property revaluation reserve**	*Retained earnings**	*Total*	*Non-controlling interest*	*Total Equity*
	Common shares	*Non-convertible preferred shares*	*Convertible preferred shares*		*Common shares*	*Preferred shares*							
31 December 2013	83,571	46,891	13,233	1,415	(39,974)	(37,560)	602	1,790	13,808	307,470	391,246	933	392,179
Net income	-	-	-	-	-	-	-	-	-	114,377	114,377	-	114,377
Other comprehensive loss/ (income)	-	-	-	-	-	-	(1,447)	(11,082)	4,170	-	(8,359)	-	(8,359)
Total comprehensive (loss)/ income	-	-	-	-	-	-	(1,447)	(11,082)	4,170	114,377	106,018	-	106,018
Treasury shares purchased	-	-	-	(273)	(7)	(1,461)	-	-	-	-	(1,741)	-	(1,741)
Treasury shares sold	-	-	-	297	8	-	-	-	-	-	305	-	305
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(1,757)	(1,757)	-	(1,757)
Dividends – common shares	-	-	-	-	-	-	-	-	-	(18,547)	(18,547)	-	(18,547)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(530)	(530)
Decrease in non-controlling interest due to buy-back of JSC Accumulated Pension Fund of Halyk Bank of Kazakhstan shares	-	-	-	-	-	-	-	-	-	-	-	(403)	(403)
Loss from buy-back of JSC Accumulated Pension Fund of Halyk Bank of Kazakhstan shares	-	-	-	-	-	-	-	-	-	(303)	(303)	-	(303)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(637)	637	-	-	-
31 December 2014	83,571	46,891	13,233	1,439	(39,973)	(39,021)	(845)	(9,292)	17,341	401,877	475,221	-	475,221

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 and 2013 (Millions of Kazakhstani Tenge) (*continued*)

	Share capital – Common shares	*Share capital – Non-convertible preferred shares*	*Share capital – Convertible preferred shares*	*Share premium reserve*	*Treasury shares – Common shares*	*Treasury shares – Preferred shares*	*Cumulative translation reserve**	*Revaluation reserve of available-for-sale investment securities**	*Property revaluation reserve**	*Retained earnings**	*Total*	*Non-controlling interest*	*Total Equity*
31 December 2012	83,571	46,891	13,233	1,496	(39,974)	(41,054)	1,122	8,926	14,754	249,033	337,998	1,641	339,639
Net income	-	-	-	-	-	-	-	-	-	72,137	72,137	272	72,409
Other comprehensive loss	-	-	-	-	-	-	(520)	(7,136)	(509)	-	(8,165)	(9)	(8,174)
Total comprehensive (loss)/ income	-	-	-	-	-	-	(520)	(7,136)	(509)	72,137	63,972	263	64,235
Treasury shares purchased	-	-	-	(423)	(11)	-	-	-	-	-	(434)	-	(434)
Treasury shares sold	-	-	-	342	11	3,494	-	-	-	-	3,847	-	3,847
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(2,197)	(2,197)	-	(2,197)
Dividends – common shares	-	-	-	-	-	-	-	-	-	(12,215)	(12,215)		(12,215)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(971)	(971)
Difference on exit from subsidiary	-	-	-	-	-	-	-	-	-	275	275	-	275
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(437)	437	-	-	-
31 December 2013	83,571	46,891	13,233	1,415	(39,974)	(37,560)	602	1,790	13,808	307,470	391,246	933	392,179

** These amounts are included within Retained earnings and other reserves in the consolidated statement of financial position.*

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
10 March 2016
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
10 March 2016
Almaty, Kazakhstan

The notes on pages 99 to 208 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 and 2013
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2015	Restated Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES:				
Interest received from financial assets at fair value through profit or loss		109	55	36
Interest received from cash equivalents and amounts due from credit institutions		5,972	5,426	3,686
Interest received on available-for-sale investment securities		23,378	18,862	16,320
Interest received on investments held to maturity		-	-	2,464
Interest received from loans to customers		199,298	179,127	140,159
Interest paid on amounts due to customers		(63,712)	(62,332)	(54,190)
Interest paid on amounts due to credit institutions		(5,081)	(2,284)	(865)
Interest paid on debt securities issued		(26,113)	(15,377)	(22,280)
Fee and commission received		53,280	59,822	52,331
Fee and commission paid		(10,837)	(8,559)	(7,139)
Insurance underwriting income received		21,636	16,369	32,500
Ceded reinsurance share paid		(2,439)	(2,996)	(15,066)
Receipts from financial derivatives		39,122	6,383	161
Other income received		8,595	3,385	8,550
Operating expenses paid		(62,789)	(65,766)	(49,004)
Insurance claims paid		(8,834)	(9,745)	(8,706)
Reimbursement of losses received from reinsurers		-	-	459
Cash flows from operating activities before changes in net operating assets		171,585	122,370	99,416
Changes in operating assets and liabilities:				
(Increase)/decrease in operating assets:				
Obligatory reserves		(20,164)	(3,949)	4,761
Financial assets at fair value through profit or loss		(7,589)	(16,866)	(96)
Amounts due from credit institutions		(7,481)	(344)	7,123
Precious metals		(483)	16,203	(17,488)
Loans to customers		(216,366)	7,273	(154,410)
Assets held for sale		(2,607)	(6,083)	4,522
Insurance assets		(245)	(4,909)	2,258

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 and 2013
(Millions of Kazakhstani Tenge) (*continued*)

	Notes	Year ended 31 December 2015	Restated Year ended 31 December 2014	Year ended 31 December 2013
Other assets		7,401	(407)	(170)
Increase/(decrease) in operating liabilities:				
Amounts due to customers		287,505	(181,428)	54,108
Amounts due to credit institutions		50,928	(8,392)	91,584
Financial liabilities at fair value through profit or loss		10,923	3,060	(378)
Insurance liabilities		1,832	7,915	93
Other liabilities		4,307	2,903	(1,017)
Cash inflow/(outflow) from operating activities before income tax		279,546	(62,654)	90,306
Income tax paid		(25,222)	(22,586)	(20,016)
Net cash inflow/(outflow) from operating activities		254,324	(85,240)	70,290
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from purchase of subsidiary	6	901	66,450	-
Purchase and prepayments for property and equipment and intangible assets		(17,131)	(13,628)	(6,269)
Proceeds on sale of property and equipment		4,438	4,292	290
Proceeds on sale of available-for-sale investment securities		175,365	139,125	122,240
Purchase of available-for-sale investment securities		(76,157)	(153,026)	(125,356)
Proceeds from maturity of investments held to maturity		-	-	2,599
Proceeds from sale of investments held to maturity		-	-	10,541
Purchase of investments held to maturity		-	-	(1,609)
Net cash inflow/(outflow) from investing activities		87,416	43,213	2,436
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds on sale of treasury shares		927	305	3,847
Purchase of treasury shares		(24,508)	(1,741)	(434)
Dividends paid – preferred shares		(2,543)	(1,757)	(2,197)

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 and 2013
(Millions of Kazakhstani Tenge) (*continued*)

	Notes	Year ended 31 December 2015	Restated Year ended 31 December 2014	Year ended 31 December 2013
Dividends paid – common shares		(34,257)	(18,547)	(12,215)
Dividends paid – subsidiaries		-	(530)	(971)
Buy-back of JSC Accumulated Pension Fund of Halyk Bank shares		(708)	(706)	-
Proceeds on debt securities issued		115,852	89,602	-
Redemption and repayment of debt securities issued		(7,627)	(4,075)	(116,136)
Net cash inflow/(outflow) from financing activities		47,136	62,551	(128,106)
Effect of changes in foreign exchange rate on cash and cash equivalents		475,267	33,700	8,194
Net change in cash and cash equivalents		864,143	54,224	(47,186)
CASH AND CASH EQUIVALENTS, beginning of the year	7	540,537	486,313	533,499
CASH AND CASH EQUIVALENTS, end of the year	7	1,404,680	540,537	486,313

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
10 March 2016
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
10 March 2016
Almaty, Kazakhstan

TheThe notes on pages 99 to 208 form an integral part of these consolidated financial statements.

1. PRINCIPAL ACTIVITIES

JSC Halyk Bank ("the Bank") and its subsidiaries (collectively, "the Group") provide retail and corporate banking services principally in Kazakhstan, Russia, Kyrgyzstan and Georgia, leasing services in Kazakhstan and Russia, as well as asset management, insurance and brokerage services in Kazakhstan. The primary state registration of the Bank with the authorities of justice of Kazakhstan was made on 20 January 1994. The Bank operates under the license No. 10 for carrying out of banking and other operations and activities on the securities market, renewed by the National Bank of the Republic of Kazakhstan ("NBRK") on 6 August 2008. The Bank is a member of the obligatory deposit insurance system provided by JSC Kazakhstan Deposit Insurance Fund.

The Bank's primary business includes originating loans and guarantees, collecting deposits, trading in securities and foreign currencies, executing transfers, cash and payment card operations as well as rendering other banking services to its customers. In addition, the Bank acts as a non-exclusive agent of the Government of the Republic of Kazakhstan in channelling various budgetary payments and pensions through its nationwide branch network.

Trust activities

In the normal course of its business, the Group enters into agreements with customers to manage the customers' assets with limited decision making rights and in accordance with specific criteria established by the customers. The Group may only be liable for losses or actions aimed at appropriation of the customers' funds if such funds or securities are not returned to the customer. The maximum potential financial risk of the Group on any date is equal to the volume of the customers' funds, net of any unrealized income/loss on the customer's position. The balance of the customers' funds under the management of the Group, as at 31 December 2015 is KZT Nil (31 December 2014 – KZT Nil; 31 December 2013 – KZT 1,234 billion).

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Operating environment

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

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014, 2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to significant decrease in national export revenue. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on free floating tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016 tenge depreciated significantly against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

The Bank has a primary listing with Kazakhstan Stock Exchange ("KASE"). In addition, the Bank's Eurobonds issued are primarily listed on the Luxembourg and London Stock Exchanges. The Bank also allocated Global Depository Receipts ("GDRs") on the London Stock Exchange.

On 28 April 2014, the Bank repurchased 6,232,399 of its own preferred shares from Samruk-Kazyna at KZT 200.28 per share for KZT 1,248 million. As a result, the Group recorded KZT 42,515 million as a cost of acquired treasury (see Note 26). After the repurchase, Samruk-Kazyna continues owning 100 of the Bank's preferred shares.

The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2015, 2014 and 2013, the Group was owned by the following shareholders, which own individually more than 5% of the issued shares of the Group:

	31 December 2015					
	Total shares	***Stake in total shares in circulation***	***Common shares***	***Stake in common shares in circulation***	***Convertible and non-convertible preferred shares***	***Stake in convertible and non-convertible preferred shares in circulation***
JSC HG Almex	8,024,149,068	73.4%	8,003,381,500	73.4%	20,767,568	99.8%
JSC Single Accumulated Pension Fund*	716,281,746	6.6%	716,281,746	6.5%	-	-
GDR	1,840,058,240	16.8%	1,840,058,240	16.9%	-	-
Other	349,774,984	3.2%	349,729,065	3.2%	45,919	0.2%
Total shares in circulation (on consolidated basis)	**10,930,264,038**	**100%**	**10,909,450,551**	**100%**	**20,813,487**	**100%**

	31 December 2014					
	Total shares	***Stake in total shares in circulation***	***Common shares***	***Stake in common shares in circulation***	***Convertible and non-convertible preferred shares***	***Stake in convertible and non-convertible preferred shares in circulation***
JSC HG Almex	8,024,149,068	72.3%	8,003,381,500	73.4%	20,767,568	11.0%
JSC Single Accumulated Pension Fund*	869,738,261	7.8%	710,233,299	6.5%	159,504,962	84.3%
GDR	1,848,929,480	16.7%	1,848,929,480	16.9%	-	0.0%
Other	356,244,249	3.2%	347,354,434	3.2%	8,889,815	4.7%
Total shares in circulation (on consolidated basis)	**11,099,061,058**	**100%**	**10,909,898,713**	**100%**	**189,162,345**	**100%**

	31 December 2013					
	Total shares	***Stake in total shares in circulation***	***Common shares***	***Stake in common shares in circulation***	***Convertible and non-convertible preferred shares***	***Stake in convertible and non-convertible preferred shares in circulation***
JSC HG Almex	8,024,149,068	72.3%	8,003,381,500	73.4%	20,767,568	10.6%
JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan **	758,082,743	6.8%	661,367,710	6.1%	96,715,033	49.5%
GDR	2,093,909,040	18.9%	2,093,909,040	19.2%	-	-
Other	228,090,752	2.0%	150,042,269	1.3%	78,048,483	39.9%
Total shares in circulation (on consolidated basis)	**11,104,231,603**	**100%**	**10,908,700,519**	**100%**	**195,531,084**	**100%**

* *The transfer of all pension assets under management of the private accumulative pension funds to the JSC Single Accumulated Pension Fund (hereinafter – SAPF) was conducted in accordance with the schedule and order approved by the Decree of the Chairman of the National Bank of the Republic of Kazakhstan No. 356 dated 24 September 2013. As a result, as at 31 December 2015 and 2014 SAPF held 6.6% and 7.8%, respectively, of the Bank's shares outstanding on behalf of its clients.*

** *Common and preferred shares owned by JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan are not eliminated as those shares were purchased on clients' funds and are owned by the clients.*

As at 31 December 2015, the Bank operated through its head office in Almaty and its 22 regional branches, 122 sub-regional offices sand 377 cash settlement units (31 December 2014 – 22, 122, 393, respectively, 31 December 2013 – 22, 122, 400, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 109 V Abai Avenue, Almaty, 050008, Republic of Kazakhstan.

- As at 31 December 2015, the number of the Group's full-time equivalent employees was 11,827 (31 December 2014 – 11,477, 31 December 2013 - 11,198).
- The consolidated financial statements of the Group for the years ended 31 December 2015, 2014, and 2013 were authorised for issue by the Management Board on 10 March 2016.

2. BASIS OF PRESENTATION

Statement of compliance

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

These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and certain property and equipment which are carried at revalued cost less depreciation and impairment as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the date of consolidated statement of financial position (current) and more than 12 months after the date of consolidated statement of financial position (non-current) is presented in Note 35.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is KZT. The presentation currency of the consolidated financial statements is KZT.

Consolidated subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiaries	Holding, %			Country	Industry
	31 December 2015	31 December 2014	31 December 2013		
Halyk-Leasing JSC	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.*	N/A	N/A	100	Netherlands	Issue and placement of Eurobonds, attracting of syndicated loans
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	Banking
Halyk Finance JSC	100	100	100	Kazakhstan	Broker and dealer activities
LLC Halyk Collection	100	100	100	Kazakhstan	Cash collection services
JSC Halyk-Life	100	100	100	Kazakhstan	Life insurance
Kazakhinstrakh JSC	100	100	100	Kazakhstan	Insurance
JSC APF of Halyk Bank of Kazakhstan ("APF")**	N/A	100	96	Kazakhstan	Pension assets accumulation and management
OJSC NBK-Bank	100	100	100	Russia	Banking
JSC Halyk Bank Georgia	100	100	100	Georgia	Banking
LLC Halyk Project	100	100	100	Kazakhstan	Management of doubtful and loss assets
JSC Altyn Bank (SB of JSC Halyk Bank) (JSC "Altyn Bank")***	100	100	N/A	Kazakhstan	Banking

** On 30 September 2014 the Board of Directors of the Bank made a decision on voluntary liquidation of HSBK (Europe) B.V. in Netherlands, the subsidiary of the Bank. On 23 December 2014, HSBK (Europe) B.V. was removed from the register of the Chamber of Commerce of Netherlands.*
*** During the third quarter 2014 APF performed the buy-back of its shares. Holding percentage of the Bank in APF changed accordingly in 2014. In 2015, APF was liquidated in accordance with the Decision of Board of Directors #353 dated 20 November 2015.*
**** On 28 November 2014 the Integrated Securities Registrar registered the purchase and sale transaction of ordinary shares of Subsidiary Bank JSC "HSBC Bank Kazakhstan" (hereinafter – "Subsidiary bank") between the Bank and HSBC Bank Plc. As a result, the Bank acquired 100% of the outstanding 70,500 common shares of Subsidiary Bank. State registration was made on 27 November 2014 as JSC Altyn Bank.*

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interest

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amounts by which the non-controlling interests are adjusted is recognised directly in equity.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by the applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement", when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interest that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in another IFRS.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reverse repo agreements with original maturities within three months. For purposes of determining cash flows, the obligatory reserve required by the National Banks of Kazakhstan, Kyrgyzstan, Georgia and Central Bank of Russian Federation is not included as a cash and cash equivalent due to restrictions on its availability.

Obligatory reserves

Obligatory reserves represent funds in correspondent accounts with the National Banks of Kazakhstan, Kyrgyzstan, Georgia and Central Bank of Russian Federation and cash which are not available to finance the Group's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on foreign exchange operations.

Amounts due from credit institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets depending on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities are classified as at fair value through profit or loss where the financial asset or financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or financial liability other than a financial asset or financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset or financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in "Net gain from financial assets and liabilities at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Loans and receivables are included within loans to customers, amounts due from credit institutions and other assets in the consolidated statement of financial position.

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts and premiums are recognized in interest income over the period to maturity using the effective interest method.

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or investments held to maturity, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition available-for sale investment securities are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognized in the consolidated income statement. Dividends declared are included in "Other income" in the consolidated income statement.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the reporting date.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be classified out of the fair value through profit or loss category in the following circumstances:
- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When the financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Effective from 1 July 2009, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the "Held for trading" category and into the "Available-for-sale", "Loans and receivables", or "Held to maturity" categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the "Available-for-sale" category and into the "Loans and receivables" category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Repurchase and reverse repurchase agreements and securities lending

The Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management.

Repos are treated as secured financing transactions. Securities sold under repos are retained in the consolidated statement of financial position and, in case the transferee has the right, by contract or custom, to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers.

Securities purchased under reverse repos are recorded as amounts due from credit institutions, loans to customers or cash and cash equivalents as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within "Net gain from financial assets and liabilities at fair value through profit and loss" in the consolidated income statement. The obligation to return securities borrowed is recorded at fair value as a trading liability.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in Kazakhstan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in "Net gain from financial assets and liabilities at fair value through profit or loss" in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. Additionally, derivative instruments expose the Group to counterparty non-performance risk. Certain instruments also pose liquidity risk due to absence of net-settlement provisions between counterparties.

Forwards

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating interest rate in return for paying or receiving, respectively, a fixed interest rate. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. The Group's currency swaps are mostly gross-settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market, credit, and liquidity risks (see also Note 35).

Amounts due to customers and credit institutions

Amounts due to customers and credit institutions are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated income statement.

Debt securities issued

Debt securities issued represent bonds issued by the Group, which are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the impairment loss is recognized in the consolidated income statement.

The factors the Group evaluates in determining the presence of objective evidence of an occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

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

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will probably be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets are written off against the allowance for impairment losses where such items are determined to be uncollectible, including through repossession of collateral. The Group requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held in the banks, government securities and other assets. When the borrowers do not repay as scheduled, the Group can take possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against the allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated income statement.

Loans and receivables are assessed individually for impairment, except for insignificant loans and receivables that have been assessed collectively. Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether impairment should be recognized due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, loan utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and receivables is disclosed in more detail in Notes 12, 23 and 35.

Available-for-sale investment securities

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. If an available-for-sale investment security is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. In respect to AFS equity securities, impairment losses previously recognized in the consolidated income statement are not reversed through the consolidated income statement. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and are accumulated under the heading of investment revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously monitors renegotiated loans to ensure that they are performing and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. Renegotiated term is evidence of impairment for loans assessed for impairment on an individual basis, for which deterioration of the financial position is observed.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Derecognition of financial assets and liabilities

Financial assets

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan and other countries where the Group operates.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Kazakhstan and other countries where the Group operates also have various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment except for the buildings and constructions which are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

	Years
Buildings and constructions	20-100
Vehicles	5-7
Computers and banking equipment	5-10
Other	7-10

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses.

Buildings and constructions held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such buildings and constructions is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and constructions is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and constructions is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not subject to amortization.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is recognised on a straight-line basis over their estimated useful lives.

	Years
Customer deposit intangibles	5
Software	10
Licensing agreements for the right to use the software	10
Other	10

Assets held for sale

A non-current asset and the liability directly associated with non-current assets are classified as held for sale ("disposal group") if it is highly probable that the net asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Commercial property

In certain circumstances, the Group may foreclose commercial properties as part of the settlement of loan agreements with customers. The Group intends to sell these properties in the normal course of business and therefore these are initially measured at fair value including transaction costs and subsequently measured at the lower of cost or net realizable value. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made, of the amount the commercial property is expected to be realized for. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Recorded amounts as at the consolidated statement of financial position date represent the Group's best estimate of the expenditure required to settle the liability. The expense relating to any provision is presented in the consolidated income statement net of any recoveries.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan and other countries where the Group operates, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in operating expenses in the consolidated income statement. The Group contributes social tax to the budget of Kazakhstan and other countries where the Group operates for its employees. In addition, the Group has no post-retirement benefits.

Equity

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

Share capital

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognized as share premium reserve. Effective 13 May 2003, upon change in law concerning "Joint Stock Companies", the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares

When the Group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the Group are cancelled. Repurchased shares are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

Dividends

Dividends are recognized as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include:

- Available-for-sale reserve which comprises changes in fair value of available-for-sale investment securities;
- Foreign currency translation reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- Property revaluation reserve which comprises revaluation reserve of land and building.

Contingencies

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

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation recognised in accordance with IAS 18 Revenue.

Trust activities

Assets accepted and liabilities incurred under the trust activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees for loans issued to customers are (together with related direct costs) recognized as an adjustment to the effective yield of the loans. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry.

Fees, commissions, including pension asset management fees, and other income and expense items are generally recorded on an accrual basis when the service has been provided.

Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody services that are continuously provided over an extended period of time are recorded over the period the service is provided.

Foreign currency translation

The consolidated financial statements are presented in KZT, which is the functional currency of the Bank and each of its subsidiaries, except for foreign subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions into functional currency are recognized in the consolidated income statement as net gain or loss on foreign exchange operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into the Group's presentation currency at the exchange rates as at the consolidated statement of financial position date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net gain on foreign exchange operations. The market exchange rate at 31 December 2015 – KZT 340.01 to USD 1 (at 31 December 2014 – KZT 182.35; at 31 December 2013 – KZT 153.61).

Insurance

Insurance contracts are those contracts which transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Group utilizes accounting policies determined by NBRK for insurance companies of Kazakhstan.

The Group offers various insurance products in property and casualty, liability, personal, and life insurance.

Underwriting income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve.

Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned insurance premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within reserve for insurance claims in the consolidated statement of financial position.

Losses and loss adjustments are charged to income statement as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within insurance claims incurred in the consolidated income statement.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are capitalized and recorded in the accompanying consolidated statements of financial position within insurance assets. The asset related to deferred acquisition costs is subsequently amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses is included in the consolidated statement of financial position and is based on the estimated amount payable on claims reported prior to the reporting date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

The incurred but not reported reserve ("IBNR") for motor, hull and liability insurance is actuarially determined and is based upon statistical claim data for the period typical for loss development of the classes and sub-classes of business and the Group's previous experience.

Due to the lack of historical company specific data and comparable industry data for other lines of business, the reserve for IBNR claims is determined by applying current government guidance as provided by NBRK. Under this guidance, the IBNR reserve is calculated in the amount of 5% of insurance premium written during the last twelve months preceding the settlement date in this class of insurance.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated income statement in the period in which they are determined.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance risk to reinsurers. Such reinsurance arrangements provide for greater diversification of risks, allow management to control exposure to potential losses arising from insured risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Payables to reinsurers for ceded premium are recorded gross when due unless a right of offset exists against commission receivable from the reinsurer and are included in the consolidated statement of financial position within insurance assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are both transferred by the Group to the re-insurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements.

- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2011-2013 Cycle.

The Annual Improvements to IFRSs 2010-2012 Cycle include amendments to IFRS 3, IFRS 8, IAS 16, IAS 38, IAS 24 and basis for conclusions of IFRS 13.

The Annual Improvements to IFRSs 2011-2013 Cycle include amendments to IFRS 3, IFRS 13 and IAS 40.

The application of these amendments does not have a significant effect on the consolidated financial statements.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

New and revised IFRSs in issue but not yet effective.

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments[2];
- IFRS 14 Regulatory Deferral Accounts[1];
- IFRS 15 Revenue from Contracts with Customers[2];
- IFRS 16 Leases[3];
- Amendments to IFRS 11 - Accounting for Acquisition of Interests in Joint Operations[1];
- Amendments to IAS 1 – Disclosure initiative project[1];
- Amendments to IAS 27 - Equity Method in Separate Financial Statements[1];
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1];
- Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception[1]
- Annual Improvements to IFRSs 2012-2014 Cycle[1];

1 *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.*
2 *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*
3 *Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.*

IFRS 9 Financial Instruments.

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

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

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

The management of the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers.

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

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

The five steps in the model are as follows:

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

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

The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 Leases

IFRS 16 Leases brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

Under IFRS 16 a lessee recognises a right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or if that cannot be readily determined, the lessee shall use their incremental borrowing rate.

As with IAS 17, lessors classify leases as operating of finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

The management of the Group anticipates that the application of these amendments to IFRS 16 may have a significant effect on the consolidated financial statements.

Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. The management of the Group anticipates that the application of these amendments to IFRS 11 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. The management of the Group anticipates that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

There are a number of other standards, which have been issued or amended that are expected to be effective in future periods. However, the Group does not anticipate that the application of them will have a material impact on the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables as a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses will require the Group to make provisions which, if significantly different, could have a material impact on its future consolidated statement of profit or loss and its consolidated statement of financial position.

The Group uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables.

Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and in other countries, it operates and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The carrying amount of the allowance for impairment losses of loans to customers as at 31 December 2015 is KZT 305,114 million (31 December 2014: KZT 286,018 million; 31 December 2013: KZT 323,311 million).

Valuation of financial instruments

As described in Note 38, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 38 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Property and equipment carried at revalued amounts

Buildings and construction are measured at revalued amounts. The latest appraisal was in November 2014. Details of the valuation techniques used are set out in Note 15.

Taxation

Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar periods preceding the year of review.

As at 31 December 2015, Management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group's reported net income.

Claims liability and reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of incurred but not reported reserves ("IBNR") claims at the reporting date. For certain lines of business, IBNR claims form the majority of the statement of financial position claims provision. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull, property, accident and liability insurance, the Group actuarially determines the liability using past claim settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance as provided by NBRK, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money.

The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the period in which the necessary adjustments become known and estimable.

Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management's judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. Difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable and willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

5. RESTATEMENT OF PRIOR PERIOD

The Group incorrectly presented cash flows arising from acquisition of control over JSC "Altyn Bank" in its consolidated statement of cash flows for the year ended 31 December 2014: equipment, intangibles and customer deposit intangible acquired in total amount of KZT 2,813 million were presented as cash outflow within investing activities, while other assets and liabilities acquired in amount KZT 69,263 million were presented within cash flows from operating activities. The effect of the acquisition of the subsidiary should be presented within cash flows from investing activities in the amount of the consideration paid in cash less cash and cash equivalents acquired (Note 6). As a result, these consolidated financial statements have been restated as follows.

	As previously reported	*As restated*	*Difference*
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from financial derivatives	-	6,383	(6,383)
Financial assets at fair value through profit or loss	(12,966)	(16,866)	3,900
Loans to customers	(50,608)	7,273	(57,881)
Assets held for sale	(6,121)	(6,083)	(38)
Other assets	(5,578)	(407)	(5,171)
Amounts due to customers	(51,950)	(181,428)	129,478
Amounts due to credit institutions	(4,600)	(8,392)	3,792
Other liabilities	4,469	2,903	1,566
Net change in cash flows from operating activities			69,263
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from purchase of subsidiary	-	66,450	(66,450)
Purchase and prepayments for property and equipment and intangible assets	(16,441)	(13,628)	(2,813)
Net change in cash flows from investing activities			(69,263)

6. ACQUISITION

In 2014, the Group acquired the following subsidiary:

	Principal activity	Acquisition date	Proportion of shares acquired (%)	Consideration transferred
JSC Altyn Bank	Banking	28 November 2014	100%	31,869

JSC Altyn Bank is consolidated from 28 November 2014 on which date the control was transferred to the Group. The assets and liabilities of JSC Altyn Bank were recognised at fair value. The income statement of JSC Altyn Bank up to acquisition date was not recognised.

Assets acquired and liabilities recognized at the date of acquisition:

	28 November 2014
	Fair value
Assets	
Cash and cash equivalents	98,319
Trading securities	2,483
Loans to customers	59,793
Other accounts receivables	934
Equipment and intangibles	587
Non-current assets held for sale	38
	162,154
Liabilities	
Amounts due to credit institutions	(3,792)
Amounts due to customers	(129,478)
Other accounts payables	(1,566)
	(134,836)
Net assets	27,318

Goodwill arising on acquisition of JSC "Altyn Bank":

	28 November 2014
	Fair value
Considerations transferred	31,869
Less: Fair value of identifiable net assets acquired	(27,318)
Less: Customer deposit intangible (hereinafter – "CDI") (Note 16)	(2,226)
Plus: Deferred tax on CDI	445
Less: Account receivable from HSBC Bank Plc.	(901)
Goodwill	1,869

Goodwill arising upon businesses acquisitions is as follows:

	Carrying amount
31 December 2012 and 2013	3,085
Additions	1,869
31 December 2014 and 2015	4,954
Including:	
JSC Kazakhinstrakh	3,055
JSC Altyn Bank	1,869
OJSC Halyk Bank Kyrgyzstan	30
	4,954

Net cash inflow on acquisition of the subsidiary

	2014
Consideration paid in cash	(31,869)
Plus: cash and cash equivalents acquired	98,319
	66,450

Impact of acquisition on the results of the Group

Upon acquisition of Subsidiary Bank JSC "HSBC Bank Kazakhstan" the Bank developed the price allocation model, based on which it determined the pro-forma net income. Had this acquisition been effected on 1 January 2014, net income of the Group for the year ended 31 December 2014 would have been KZT 115,909 million. The Group management consider these pro-forma numbers to represent an approximate performance measure of the combined group on an annualized basis and to provide a reference point for comparison in future periods.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2015	31 December 2014	31 December 2013
Cash on hand	118,891	130,413	80,752
Recorded as loans and receivables in accordance with IAS 39:			
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	116,478	90,574	91,265
Short-term deposits with OECD based banks	125,808	14,595	135,253
Correspondent accounts with NBRK	1,019,059	260,070	83,769
Short-term deposits with NBRK	310	-	-
Short-term deposits with Kazakhstan banks (incl. loans under reverse repurchase agreements)	11,518	3,803	32,326
Correspondent accounts with non-OECD based banks	12,206	8,553	2,159
Short-term deposits with non-OECD based banks	410	1,529	1,643
Overnight deposits with OECD based banks	-	31,000	59,122
Overnight deposits with non-OECD based banks	-	-	24
	1,404,680	540,537	486,313

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are as follows:

	31 December 2015		***31 December 2014***		***31 December 2013***	
	KZT	***Foreign currencies***	***KZT***	***Foreign currencies***	***KZT***	***Foreign currencies***
Short-term deposits with OECD based banks	-	0.3%-0.9%	-	0.3%	6.9%	0.1%- 0.2%
Short-term deposits with NBRK	-	4.0%	-	-	-	-
Short-term deposits with Kazakhstan banks	10%-150%	0.3%-2.5%	30%	-	2.0%- 6.0%	-
Short-term deposits with non-OECD based bank	-	3.0%	-	2.0%- 3.3%	-	1.0% - 4.5%
Overnight deposits with OECD based banks	-	-	-	0.08%	-	0.02% - 0.1%
Overnight deposits with non-OECD based banks	-	-	-	-	-	2.3%

Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2015, 2014 and 2013, are as follows:

	31 December 2015		***31 December 2014***		***31 December 2013***	
	Carrying amount of loans	***Fair value of collateral***	***Carrying amount of loans***	***Fair value of collateral***	***Carrying amount of loans***	***Fair value of collateral***
Treasury bills of the Ministry of Finance of Kazakhstan	8,320	10,012	3,803	4,103	32,279	48,936
Equity securities of Kazakhstan banks	-	-	-	-	47	47
	8,320	10,012	3,803	4,103	32,326	48,983

As at 31 December 2015, 2014 and 2013, maturities of loans under reverse repurchase agreements are less than one month.

8. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2015	31 December 2014	31 December 2013
Recorded as loans and receivables in accordance with IAS 39:			
Cash and due from banks allocated to obligatory reserves	68,389	48,225	44,276
	68,389	48,225	44,276

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the National Banks of Kazakhstan, Kyrgyzstan, Georgia and Central Bank of Russian Federation and are used for calculation of the minimum reserve requirement. As at 31 December 2015, obligatory reserves of JSC Altyn Bank, OJSC Halyk Bank Kyrgyzstan, OJSC NBK Bank and JSC Halyk Bank Georgia comprised KZT 9,340 million (31 December 2014 – KZT 4,464 million, 31 December 2013 – KZT 583 million).

9. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2015	31 December 2014	31 December 2013
Financial assets held for trading:			
Derivative financial instruments	175,313	12,094	391
Corporate bonds	909	751	402
Bonds of Kazakhstan banks	293	164	119
Bonds of JSC Development Bank of Kazakhstan	199	152	139
Bonds of foreign organizations	124	174	184
Equity securities of Kazakhstan corporations	106	261	20
Equity securities of foreign organizations	78	56	18
Equity securities of Kazakhstan banks	48	49	61
Treasury bills of the Ministry of Finance of Kazakhstan	-	2,026	-
	177,070	15,727	1,334

Financial liabilities at fair value through profit or loss comprise:

	31 December 2015	31 December 2014	31 December 2013
Financial liabilities held for trading:			
Derivative financial instruments	5,593	3,131	69

Interest rates on financial assets at fair value through profit or loss are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective financial assets:

	31 December 2015	31 December 2014	31 December 2013
Corporate bonds	6.6%	6.3%	5.3%
Bonds of Kazakhstan banks	10.5%	11.4%	12.3%
Bonds of JSC Development Bank of Kazakhstan	5.3%	5.2%	5.3%
Bonds of foreign organizations	6.3%	6.3%	10.0%
Treasury bills of the Ministry of Finance of Kazakhstan	-	4.4%	-

Derivative financial instruments comprise:

	31 December 2015			31 December 2014			31 December 2013		
	Notional	Fair value		Notional	Fair value		Notional	Fair value	
	amount	Asset	Liability	amount	Asset	Liability	amount	Asset	Liability
Foreign currency contracts									
Swaps	454,075	175,308	1,043	305,163	9,380	2,232	53,401	122	69
Spots and options	28,627	5	265	-	-	-	3,961	251	-
Forwards	14,546	-	4,285	63,716	2,714	899	15,116	18	-
		175,313	5,593		12,094	3,131		391	69

As at 31 December 2015, 2014 and 2013, the Group used quoted market prices from independent information sources for all of its financial assets recorded at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on observable market data.

During 2015 and 2014, in order to increase tenge liquidity the Group concluded swaps and non-deliverable forwards with the NBRK.

10. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2015	31 December 2014	31 December 2013
Recorded as loans and receivables in accordance with IAS 39:			
Term deposits	25,584	10,058	8,593
Loans to credit institutions	14,307	14,303	14,322
Deposit pledged as collateral for derivative financial instruments	5,109	2,734	2,898
	45,000	27,095	25,813
Less - Allowance for loan impairment (Note 23)	(7)	-	(5)
	44,993	27,095	25,808

Interest rates and maturities of amounts due from credit institutions are as follows:

	31 December 2015		31 December 2014		31 December 2013	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Term deposits	1.0%-27.0%	2016-2017	1.0%-9.0%	2015-2017	0.5%-9.0%	2014-2015
Loans to credit institutions	8.2%	2017	8.2%	2017	8.2%-17.0%	2015-2020
Deposit pledged as collateral for derivative financial instruments	0.2%-1.8%	2016	0.2%-1.8%	2015	0.2%-1.8%	2014

11. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2015	31 December 2014	31 December 2013
Treasury bills of the Ministry of Finance of Kazakhstan	165,040	149,640	98,932
Corporate bonds	141,428	120,780	91,971
Bonds of JSC Development Bank of Kazakhstan	35,976	18,209	19,363
Bonds of Kazakhstan banks	17,606	12,422	13,958
Bonds of foreign organizations	9,336	48,968	72,795
Equity securities of Kazakhstan corporations	3,024	5,000	3,075
Treasury bills of Georgia	2,755	1,562	562
Equity securities of foreign corporations	2,140	1,713	1,683
Treasury bills of the Russian Federation	653	6,618	28,909
Notes of National Bank of Kyrgyz Republic	354	-	-
Treasury bills of the Kyrgyz Republic	208	-	340
Treasury bills of Republic of Poland	-	17,536	14,767
Local municipal bonds	-	3,913	4,019
Equity securities of Kazakhstan banks	-	62	156
Mutual investment funds shares	-	-	22
	378,520	386,423	350,552

As at 31 December 2015, 2014 and 2013, available-for-sale investment securities included Treasury bills of the Ministry of Finance of Kazakhstan at fair value of KZT 51,763 million, KZT 12,575 million and KZT 73,110 million, respectively, pledged under repurchase agreements with the other banks (see Note 21). All repurchase agreements as at 31 December 2015, 2014 and 2013 mature before 5 January 2016, 5 January 2015, and 8 January 2014, respectively.

Interest rates and maturities of available-for-sale investment securities are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective securities.

	31 December 2015		**31 December 2014**		**31 December 2013**	
	Interest rate, %	***Maturity, year***	***Interest rate, %***	***Maturity, year***	***Interest rate, %***	***Maturity, year***
Treasury bills of the Ministry of Finance of Kazakhstan	5.6%	2016-2045	5.5%	2015-2031	4.9%	2014-2027
Corporate bonds	6.9%	2016-2029	7.0%	2015-2023	7.0%	2014-2021
Bonds of JSC Development Bank of Kazakhstan	4.5%	2022-2026	4.7%	2022-2026	4.9%	2015-2026
Bonds of Kazakhstan banks	12.1%	2016-2049	10.5%	2015-2023	9.3%	2014-2030
Bonds of foreign organizations	5.0%	2016-2022	4.0%	2015-2022	3.9%	2014-2021
Treasury bills of Georgia	10.1%	2016-2024	11.9%	2016-2024	12.8%	2016-2017
Treasury bills of the Russian Federation	9.8%	2021	2.7%	2018-2021	2.7%	2015-2018
Notes of National Bank of Kyrgyz Republic	10.5%	2016	-	-	-	-
Treasury bills of the Kyrgyz Republic	12.4%	2016	-	-	8.9%	2014
Treasury bills of Republic of Poland	-	-	2.2%	2019	2.2%	2019
Local municipal bonds	-	-	4.9%	2015	4.9%	2015

12. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2015	*31 December 2014*	*31 December 2013*
Recorded as loans and receivables in accordance with IAS 39:			
Originated loans to customers	2,477,685	1,931,218	1,803,471
Overdrafts	3,498	2,813	2,085
	2,481,183	1,934,031	1,805,556
Less – Allowance for loan impairment losses (Note 23)	(305,114)	(286,018)	(323,311)
Loans to customers	2,176,069	1,648,013	1,482,245

Average interest rate on loans to customers is calculated as interest income from loans to customers divided by monthly average balances of loans to customers. For the year ended 31 December 2015 average interest rate on loans was 12.5% (31 December 2014 – 12.1%, 31 December 2013 – 11.7%).

As at 31 December 2015, the Group's loan concentration to the ten largest borrowers was KZT 524,728 million which comprised 21% of the Group's total gross loan portfolio (31 December 2014 – KZT 356,266 million, 18%; 31 December 2013 – KZT 367,782 million, 20%) and 99% of the Group's total equity (31 December 2014 – 75%, 31 December 2013 – 94%).

As at 31 December 2015, an allowance for impairment of KZT 60,784 million was made against those loans (31 December 2014 – KZT 58,214 million, 31 December 2013 – KZT 51,189 million).

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2015	***31 December 2014***	***31 December 2013***
Loans collateralized by pledge of real estate or rights thereon	940,171	738,450	707,582
Loans collateralized by guarantees	511,561	414,847	378,311
Consumer loans issued within the framework of payroll projects	373,211	330,158	273,248
Loans collateralized by cash	192,185	162,195	123,875
Loans collateralized by pledge of corporate shares	144,541	115,320	117,658
Loans collateralized by pledge of vehicles	70,227	28,958	24,747
Loans collateralized by mixed types of collateral	48,490	12,279	61,113
Loans collateralized by pledge of inventories	48,313	51,501	31,046
Loans collateralized by pledge of equipment	10,865	9,834	15,984
Loans collateralized by pledge of agricultural products	5,742	1,502	26,458
Unsecured loans	135,877	68,987	45,534
	2,481,183	1,934,031	1,805,556
Less - Allowance for loan impairment losses (Note 23)	(305,114)	(286,018)	(323,311)
Loans to customers	2,176,069	1,648,013	1,482,245

Loans are granted to the following sectors:

	31 December 2015	%	31 December 2014	%	31 December 2013	%
Retail loans:						
- consumer loans	407,905	16%	352,028	18%	291,471	16%
- mortgage loans	197,165	8%	138,615	7%	107,062	6%
	605,070		490,643		398,533	
Wholesale trade	442,797	18%	386,201	20%	341,489	19%
Services	394,027	16%	229,741	12%	233,492	13%
Construction	168,393	7%	159,975	8%	163,615	9%
Real estate	157,413	6%	130,622	7%	137,200	8%
Retail trade	150,353	6%	112,497	7%	117,816	7%
Agriculture	118,948	5%	103,836	6%	84,934	5%
Communication	60,483	2%	27,959	1%	339	0%
Transportation	59,415	2%	66,045	4%	40,145	2%
Mining	54,936	2%	39,782	2%	38,050	2%
Financial services	39,394	2%	37,960	2%	94,702	5%
Oil and gas	36,777	2%	9,059	0%	6,005	0%
Hotel industry	32,581	1%	29,969	2%	31,549	2%
Food industry	31,897	1%	28,327	1%	33,929	2%
Energy	28,628	1%	9,264	0%	3,403	0%
Metallurgy	25,610	1%	22,026	1%	39,276	2%
Machinery	15,499	1%	5,250	0%	7,878	0%
Chemical industry	14,678	1%	8,793	0%	10,604	1%
Light industry	7,004	0%	4,171	0%	4,503	0%
Other	37,280	2%	31,911	2%	18,094	1%
	2,481,183	100%	1,934,031	100%	1,805,556	100%

As at 31 December 2015, accrued interest on loans comprised KZT 138,495 million (31 December 2014 – KZT 103,757 million, 31 December 2013 – KZT 114,178 million).

During the years ended 31 December 2015, 2014 and 2013 the Group received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 2015, 2014 and 2013 such assets of KZT 7,401 million, KZT 8,029 million, and KZT 2,728 million, respectively, are included in assets held for sale.

As at 31 December 2015, 2014 and 2013, loans to customers included loans of KZT 188,582 million, KZT 150,382 million and KZT 145,102 million, respectively, which terms were renegotiated. Otherwise these loans would be past due or impaired.

13. INVESTMENT PROPERTY

	2015	2014	2013
As at 1 January	5,684	906	-
Additions	18,861	1,912	437
Disposals	(2)	-	(17)
Transferred from property and equipment	58	2,129	-
Transferred from non-current assets held for sale	-	235	486
Capitalized expenses	-	141	-
Gain on revaluation of investment property	57	361	-
As at 31 December	24,658	5,684	906

During the years ended 31 December 2015 and 2014, the Group foreclosed collateral it held as a security for loans to customers. As a result the Group received investment in the amount of KZT 18,861 million and KZT 1,912 million, respectively.

As at 31 December 2015, 2014 and 2013, there was no investment property that was pledged as collateral for liabilities.

Included into other income is investment property rental income for the years ended 31 December 2015, 2014 and 2013 of KZT 1,120 million, KZT 175 million and KZT 14 million, respectively.

Operating expenses arising from the investment property that generated rental income during the years ended 31 December 2015, 2014 and 2013 were KZT 497 million, KZT 64 and KZT 5 million, respectively.

Investment property owned by the Group was revalued by independent appraisers as at 31 December 2015 and 2014. The fair value of the investment property was estimated based on income approach and comparative approach. When estimating the fair value of the properties, their current use is considered the best use and the most effective. There has been no change to the valuation technique during the year. This revaluation resulted in recognition of revaluation gain in the consolidated statements of profit or loss for the year ended 31 December 2015 and 2014 of KZT 57 million and KZT 361 million, respectively.

As at 31 December 2015, 2014 and 2013, the fair value measurements of the Group's investment property are categorized into Level 3 in amount of KZT 24,658 million, KZT 5,684 million and KZT 906 million, respectively (description of measurement hierarchy is disclosed in Note 38).

14. COMMERCIAL PROPERTY

During the year ended 31 December 2015, the Group took a possession of collateral it held as a security for the loan and received land and construction in progress for KZT 1,241 million and KZT 6,245 million, respectively. The Group continued the construction and, in 2015, it recognised capitalised expenses of KZT 2,146 million. As of 31 December 2015, carrying amount of construction in progress was KZT 9,632 million. Completion of construction is expected in 4th quarter of 2016. The commercial property consists of residential complex including 62,708 square meter living space and 20,659 square meter commercial space.

15. PROPERTY AND EQUIPMENT

The movements in property and equipment are as follows:

	Buildings and construction	***Vehicles***	***Computers and banking equipment***	***Construction in progress***	***Other***	***Total***
Revalued/initial cost:						
31 December 2014	54,374	2,557	22,648	12,596	13,990	106,165
Additions	240	267	2,583	3,471	2,425	8,986
Disposals	(1,710)	(285)	(3,027)	(142)	(1,307)	(6,471)
Transfers	1,717	-	-	(1,860)	143	-
Translation differences	1,802	48	196	1	105	2,152
31 December 2015	56,423	2,587	22,400	14,066	15,356	110,832
Accumulated depreciation:						
31 December 2014	382	1,419	16,434	-	8,366	26,601
Charge	858	300	1,734	-	1,443	4,335
Disposals	(219)	(222)	(1,195)	-	(1,214)	(2,850)
Translation differences	77	33	127	-	47	284
31 December 2015	1,098	1,530	17,100	-	8,642	28,370
Net book value:						
31 December 2015	55,325	1,057	5,300	14,066	6,714	82,462
Revalued/initial cost:						
31 December 2013	51,903	2,531	22,471	1,107	13,489	91,501
Additions	883	347	2,898	13,722	773	18,623
Disposals	(3,567)	(263)	(2,750)	(578)	(442)	(7,600)
Additions through acquisition of subsidiary	-	9	75	-	473	557
Transfers	1,740	-	114	(1,655)	(199)	-
Write-off at revaluation	(1,654)	-	-	-	-	(1,654)
Revaluation	6,676	-	-	-	-	6,676
Impairment	(831)	(64)	(150)	-	(96)	(1,141)
Translation differences	(776)	(3)	(10)	-	(8)	(797)

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
31 December 2014	54,374	2,557	22,648	12,596	13,990	106,165
Accumulated depreciation:						
31 December 2013	1,265	1,386	17,326	-	7,910	27,887
Charge	809	330	1,335	-	1,256	3,730
Disposals	(12)	(294)	(2,212)	-	(790)	(3,308)
Write-off at revaluation	(1,654)	-	-	-	-	(1,654)
Translation differences	(26)	(3)	(15)	-	(10)	(54)
31 December 2014	382	1,419	16,434	-	8,366	26,601
Net book value:						
31 December 2014	53,992	1,138	6,214	12,596	5,624	79,564
Revalued/initial cost:						
31 December 2012	51,813	2,363	21,307	684	13,109	89,276
Additions	740	327	1,617	1,770	889	5,343
Disposals	(689)	(157)	(608)	(14)	(635)	(2,103)
Transfers	1,038	-	161	(1,330)	131	-
Revaluation	(636)	-	-	-	-	(636)
Impairment	(175)	-	-	-	-	(175)
Translation differences	(188)	(2)	(6)	(3)	(5)	(204)
31 December 2013	51,903	2,531	22,471	1,107	13,489	91,501
Accumulated depreciation:						
31 December 2012	652	1,236	15,715	-	6,668	24,271
Charge	825	305	2,150	-	1,565	4,845
Disposals	(202)	(153)	(538)	-	(321)	(1,214)
Write-off at revaluation	(1)	-	-	-		(1)
Translation differences	(9)	(2)	(1)	-	(2)	(14)
31 December 2013	1,265	1,386	17,326	-	7,910	27,887
Net book value:						
31 December 2013	50,638	1,145	5,145	1,107	5,579	63,614

The Group's revaluation policy requires the entire asset class of buildings and construction to be revalued every three years. In the event of specific market or property indicators the Group may opt to perform revaluations more regularly.

The Group had its buildings and properties revalued during 2014 by independent appraisers. The independent appraisers used three approaches to identify the fair value of the property and equipment - the income approach with the income capitalization method and the comparative approach, using market information to identify the fair value of buildings and structures under active market conditions, and the cost approach when no active market existed for items subject to revaluation. The Group's management believes that as at 31 December 2015 the fair value of property does not differ materially from its carrying amount.

As at 31 December 2015, the fair value measurements of the Group's buildings and constructions, are categorized into Level 2 and Level 3, in amount of KZT 55,249 million and KZT 76 million, respectively (31 December 2014: KZT 53,917 million and KZT 75 million, respectively; 31 December 2013: KZT 49,955 and KZT 683 million, respectively). Description of measurement hierarchy is disclosed in Note 38.

As at 31 December 2015, total amount of fair value of buildings and construction was KZT 55,325 million. As at 31 December 2015, the carrying amount of property and equipment that would have been recognized had the assets been carried under the cost model is KZT 49,526 million.

16. INTANGIBLE ASSETS

The movements in intangible assets are as follows:

	Software	***Licensing agreements for the right to use the software***	***Customer deposit intangible***	***Other intangible assets***	***Total***
Cost:					
31 December 2012	8,782	2,542	-	377	11,701
Additions	749	561	-	96	1,406
Disposals	(841)	(120)	-	(350)	(1,311)
Translation differences	(15)	-	-	-	(15)
31 December 2013	8,675	2,983	-	123	11,781
Additions	1,296	765	-	254	2,315
Additions through acquisition of subsidiary	30	-	2,226	-	2,256
Disposals	(234)	(4)	-	(178)	(416)
Translation differences	(47)	-	-	-	(47)

	Software	*Licensing agreements for the right to use the software*	*Customer deposit intangible*	*Other intangible assets*	*Total*
31 December 2014	9,720	3,744	2,226	199	15,889
Additions	1,779	303	-	144	2,226
Disposals	(338)	(7)	-	(273)	(618)
Translation differences	187	120	-	-	307
31 December 2015	11,348	4,160	2,226	70	17,804
Accumulated depreciation:					
31 December 2012	4,772	1,332	-	3	6,107
Charge	734	164	-	4	902
Disposals	(767)	(71)	-	-	(838)
Translation differences	(7)	-	-	-	(7)
31 December 2013	4,732	1,425	-	7	6,164
Charge	997	252	41	3	1,293
Disposals	(192)	(3)	-	-	(232)
Translation differences	(37)	-	-	-	(37)
31 December 2014	5,500	1,674	41	10	7,225
Charge	1,523	19	445	1	1,988
Disposals	(254)	-	-	-	(254)
Translation differences	163	23	-	-	186
31 December 2015	6,932	1,716	486	11	9,145
Net book value:					
31 December 2013	3,943	1,558	-	116	5,617
31 December 2014	4,220	2,070	2,185	189	8,664
31 December 2015	4,416	2,444	1,740	59	8,659

Customer deposit intangibles originated from acquisition of subsidiary and were calculated based on stable level of deposits.

17. ASSETS HELD FOR SALE

During 2010 and 2009, after the default of certain counterparties on loans to customers, the Group recognized the property pledged as collateral for the loans as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less disposal costs or the carrying value, as the Bank's management of the appropriate level committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan was initiated.

Assets held for sale comprised the following:

	31 December 2013	31 December 2014	31 December 2015
Land	10,432	8,044	2,707
Real estate	973	754	205
	11,405	8,798	2,912

In November 2014, the Group performed an independent valuation of its assets held for sale and based on the results recognized an impairment loss of KZT 102 million.

Despite that the Group marketed actively these assets for sale, the majority was not sold within a short timeframe. However, the Management remains committed to selling of these assets. As the assets are carried at a price not exceeding current fair value less costs to sell, they continue to be classified as held for sale at the end of 2015, 2014 and 2013.

The fair value of the Group's non-current assets held for sale was determined by independent appraisers. The following methods were used for the estimation of its fair value: income approach, comparative approach and cost based method. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Details of the Group's assets held for sale and information about the fair value hierarchy as at 31 December 2015, 2014 and 2013 are as follows:

	Level 1	Level 2	Level 3
31 December 2013			
Land	-	-	2,707
Real estate	-	176	29
31 December 2014			
Land	-	-	8,044

	Level 1	Level 2	Level 3
Real estate	-	645	109
31 December 2015			
Land			10,432
Real estate		968	5

18. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

	31 December 2015	31 December 2014	31 December 2013
Unearned reinsurance premium	12,859	10,420	7,424
Reinsurance amounts	1,556	2,221	3,185
	14,415	12,641	10,609
Premiums receivable	9,442	7,679	2,770
Insurance assets	23,857	20,320	13,379

Insurance liabilities comprised the following:

	31 December 2015	31 December 2014	31 December 2013
Reserves for insurance claims	24,797	18,360	16,209
Gross unearned insurance premium reserve	19,043	15,105	10,796
	43,840	33,465	27,005
Payables to reinsurers and agents	7,143	5,342	2,710
Insurance liabilities	50,983	38,807	29,715

Insurance risk

The Company establishes underwriting guidelines and limits, which stipulate the approval process for risks and their limits. These limits are being continuously monitored. The Company's direct insurance business is spread throughout the Republic of Kazakhstan. The Company's reinsurance portfolio is diversified in terms of geographical spread and in terms of lines of business.

Claims management risk

The risk that claims are handled or paid inappropriately is managed using a range of IT system controls and manual processes conducted by experienced staff. These, together with a range of detailed policies and procedures, ensure that all claims are handled in a timely, appropriate and accurate manner.

Reinsurance risk

Reinsurance is used to protect against the impact of major catastrophic events or unforeseen volumes of, or adverse trends in, large individual claims and to transfer risk that is outside the Group's current risk appetite.

Reinsurance of risk above the Group's appetite is only effective if the reinsurance premium is economic and the counterparty is financially secure.

The Group evaluates the financial strengths of its reinsurers and monitors the concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Reserving risk

There is a risk that reserves are assessed incorrectly and there are not enough funds to pay or handle claims as they fall due. To estimate insurance and reinsurance liabilities the Group uses actuarial methods and assumptions set by the Regulatory Body.

Credit risk in respect to insurance

The Group is exposed to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one debtor, or groups of debtors and geographical segments. Limits on the level of credit risk by a debtor and reinsurer are approved by the appropriate body on a regular basis. Such risks are monitored continuously and subject to an annual or more frequent reassessment.

The movements on claims reserves for the years ended 31 December 2015, 2014 and 2013, were as follows:

	2015	*2014*	*2013*
Reserves for claims, beginning of the year	18,360	16,209	13,108
Reserves for claims, reinsurance share, beginning of the year	(2,221)	(3,185)	(5,003)
Net reserves for claims, beginning of the year	16,139	13,024	8,105
Plus claims incurred	22,793	16,195	13,933
Less claims paid	(15,692)	(13,080)	(9,014)
Net reserves for claims, end of the year	23,240	16,139	13,024
Reserves for claims, reinsurance share, end of the year	1,557	2,221	3,185
Reserves for claims, end of the year	24,797	18,360	16,209

The movements on unearned insurance premium reserve for the years ended 31 December 2015, 2014 and 2013, were as follows:

	2015	2014	2013
Gross unearned insurance premium reserve, beginning of the year	15,105	10,796	9,908
Unearned insurance premium reserve, reinsurance share, beginning of the year	(10,420)	(7,424)	(7,065)
Net unearned insurance premium reserve, beginning of the year	4,685	3,372	2,843
Change in unearned insurance premium reserve	3,938	4,309	888
Change in unearned insurance premium reserve, reinsurance share	(2,439)	(2,996)	(359)
Net change in unearned insurance premium reserve	1,499	1,313	529
Net unearned insurance premium reserve, end of the year	6,184	4,685	3,372
Unearned insurance premium reserve, reinsurance share, end of the year	12,859	10,420	7,424
Gross unearned insurance premium reserve, end of the year	19,043	15,105	10,796

19. OTHER ASSETS

Other assets comprise:

	31 December 2015	*31 December 2014*	*31 December 2013*
Other financial assets recorded as loans and receivables in accordance with IAS 39:			
Debtors on banking activities	8,171	9,788	6,293
Debtors on non-banking activities	1,802	2,204	891
Accrued other commission income	806	778	758
Accrued commission for managing pension assets	-	-	1,204
Other	15	20	9
	10,794	12,790	9,155
Less – Allowance for impairment (Note 23)	(4,568)	(4,297)	(5,176)
	6,226	8,493	3,979
Other non-financial assets:			
Prepayments for property and equipment	7,601	1,682	1,009
Inventory	1,039	1,161	1,367
Advances for taxes other than income tax	753	615	623
Investments in associates	65	30	24
Other	3,082	1,435	869
	12,540	4,923	3,892
	18,766	13,416	7,871

20. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2015	*31 December 2014*	*31 December 2013*
Recorded at amortized cost:			
Term deposits:			
Individuals	1,276,609	764,935	644,732
Legal entities	868,833	380,810	557,059
	2,145,442	1,145,745	1,201,791
Current accounts:			
Legal entities	701,468	529,204	399,153
Individuals	196,821	173,264	165,704
	898,289	702,468	564,857
	3,043,731	1,848,213	1,766,648

As at 31 December 2015, the Group's ten largest groups of related customers accounted for approximately 28% of the total amounts due to customers (31 December 2014 – 26%; 31 December 2013 – 32%), where each group of related customers represents customers related to each other within that group.

Management believes that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

An analysis of customer accounts by sector is as follows:

	31 December 2015	***%***	***31 December 2014***	***%***	***31 December 2013***	***%***
Individuals and entrepreneurs	1,473,430	48%	938,199	51%	810,436	46%
Oil and gas	604,738	20%	296,546	16%	306,889	17%
Wholesale trade	151,395	5%	77,060	4%	83,703	5%
Other consumer services	142,768	5%	72,918	4%	148,380	8%
Transportation	131,926	4%	108,663	6%	80,322	5%
Financial sector	112,462	4%	43,796	2%	52,624	3%
Construction	82,841	3%	66,379	4%	69,094	4%
Healthcare and social services	65,434	2%	31,213	2%	7,771	0%
Metallurgy	48,406	1%	29,383	2%	13,949	1%
Energy	45,280	1%	14,195	1%	9,751	0%
Education	23,547	1%	18,291	1%	17,332	1%
Government	20,309	1%	25,139	1%	36,686	2%
Communication	15,714	1%	15,045	1%	11,376	1%
Insurance and pension funds activity	8,368	0%	22,284	1%	31,176	2%
Other	117,113	4%	89,102	4%	87,159	5%
	3,043,731	100%	1,848,213	100%	1,766,648	100%

21. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2015	31 December 2014	31 December 2013
Recorded at amortized cost:			
Loans and deposits from Kazakhstan banks	53,945	17,678	81,786
Loans from JSC National Managing Holding KazAgro	41,866	47,846	-
Loans from JSC Entrepreneurship Development Fund DAMU	32,882	21,127	-
Loans from JSC Development Bank of Kazakhstan	19,365	8,009	-
Correspondent accounts	8,420	5,646	2,628
Loans and deposits from OECD based banks	6,976	3,963	3,831
Overnight deposits	3,005	-	8,611
Loans from other financial institutions	1,791	1,174	1,916
Loans and deposits from non-OECD based banks	8	1,749	8,623
	168,258	107,192	107,395

As at 31 December 2015, loans from JSC National Managing Holding KazAgro ("KazAgro") included a long-term loan of KZT 41,810 million at 3.0% interest rate maturing in 2022 (31 December 2014 – KZT 47,783 million). The loan was received for restructuring/refinancing of loan/leasing debts of the Bank's borrowers operating in agricultural sector, originated before 1 January 2014 in connection with working capital loans, loans for the purchase of fixed assets, loans for construction-and-assembling works and loans for leasing of agriculture and technology equipment. Restructuring/refinancing of loan/leasing obligations is provided at 6.0% - 7.0% interest rate for the period not later than 31 December 2022.

As at 31 December 2015, loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") included a long-term loan of KZT 32,721 million at 2.0% interest rate maturing in 2034 with an early recall option (31 December 2014 – KZT 20,000 million). The loan was received in accordance with the Government program ("the Program") to finance small and medium enterprises ("SME") operating in certain industries. According to the loan agreement between DAMU and the Group, the Group is responsible to extend loans to SME borrowers, eligible to participate in the Program, up to 10 years at 6.0% interest rate.

As at 31 December 2015, loans from JSC Development Bank of Kazakhstan ("DBK") included long-term loans of KZT 16,000 million (31 December 2014 – KZT 8,000 million) at 2% interest rate maturing in 2034-2035, to finance corporate enterprises operating in manufacturing industries, as well as long-term loan of KZT 3,300 million at 1% interest rate maturing in 2035, to finance the purchase of cars by the Group's retail customers. According to the loan agreement between DBK and the Group, the Group is responsible to extend loans to corporate borrowers, eligible to participate in the Program, up to 10 years at 6.0% interest rate, and to retail borrowers – up to 5 years at 4.0% interest rate.

The Management of the Group believes that there are no other similar financial instruments and due to its specific nature, the loans from DAMU, KazAgro and DBK represent separate segments in SME lending. As a result, the loans from DAMU, KazAgro and DBK were received in an orderly transaction and as such have been recorded at fair value at the recognition date which was determined to be the cash consideration transferred to the customers.

Interest rates and maturities of amounts due to credit institutions are as follows:

	31 December 2015		31 December 2014		31 December 2013	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, Year	Interest rate, %	Maturity, year
Loans and deposits from Kazakhstan banks	3.2%-11.4%	2016	3.3%-3.5%	2015-2034	0.5%-5.0%	2014
Loans from JSC National Managing Holding KazAgro	3.0%	2019-2022	3.0%	2019-2022	-	-
Loans from JSC Entrepreneurship Development Fund DAMU	2.0%	2016-2035	2.0%	2015-2034	-	-
Loans from JSC Development Bank of Kazakhstan	1.0%-2.0%	2016-2035	1.0%-2.0%	2015-2034	-	-
Loans and deposits from OECD based banks	1.1%-6.5%	2016-2023	0.9%-6.5%	2016-2023	1.0%-6.5%	2016-2023
Overnight deposits	60%	2016	-	-	0.5%-3.5%	2014
Loans from other financial institutions	4.8%-6.2%	2016	4.8%-6.2%	2015-2016	2.6%-6.0%	2014-2018
Loans and deposits from non-OECD based banks	0.7%-7.0%	2016-2017	0.7%-7.0%	2015-2017	0.6%-4.5%	2014

Fair value of assets pledged (Notes 11) and carrying value of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 December 2015, 2014 and 2013, are as follows:

	31 December 2015		31 December 2014		31 December 2013	
	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans
Treasury bills of the Ministry of Finance of Kazakhstan	51,763	45,242	12,575	12,017	73,110	67,804
	51,763	45,242	12,575	12,017	73,110	67,804

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2015, 2014 and 2013 are disclosed below.

Loans under repurchase agreements are used by the Group to provide current cash flows in KZT within the Group's operating activities. The Group regularly uses this type of instruments to attract short-term liquidity and plans to continue raining funds through loans under repurchase agreements when the needs arise.

The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

	Investments available-for-sale
	(Note 11)
As at 31 December 2015:	
Carrying amount of transferred assets	51,763
Carrying amount of associated liabilities	45,242
As at 31 December 2014:	
Carrying amount of transferred assets	12,575
Carrying amount of associated liabilities	12,017
As at 31 December 2013:	
Carrying amount of transferred assets	73,110
Carrying amount of associated liabilities	67,804

In accordance with the contractual terms of the loans from certain OECD based banks, the Group is required to maintain certain financial ratios, particularly with regard to capital adequacy. Certain of the Group's outstanding financing agreements include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements.

The Group's management believes that as at 31 December 2015, 2014 and 2013, the Group was in compliance with the covenants of the agreements the Group has with the trustees and holders of the notes.

22. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2015	*31 December 2014*	*31 December 2013*
Recorded at amortized cost:			
Subordinated debt securities issued:			
Fixed rate KZT denominated bonds	4,989	7,815	11,755
Reverse inflation indexed KZT denominated bonds	4,051	8,470	8,489
Inflation indexed KZT denominated bonds	-	3,944	3,941
Total subordinated debt securities outstanding	9,040	20,229	24,185
Unsubordinated debt securities issued:			
USD denominated bonds	363,829	195,255	165,330
KZT denominated bonds	224,656	95,525	-
Total unsubordinated debt securities outstanding	588,485	290,780	165,330
Total debt securities outstanding	597,525	311,009	189,515

In 2014, the Bank placed KZT 100,000 million 7.5% bonds with maturity in November 2024, issued as per Kazakhstan legislation. In 2015, the Bank placed KZT 131,652 million 7.5% bonds with maturity in February 2025, issued as per Kazakhstan legislation.

The Bank plans to utilize the raised funds to diversify its liabilities and for customer lending.

The coupon rates and maturities of these debt securities issued are as follows:

	31 December 2015		***31 December 2014***		***31 December 2013***	
	Coupon rate, %	***Maturity, year***	***Coupon rate, %***	***Maturity, year***	***Coupon rate, %***	***Maturity, year***
Subordinated debt securities issued:						
Fixed rate KZT denominated bonds	13%	2018	7.5%-13.0%	2015-2018	7.5%-13.0%	2014-2018
Reverse inflation indexed KZT denominated bonds	15% less inflation rate	2016	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016
Inflation indexed KZT denominated bonds	-	-	inflation rate plus 1%	2015	inflation rate plus 1%	2015
Unsubordinated debt securities issued:						
USD denominated bonds	7.3%	2017-2021	7.3%	2017-2021	7.3%	2017-2021
KZT denominated bonds	7.5%	2024-2025	7.5%	2024	-	-

As at 31 December 2015, accrued interest on debt securities issued was KZT 11,990 million (as at 31 December 2014 – KZT 4,829 million, as at 31 December 2013 – KZT 3,321 million).

Subordinated securities are unsecured obligations of the Group and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Group. Coupon payments on debt securities issued are payable on a semi-annual and annual basis.

In accordance with the terms of the USD denominated bonds, the Group is required to maintain certain financial covenants particularly with regard to its capital adequacy, limitations on transactions at less than fair market value and payment of dividends. Furthermore, the terms of the USD denominated bonds include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements. The Group's management believes that as at 31 December 2015, 2014 and 2013, the Group was in compliance with the covenants of the agreements the Group has with trustees and holders of the notes.

23. ALLOWANCES FOR IMPAIRMENT LOSSES AND PROVISIONS

The movements in accumulated impairment of available-for-sale investment securities, the allowances for impairment of interest earning and other assets were as follows:

	Loans to customers (Note 12)	***Amounts due from credit institutions (Note 10)***	***Available-for-sale investment securities (Note 11)***	***Other Assets (Note 19)***	***Total***
31 December 2012	(302,926)	(2)	(999)	(2,389)	(306,316)
Additional provisions recognized	(141,915)	(4)	(41)	(14,096)	(156,056)
Recoveries of provisions	118,919	1	-	11,115	130,035
Write-offs	4,819	-	-	159	4,978
Foreign exchange differences	(2,208)	-	-	35	(2,173)
31 December 2013	(323,311)	(5)	(1,040)	(5,176)	(329,532)
Additional provisions recognized	(253,896)	-	(842)	(13,975)	(268,713)
Recoveries of provisions	246,672	-	29	14,625	261,326
Write-offs	73,028	-	-	189	73,217
Foreign exchange differences	(28,511)	5	(14)	40	(28,480)
31 December 2014	(286,018)	-	(1,867)	(4,297)	(292,182)
Additional provisions recognized	(155,285)	(7)	(4,311)	-	(159,603)
Recoveries of provisions	147,346	-	140	-	147,486
Write-offs	46,584	-	594	133	47,311
Foreign exchange differences	(57,741)	-	(72)	(404)	(58,217)
31 December 2015	(305,114)	(7)	(5,516)	(4,568)	(315,205)

During the years ended 31 December 2015 and 2014 the Group wrote off loans for KZT 46,584 million and KZT 73,028 million, respectively. Changes introduced to the Tax Code of Kazakhstan as at 1 January 2014 allow loan write-offs without being considered forgiveness of the loan for tax purposes and therefore not subject to corporate income tax.

Provision represents provisions against letters of credit and guarantees issued. The movements in provisions were as follows:

	2015	2014	2013
At the beginning of the year	(407)	(4,163)	(4,385)
Provisions	(999)	(172)	(5,564)
Recoveries of provisions	640	4,208	5,774
Additions through the acquisition of subsidiary	-	(353)	-
Foreign exchange differences	(216)	73	12
At the end of the year	982	(407)	(4,163)

24. TAXATION

The Bank and its subsidiaries, other than OJSC NBK Bank, OJSC Halyk Bank Kyrgyzstan and JSC Halyk Bank Georgia are subject to taxation in Kazakhstan. JSC NBK Bank is subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Republic of Kyrgyzstan. JSC Halyk Bank Georgia is subject to income tax in Georgia.

The income tax expense comprises:

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Current tax charge	7,181	20,791	19,435
Deferred income tax expense/(benefit) relating to origination and reversal of temporary differences	24,869	3,942	(2,913)
Adjustments recognised in the current period for deferred tax of prior periods	-	2,788	-
Income tax expense	32,050	27,521	16,522

Deferred income tax expense/(benefit) relating to the following temporary difference:

	Year ended 31 December 2015	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Fair value of derivatives and investments available for sale	29,103	185	338
Loans to customers, allowance for impairment losses	513	2,242	(1,940)
Tax loss carry forward	(3,531)	-	-
Property and equipment, accrued depreciation	(671)	1,045	280
Interest accrued, but not paid	-	-	(2,788)
Other	(545)	470	1,197
Income tax expense	24,869	3,942	(2,913)

During the year ended 31 December 2014, due to the changes in the Tax Code related to the deduction of accrued interest expense, the Group adjusted its deferred tax assets correspondingly.

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2015, 2014 and 2013. Income on state and other qualifying securities is tax exempt.

The tax rates in the Russian Federation, the Republic of Kyrgyzstan and Georgia are 20%, 10% and 15%, respectively.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on Kazakhstan statutory rate of 20% with the reported income tax expense is as follows:

	Year ended 31 December 2015	***Year ended 31 December 2014***	***Year ended 31 December 2013***
Income before income tax expense	152,362	141,898	88,931
Statutory tax rate	20%	20%	20%
Income tax expense at the statutory rate	30,472	28,380	17,786
Tax-exempt interest income and other related income on state and other qualifying securities	(2,915)	(2,370)	(3,086)
Income on dividends taxed at emitter	(72)	(105)	(75)
Income of subsidiaries taxed at different rates	(30)	(45)	(55)
Tax-exempt interest income on financial lease	(35)	(161)	(287)
Non-deductible expenditures:			
- other provisions	2,459	130	596
- general and administrative expenses	197	150	131
- charity	100	114	112
Other	1,874	1,428	1,400
Income tax expense	32,050	27,521	16,522

Deferred tax assets and liabilities comprise:

	31 December 2015	31 December 2014	31 December 2013
Tax effect of deductible temporary differences:			
Tax loss carry forward	3,531	-	-
Bonuses accrued	1,936	1,453	1,122
Fair value of derivatives	1,305	-	82
Vacation pay accrual	349	265	241
Interest accrued, but not paid	-	-	2,788
Other	113	162	94
Deferred tax asset	7,234	1,880	4,327
Tax effect of taxable temporary differences:			
Fair value of derivatives and investments available-for-sale	(31,260)	(578)	(475)
Property and equipment, accrued depreciation	(5,054)	(5,725)	(4,681)
Allowance for loans to customers	(3,966)	(3,769)	(3,115)
Core deposit intangible	(348)	(445)	-
Other	(2,049)	(1,589)	(275)
Deferred tax liability	(42,677)	(12,106)	(8,546)
Net deferred tax liability	(35,443)	(10,226)	(4,219)

Current tax assets and liabilities comprise:

	31 December 2015	31 December 2014	31 December 2013
Current tax refund receivable	16,469	530	1,344
Current income tax payable	(379)	(2,444)	(2,257)
Current tax asset/(liability)	16,090	(1,914)	(913)

The Group has offset deferred tax assets and liabilities on the consolidated statement of financial position where a right of offset existed. The amounts presented after offset comprise:

	31 December 2015	***31 December 2014***	***31 December 2013***
Deferred tax asset	1,919	447	301
Deferred tax liability	(37,362)	(10,673)	(4,520)
Net deferred tax liability	(35,443)	(10,226)	(4,219)

Kazakhstan and other countries where the Group operates currently have a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on Management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

In Kazakhstan tax years remain open to review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

Movements in net deferred tax liability:

	2015	2014	2013
Net deferred tax liability at the beginning of the year	10,226	4,219	6,816
Deferred tax expense/(benefit)	24,869	3,942	(2,913)
Deferred tax on core deposit intangible	348	445	-
Adjustments recognised in the current period for deferred tax of prior periods	-	2,788	-
Deferred tax expense through other comprehensive income on revaluation due to reclassification of investments held to maturity into available-for-sale	-	-	443
Credited to other comprehensive income at the date of property and equipment revaluation	-	(1,168)	(127)
Net deferred tax liability at the end of the year	35,443	10,226	4,219

25. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2015	31 December 2014	31 December 2013
Other financial liabilities:			
Salary payable	10,790	8,263	6,274
Payable for general and administrative expenses	779	489	608
Creditors on bank activities	488	822	602
Creditors on non-banking activities	299	282	696
Other	375	497	68
	12,731	10,353	8,248
Other non financial liabilities:			
Creditors on commercial property	4,050	-	-
Taxes payable other than income tax	2,183	1,413	1,361
Other prepayments received	1,233	919	344
	7,466	2,332	1,705
	20,197	12,685	9,953

26. EQUITY

Authorized, issued and fully paid number of shares as at 31 December 2015, 2014 and 2013, were as follows:

31 December 2015	***Share capital authorized***	***Share capital authorized and not issued***	***Fully paid and issued share capital***	***Share capital repurchased***	***Outstanding shares***
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(219,067,900)	10,909,450,551
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(289,415,498)	20,443,932
Convertible preferred	80,225,222	-	80,225,222	(79,855,667)	369,555
31 December 2014	**Share capital authorized**	**Share capital authorized and not issued**	**Fully paid and issued share capital**	**Share capital repurchased**	**Outstanding shares**
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(218,619,738)	10,909,898,713
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(200,558,485)	109,300,945
Convertible preferred	80,225,222	-	80,225,222	(363,822)	79,861,400
31 December 2013	**Share capital authorized**	**Share capital authorized and not issued**	**Fully paid and issued share capital**	**Share capital repurchased**	**Outstanding shares**
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(219,817,932)	10,908,700,519
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(194,325,596)	115,533,834
Convertible preferred	80,225,222	-	80,225,222	(227,972)	79,997,250

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Number of shares			*Nominal (placement) amount*		
	Common	***Non-convertible preferred***	***Convertible preferred***	***Common***	***Non-convertible preferred***	***Convertible preferred***
31 December 2012	10,907,961,655	95,712,499	79,724,654	43,597	5,837	13,233
Purchase of treasury shares	(9,901,883)	(688,005)	(101,169)	(11)	-	-
Sale of treasury shares	10,640,747	20,509,340	373,765	11	3,494	-
31 December 2013	10,908,700,519	115,533,834	79,997,250	43,597	9,331	13,233
Purchase of treasury shares from Samruk-Kazyna (including the cost of the call option – see Note 1)	-	(6,232,399)	-	-	(1,461)	-
Purchase of treasury shares	(6,420,528)	(521)	(135,850)	(7)	-	-
Sale of treasury shares	7,618,722	31	-	8	-	-
31 December 2014	10,909,898,713	109,300,945	79,861,400	43,598	7,870	13,233
Purchase of treasury shares	(8,746,220)	(93,050,844)	(79,740,576)	(9)	(13,024)	(11,156)
Sale of treasury shares	8,298,058	4,193,831	248,731	8	-	-
31 December 2015	10,909,450,551	20,443,932	369,555	43,597	(5,154)	2,077

Common shares

At 31 December 2015, the Group held 219,067,900 of the Group's common shares as treasury shares at KZT 39,974 million (31 December 2014 – 218,619,738 at KZT 39,973 million; 31 December 2013 – 219,817,932 at KZT 39,974 million).

Each common share outstanding is entitled to one vote and dividends. Treasury shares are not entitled to any vote or dividend.

Preferred shares

In accordance with IAS 32 "Financial Instruments: Presentation", both the non-convertible and convertible preferred shares (together, the "Preferred Shares") are classified as compound instruments. Upon the return of capital in the case of liquidation, the assets of the Group available for distribution are applied to any amount equal to paid up share capital or credited as paid up share capital due to the holders of the Preferred Shares in priority to the holders of the Common shares.

The terms of the Preferred Shares require that the Group pay a nominal dividend amount of 0.01 KZT per share in order to comply with Kazakhstan legislation, which represents the liability component. This legislation requires joint stock companies to pay a certain guaranteed amount of dividends on Preferred shares. According to Kazakhstan legislation on Joint Stock Companies, dividend payments on the Preferred shares cannot be less than the dividends paid on common shares. Furthermore, the dividends on common shares will not be paid until dividends on Preferred shares are fully paid.

The payment of additional dividends on the Preferred Shares is determined based on a formula specified in the share prospectus and is based on the Group's profitability. Where the Group has net income no greater than KZT 160 times the quantity of issued Preferred Shares, multiplied by a factor of inflation as published by the NBRK plus one per cent, the dividend per Preferred Share is determined as net income divided by the quantity of issued Preferred Shares. Where net income is greater than this, the dividend per Preferred Share is calculated as KZT 160 multiplied by a factor of inflation as published by the NBRK plus one per cent. Inflation in either calculation will range between three and nine per cent. Dividends on the Preferred Shares are paid only after the Board of Directors approves payment terms of such dividends and the Annual General Shareholders Meeting approves distribution of net income received for the respective financial year. The Preferred Shares do not have any voting rights, unless the payment of preferred dividends has been delayed for three months or more from the date they became due.

Dividends paid for the previous financial years were as follows:

	Paid in 2015 for the year ended 31 December 2014	***Paid in 2014 for the year ended 31 December 2013***	***Paid in 2013 for the year ended 31 December 2012***
Dividend paid per one preferred share, (convertible and non-convertible), tenge	13.44	9.28	11.20
Dividend paid per one common share	3.14	1.70	1.12

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

Convertible preferred shares

Each convertible preferred share is convertible to one common share at the discretion of the Board of Directors. In addition, the Group will pay a compensation amount to each convertible preferred shareholder on conversion based on a formula specified in the share prospectus. This payment is calculated in a way that, if at the date of conversion, the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Group will reimburse the preferred shareholders for the difference in cash at the time of conversion.

27. FINANCIAL COMMITMENTS AND CONTINGENCIES

The Group's financial commitments and contingencies comprised the following:

	31 December 2015	*31 December 2014*	*31 December 2013*
Guarantees issued	186,306	155,639	156,699
Commitments to extend credit	35,178	20,525	13,810
Commercial letters of credit	17,064	6,657	12,093
Financial commitments and contingencies	238,548	182,821	182,602
Less: cash collateral against letters of credit	(18,675)	(3,427)	(6,249)
Less: provisions (Note 23)	(982)	(407)	(4,163)
Financial commitments and contingencies, net	218,891	178,987	172,190

Guarantees issued represent bank guarantees issued by the Bank by order of its clients, and which are in effect as at the reporting date. As at 31 December 2015, the ten largest guarantees accounted for 74% of the Group's total financial guarantees (31 December 2014 – 76%; 31 December 2013 – 83%) and represented 26% of the Group's total equity (31 December 2014 – 25%; 31 December 2013 – 33%).

Commercial letters of credit represent letters of credit issued by the Bank by order of its clients, and under which as at the reporting date, the payment has not yet been made. As at 31 December 2015, the ten largest unsecured letters of credit accounted for 93% of the Group's total commercial letters of credit (31 December 2014 – 73%; 31 December 2013 –49%) and represented 3% of the Group's total equity (31 December 2014 – 1%; 31 December 2013 – 1.5%).

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. The Group typically requires collateral support unless it is determined to be not necessary through review of the credit risk of the borrower or analysis of other deposit accounts held by the Group. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Capital commitments

As at 31 December 2015 the Group had commitments for capital expenditures in respect of construction in progress for KZT 7,861 million (31 December 2014 and 2013 – KZT Nil million).

Operating lease commitments

There was no material operating lease commitments under non-cancellable operating leases outstanding as at 31 December 2015, 2014 and 2013.

28. NET INTEREST INCOME

	Year ended 31 December 2015	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Interest income comprises:			
Interest income on financial assets recorded at amortized cost:			
- interest income on individually assessed unimpaired assets	107,574	94,391	77,265
- interest income on individually assessed impaired assets	27,914	23,794	27,233
- interest income on collectively assessed assets	98,183	72,363	61,994
Interest income on available-for-sale investment securities	21,089	19,959	16,035
Interest income on financial assets at fair value through profit or loss	96	86	36
Total interest income	254,856	210,593	182,563
Interest income on loans to customers	228,775	185,585	160,559
Interest income on cash and cash equivalents and amounts due from credit institutions	4,896	4,963	3,531
Interest income on investments held to maturity	-	-	2,402
Total interest income on financial assets recorded at amortized cost	233,671	190,548	166,492
Interest income on financial assets at fair value through profit or loss:			
Interest income on financial assets held for trading	96	86	36
Total interest income on financial assets at fair value through profit or loss	96	86	36
Interest income on available-for-sale investment securities	21,089	19,959	16,035

	Year ended 31 December 2015	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Total interest income	254,856	210,593	182,563
Interest expense comprises:			
Interest expense on financial liabilities recorded at amortized cost	(104,552)	(77,458)	(75,932)
Total interest expense	(104,552)	(77,458)	(75,932)
Interest expense on financial liabilities recorded at amortized cost comprise:			
Interest expense on amounts due to customers	(64,927)	(57,799)	(53,954)
Interest expense on amounts due to credit institutions	(5,369)	(2,403)	(940)
Interest expense on debt securities issued	(34,256)	(17,256)	(21,038)
Total interest expense on financial liabilities recorded at amortized cost	(104,552)	(77,458)	(75,932)
Net interest income before impairment charge	150,304	133,135	106,631

29. FEES AND COMMISSIONS

Fee and commission income derived from the following sources:

	Year ended 31 December 2015	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Bank transfers - settlements	14,102	11,165	10,260
Cash operations	9,369	8,757	7,338
Payment cards maintenance	9,471	7,934	6,823
Bank transfers – salary projects	6,862	6,456	5,922
Servicing customers' pension payments	5,867	5,047	4,234
Letters of credit and guarantees issued	3,363	3,183	3,510
Maintenance of customer accounts	1,684	1,327	984
Other	2,590	2,904	2,798
Pension fund and asset management	-	11,865	9,537
	53,308	58,638	51,406

Fee and commission income from Pension fund and asset management derived from the following:

	Year ended 31 December 2015	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Investment income from management of pension assets	-	10,259	3,417
Income from administration of pension assets	-	1,606	6,120
	-	11,865	9,537

On 26 March 2014 APF transferred all pension assets to JSC SAPF. Subsequently the Group stopped carrying out pension asset management activities.

Fee and commission expense comprised the following:

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Deposit insurance	(4,796)	(4,016)	(3,435)
Payment cards	(2,943)	(2,201)	(1,361)
Foreign currency operations	(919)	(778)	(368)
Bank transfers	(517)	(335)	(260)
Commission paid to collectors	(437)	(495)	(614)
Other	(1,225)	(734)	(1,101)
	(10,837)	(8,559)	(7,139)

30. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Net gain on operations with financial assets and liabilities classified as held for trading:			
Unrealized net gain on derivative and trading operations	153,169	1,291	113
Realized net gain on derivative operations	39,122	6,383	161
Realized net gain/(loss) on trading operations	33	168	(13)
Total net gain on operations with financial assets and liabilities classified as held for trading	192,324	7,842	261

Unrealized gain on operations with derivative financial instruments refers mainly to swap agreements with NBRK for which the fair value significantly increased due to depreciation of USD to KZT exchange rate.

31. NET FOREIGN EXCHANGE (LOSS)/GAIN

Net foreign exchange (loss)/gain comprises:

	Year ended 31 December 2015	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Dealing, net	8,463	10,527	6,667
Translation differences, net	(169,485)	(3,441)	2,594
Total net foreign exchange (loss)/gain	(161,022)	7,086	9,261

Net foreign exchange loss in 2015 is associated with the announcement of the Government and the NBRK on transition to a new monetary policy based on free-floating KZT exchange rate, and cancellation of the currency corridor.

31. INSURANCE UNDERWRITING INCOME

Insurance underwriting income/expense comprised:

	Year ended 31 December 2015	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Insurance premiums written, gross	50,859	38,887	34,331
Change in unearned insurance premiums, net	(5,439)	(1,869)	(734)
Ceded reinsurance share	(19,846)	(16,340)	(14,186)
	25,574	20,678	19,411
Insurance payments	(10,081)	(8,528)	(8,457)
Commissions to agents	(5,855)	(4,332)	(443)
Insurance reserves	(6,857)	(3,335)	(5,033)
	(22,793)	(16,195)	(13,933)
Total insurance underwriting income	2,781	4,483	5,478

32. OPERATING EXPENSES

Operating expenses comprised:

	Year ended 31 December 2015	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Salaries and other employee benefits	40,886	35,767	30,899
Depreciation and amortization expenses	6,323	5,023	5,747
Taxes other than income tax	3,607	2,734	2,443
Rent	2,511	1,379	1,248
Security	1,933	1,494	1,436
Repair and maintenance	1,867	1,855	1,559
Communication	1,621	1,574	1,238
Utilities	1,515	1,095	1,085
Information services	1,511	1,247	941
Advertisement	1,359	1,154	1,138
Business trip expenses	738	736	639
Stationery and office supplies	719	620	599
Professional services	671	1,343	1,835
Insurance agents fees	569	700	717
Charity	509	577	564
Transportation	475	488	525
Impairment of investments in subsidiaries	351	367	-
Hospitality expenses	119	104	53
Social events	84	208	324
Write-off and impairment of property and equipment, intangible assets and investment property	57	1,141	175
Other	3,380	2,804	1,655
	70,805	62,410	54,820

34. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

According to Kazakhstan legislation on Joint Stock Companies, and as described in Note 26, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preferred shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2015	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Basic earnings per share			
Net income for the year attributable to equity holders of the parent	120,312	114,377	72,137
Less: Dividends paid on preferred shares	(2,543)	(1,757)	(2,197)
Earnings attributable to common shareholders	117,769	112,620	69,940
Weighted average number of common shares for the purposes of basic earnings per share	10,910,049,314	10,910,233,188	10,906,545,755
Basic earnings per share (in Kazakhstani Tenge)	10.79	10.32	6.41
Diluted earnings per share			
Earnings used in the calculation of basic earnings per share	117,769	112,620	69,940
Add: Dividends paid on convertible preferred shares	1,078	744	899
Add: Additional dividends that would be paid on full distribution of profit to the convertible preferred shareholders*	N/A	N/A	N/A
Less: Amounts payable to convertible preferred shareholders upon conversion	(6,091)	(10,102)	(10,455)
Earnings used in the calculation of total diluted earnings per share	112,756	103,262	60,384
Weighted average number of common shares for the purposes of basic earnings per share	10,910,049,314	10,910,233,188	10,906,545,755

	Year ended 31 December 2015	***Year ended 31 December 2014***	***Year ended 31 December 2013***
Weighted average number of common shares that would be issued for the convertible preferred shares	51,401,960	79,971,439	79,886,934
Weighted average number of common shares for the purposes of diluted earnings per share	10,961,451,274	10,990,204,627	10,986,432,689
Diluted earnings per share (in Kazakhstani Tenge)	10.29	9.40	5.50

** The calculation of basic and diluted earnings per share includes only earnings attributable to holders of common shares because dividends already paid on preferred shares are greater than that would be paid on full distribution of current period earnings.*

As required by KASE rules for listed companies the book value of one share per each class of shares as at 31 December 2015, 2014 and 2013, is disclosed as follows:

		31 December 2015	
Class of shares	***Outstanding shares***	***Equity***	***Book value of one share, in KZT***
Common	10,909,450,551	523,109	47.95
Non-convertible preferred	20,443,932	(3,975)	(194.43)
Convertible preferred	369,555	2,135	5,777.22
		521,269	

		31 December 2014	
Class of shares	***Outstanding shares***	***Equity***	***Book value of one share, in KZT***
Common	10,909,898,713	444,217	40.72
Non-convertible preferred	109,300,945	9,049	82.79
Convertible preferred	79,861,400	13,291	166.43
		466,557	

	31 December 2013		
Class of shares	***Outstanding shares***	***Equity***	***Book value of one share, in KZT***
Common	10,908,700,519	362,761	33.25
Non-convertible preferred	115,533,834	10,510	90.97
Convertible preferred	79,997,250	13,291	166.14
		386,562	

Equity attributable to non-convertible preferred shares is calculated as the sum of non-convertible shares carrying amount and the share premium reserve attributable to non-convertible preferred shares. Equity attributable to convertible preferred shares is calculated as carrying amount of convertible preferred shares. Equity attributable to common shares is calculated as the difference between total equity, total net book value of intangible assets, and amounts attributable to preferred shares.

The management of the Group believes that it fully complies with the requirement of KASE as at the reporting dates.

35. FINANCIAL RISK MANAGEMENT

Risk management is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Liquidity risk; and
- Market risk

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

Credit risk is the risk of loss arising for the Group when counterparty is unable to meet its contractual obligations on time or in full.

Risk Management division plays an important role in managing and controlling the credit risk. This division is responsible for credit risk identification and evaluation and implementation of control and monitoring measures. The Risk Management division directly participates in credit decision-making processes and consideration of internal rules, regulations and loan programs. In addition, the division provides independent recommendations concerning credit exposure minimization measures, controls limits and monitors credit risks, provides relevant reporting to management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/ counterparty, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, including banks and brokers, covers on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

The risk that the counterparty will not meet its obligations is restricted by the limits covering on and off-balance sheet exposure.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk for off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon counterparties maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the consolidated statement of financial position, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off-balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Structure and authorities of credit committees

Credit committees, ALMC, the Management Board and the Board of Directors are credit authorities responsible for implementation of the Bank's Credit Policy and credit decision-making process.

Head Office Credit Committee (CC)

CC is the committee, the primary goal of which is implementation of the Bank's Credit Policy in terms of credit operations and credit applications from corporate customers.

Branch Credit Committee and Branch Network Credit Committee (BCC, BNCC)

BCC and BNCC are committees, the primary goal of which is implementation of the Bank's Credit Policy in terms of granting financial instruments via branches to the small and medium enterprises customers.

Delegated credit authority limits for BCC and BNCC are established by the Management Board. BCC makes credit decisions within its limits. If the loan application exceeds the relevant credit limit or the authorities of the BCC, the final decision has to be taken by the BNCC. The procedure of the decision-making by the BNCC involves consideration of a package of documents, including complex analysis and assessments of the potential borrowers conducted by the Bank's experts.

Retail Branch Credit Committee of the Head Office and Decision Making Center (RCCHO and DMC)

RCCHO and DMC are credit decision authorities, the primary goal of which is implementation of the Bank's Credit Policy in terms of granting retail financial instruments via branches.

DMC comprises of credit underwriters with delegated credit authorities based on four eyes principle. DMC makes credit decisions within their authorities and limits established by the Management Board and RCCHO. RCCHO is authorized to consider loan applications that exceed relevant credit limits or the authorities of the DMC, as well as other matters within the authorities established by the Management Board.

Along with the process of decision-making via the credit decision authorities mentioned above, there is an automated approach of decision-making process for potential borrowers whose income can be confirmed by the Independent Government body. This approach takes into account risk-profile of the potential borrower and allows minimizing the credit risk exposure in the decision-making process.

Problem loans committee of the Head Office, branches

Are committees, the primary goal of which is implementation of the Bank's Credit Policy in terms of management, servicing and maintaining the repayment of the problem loans.

Authorized credit authorities of the Bank subsidiaries

Consideration and approval of the loan applications in the subsidiaries are performed by the Authorized credit authorities in accordance with the internal rules and regulations of the subsidiary. Loan applications exceeding the established limits and authorities have to be approved by the Board of Directors of the subsidiaries with the preliminary consideration by the relevant Credit committee according to the Bank's internal rules and regulations.

ALMC

ALMC is the committee, the primary goal of which is profit maximization and to limit the risks of banking activities related to raising and allocation of funds. The main tasks of the ALMC are: liquidity management, interest rate risk management, price risk and other banking risks management.

ALMC is also responsible for establishing country and counterparty-banks limits. ALMC reports to the Board of Directors.

The Management Board

For loan applications exceeding the authorities of the Head Office Credit Committee, Branch Network Credit Committee, Retail Credit Committee of the Head Office, or exceeding the relevant limits of Branch Network Credit Committee, Retail Credit Committee of the Head Office have to be considered by the Management Board.

The Board of Directors

If the loan applications exceed 5% of the Bank's equity capital or the potential borrower is a related party, such applications have to be considered by the Board of Directors.

Maximum Exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on (Note 27). The collateral pledged is represented by the carrying amount of a financial instrument for which the collateral was received as security.

	31 December 2015			
	Maximum exposure	***Offset***	***Net exposure after offset***	***Collateral pledged***
Cash equivalents*	1,285,789	-	1,285,789	8,320
Obligatory reserves	68,389	-	68,389	-
Financial assets at fair value through profit or loss (less equity securities)	176,838	-	176,838	-
Amounts due from credit institutions	44,993	-	44,993	-
Available-for-sale investment securities (less equity securities)	373,356	-	373,356	-
Loans to customers	2,176,069	-	2,176,069	2,040,192
Other financial assets	6,226	-	6,226	-
	4,131,667	-	4,131,667	2,048,519
Commitments and contingencies	237,566	-	237,566	18,675

	31 December 2014			
	Maximum exposure	***Offset***	***Net exposure after offset***	***Collateral Pledged***
Cash equivalents*	410,124	-	410,124	3,803
Obligatory reserves	48,225	-	48,225	-
Financial assets at fair value through profit or loss (less equity securities)	15,361	-	15,361	-
Amounts due from credit institutions	27,095	-	27,095	-
Available-for-sale investment securities (less equity securities)	379,648	-	379,648	-
Loans to customers	1,648,013	-	1,648,013	1,579,026
Other financial assets	8,493	-	8,493	-
	2,536,959	-	2,536,959	1,582,829
Commitments and contingencies	182,414	-	182,414	3,427

	31 December 2013			
	Maximum exposure	***Offset***	***Net exposure after offset***	***Collateral Pledged***
Cash equivalents*	405,561	-	405,561	32,326
Obligatory reserves	44,276	-	44,276	-
Financial assets at fair value through profit or loss (less equity securities)	1,235	-	1,235	-
Amounts due from credit institutions	25,808	-	25,808	-
Available-for-sale investment securities (less equity securities)	345,638	-	345,638	-
Loans to customers	1,482,245	-	1,482,245	1,436,711
Other financial assets	3,979	-	3,979	-
	2,308,742	-	2,308,742	1,469,037
Commitments and contingencies	178,439	-	178,439	6,249

** Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents.*

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Group's internal rating system. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group, before any impairment losses:

	AA	***AA-***	***A***	***BBB***	***<BBB***	***Not Rated***	***31 December 2015 Total***
Cash equivalents*	74,268	85,108	41,422	1,033,095	46,447	5,449	1,285,789
Obligatory reserves	-	-	-	66,023	2,366	-	68,389
Financial assets at fair value through profit or loss	21	-	1,026	174,815	970	238	177,070
Amounts due from credit institutions	-	-	11,524	27,463	6,013	-	45,000
Available-for-sale investment securities	5,839	-	-	265,583	101,614	11,000	384,036
Other financial assets	-	-	-	-	-	10,794	10,794
Commitments and contingencies	-	-	-	-	-	238,548	238,548

	AA	*AA-*	*A*	*BBB*	*<BBB*	*Not Rated*	*31 December 2014 Total*
Cash equivalents*	7,743	43,135	85,484	265,090	6,184	2,488	410,124
Obligatory reserves	-	-	-	47,335	561	329	48,225
Financial assets at fair value through profit or loss	-	1	554	14,418	408	346	15,727
Amounts due from credit institutions	-	-	2,501	24,222	48	324	27,095
Available-for-sale investment securities	9,576	20	33,567	246,433	82,053	16,641	388,290
Other financial assets	-	-	-	-	-	12,790	12,790
Commitments and contingencies	-	-	-	-	-	182,821	182,821

	AA	*AA-*	*A*	*BBB*	*<BBB*	*Not Rated*	*31 December 2013 Total*
Cash equivalents*	10,104	27,246	248,914	117,087	1,856	354	405,561
Obligatory reserves	-	-	-	43,755	-	521	44,276
Financial assets at fair value through profit or loss	-	-	161	714	298	161	1,334
Amounts due from credit institutions	-	-	2,010	15,891	7,678	234	25,813
Available-for-sale investment securities	7,918	-	29,548	283,998	25,786	4,342	351,592

	AA	*AA-*	*A*	*BBB*	*<BBB*	*Not Rated*	*31 December 2013 Total*
Other financial assets	-	-	-	-	-	9,155	9,155
Commitments and contingencies	-	-	-	-	-	182,602	182,602

** Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents.*

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Group, and this classification is verified by the Risk Management function.

The Group is considering the following impairment indicators:

- Overdue for more than 90 days;
- Default rating calculated based on rating model described below;
- Restructuring because of deterioration of financial position of the borrower; and

The Group is using an internal rating model to classify loans in different risk categories.

After the occurrence of an impairment event, the model assists in estimating the allowance for loan loss based on a borrowers' financial performance, credit history, quality of accounts receivable, liquidity of the borrower, market risks relating to the borrower, industry of the borrower and other factors. Periodically the required information is inputted into the model by credit analysts. Information input into the system and the estimate of the allowance for loan loss is verified by the Risk management department.

The following classifications are used by the rating model:

- Rating score 1 - superior loan rating, minimal credit risk;
- Rating score 2 - very high quality of loan, very low credit risk;
- Rating score 3 - high quality of loan, low credit risk;
- Rating score 4 - satisfactory quality of loan, insignificant risk;
- Rating score 5 - credit risk can increase at economic variation;
- Rating score 6 - high risk at economic variation;
- Rating score 7 - high risk of default, paying capacity of the borrower depends on favourable economic circumstances;
- Rating score 8 – 10 – very high risk of default/default.

Pools of homogeneous loans – loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Pools of homogeneous loans include assets that had been assessed collectively.

Rating score	***31 December 2015***	***31 December 2014***	***31 December 2013***
1	-	-	-
2	-	-	-
3	-	8,984	2,091
4	158,907	198,407	93,919
5	270,049	191,679	398,582
6	500,177	340,418	96,218
7	412,839	200,867	256,419
8-10	162,838	223,515	308,154
Loans to corporate customers that are individually assessed for impairment	1,504,810	1,163,870	1,155,383
Loans to SME customers and retail business that are individually assessed for impairment	127,503	98,674	172,118
Loans to customers that are collectively assessed for impairment	848,870	671,487	478,055
	2,481,183	1,934,031	1,805,556
Less – Allowance for loan impairment (Note 23)	(305,114)	(286,018)	(323,311)
Loans to customers	2,176,069	1,648,013	1,482,245

The following table details the carrying value of assets that are impaired and for those that are past due but not impaired:

	Financial assets that have been individually assessed for impairment				*Financial assets that have been collectively assessed for impairment*		*31 December 2015 Total*
	Unimpaired financial assets that have been individually assessed for impairment		*Impaired financial assets that have been individually assessed for impairment*				
	Carrying amount of assets	*Amount of allowance for impairment losses*	*Carrying amount of assets*	*Amount of allowance for impairment losses*	*Carrying amount of assets*	*Amount of allowance for impairment losses*	
Amounts due from credit institutions	44,993	-	7	(7)	-	-	44,993
Available-for-sale investment securities	378,520	-	5,516	(5,516)	-	-	378,520
Loans to customers	1,161,326	(14,269)	470,987	(193,849)	848,870	(96,996)	2,176,069
Other financial assets	3,602	-	7,191	(4,567)	-	-	6,226

	Financial assets that have been individually assessed for impairment				*Financial assets that have been collectively assessed for impairment*		*31 December 2014 Total*
	Unimpaired financial assets that have been individually assessed for impairment		*Impaired financial assets that have been individually assessed for impairment*				
	Carrying amount of assets	*Amount of allowance for impairment losses*	*Carrying amount of assets*	*Amount of allowance for impairment losses*	*Carrying amount of assets*	*Amount of allowance for impairment losses*	
Amounts due from credit institutions	27,095	-	-	-	-	-	27,095
Available-for-sale investment securities	386,423	-	1,858	(1,858)	-	-	386,423
Loans to customers	840,065	(9,235)	422,479	(197,942)	671,487	(78,841)	1,648,013
Other financial assets	6,611	-	6,179	(4,297)	-	-	8,493

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2013 Total
	Unimpaired financial assets that have been individually assessed for impairment		Impaired financial assets that have been individually assessed for impairment				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	
Amounts due from credit institutions	25,813	(5)	-	-	-	-	25,808
Available-for-sale investment securities	350,522	-	1,040	(1,040)	-	-	350,552
Loans to customers	776,471	(39,454)	551,030	(226,935)	478,055	(56,922)	1,482,245
Other financial assets	3,490	-	5,665	(5,176)	-	-	3,979

As at 31 December 2015 the carrying amount of unimpaired overdue loans was KZT 11,119 million (31 December 2014 – KZT 1,528 million; 31 December 2013 – KZT 1,118 million). Maturities of these overdue loans are not greater than 90 days.

Liquidity risk

Liquidity risk is the risk resulting from the inability of the Group to provide funds for repayment of its obligations in a due time. The Group's liquidity risk arises when terms of assets on active operations and maturity dates of obligations do not match.

Short-term liquidity needs are managed by the Group's Treasury function collecting daily customers' cash inflow/outflow forecasts. Long-term liquidity management is performed by ALMC by analyzing longer term liquidity positions and making decisions on managing significant gaps through various available means.

In order to manage liquidity risk, the Group analyzes the financial assets and liabilities, and obligatory reserves taking into account payment schedules for loans issued to customers. The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the earliest of the contractual maturity date or available maturity date, except for financial assets at fair value through profit or loss which are included in the column "Less than 1 month" as they are available to meet the Group's short-term liquidity needs.

	31 December 2015					
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS:						
Cash and cash equivalents	1,404,000	680	-	-	-	1,404,680
Obligatory reserves	36,373	2,864	20,677	4,522	3,953	68,389
Financial assets at fair value through profit or loss	8,271	8,058	86,331	74,410	-	177,070
Amounts due from credit institutions	6,735	49	21,413	8,364	8,432	44,993
Available-for-sale investment securities	1,786	3,197	42,015	156,592	174,930	378,520
Loans to customers	145,257	217,322	1,443,491	258,976	111,023	2,176,069
Other financial assets	3,666	1,375	1,159	3	23	6,226
	1,606,088	233,545	1,615,086	502,867	298,361	4,255,947
FINANCIAL LIABILITIES:						
Amounts due to customers	1,512,389	157,208	1,251,201	38,008	84,925	3,043,731
Amounts due to credit institutions	65,353	140	1,142	8,879	92,744	168,258
Financial liabilities at fair value through profit or loss	5,593	-	-	-	-	5,593
Debt securities issued	4,973	3,802	7,366	202,178	379,206	597,525

	31 December 2015					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Other financial liabilities	10,671	315	1,551	183	11	12,731
	1,598,979	161,465	1,261,260	249,248	556,886	3,827,838
Net position	7,109	72,080	353,826	253,619	(258,525)	
Accumulated gap	7,109	79,189	433,015	686,634	428,109	

	31 December 2014					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	537,252	3,285	-	-	-	540,537
Obligatory reserves	26,799	3,353	12,141	3,320	2,612	48,225
Financial assets at fair value through profit or loss	7,951	-	2,064	5,712	-	15,727
Amounts due from credit institutions	2,734	8,279	1,773	14,309	-	27,095
Available-for-sale investment securities	6,007	2,878	52,498	196,413	128,627	386,423
Loans to customers	154,159	172,535	1,011,360	235,171	74,788	1,648,013
Other financial assets	7,909	389	142	15	38	8,493
	742,811	190,719	1,079,978	454,940	206,065	2,674,513
FINANCIAL LIABILITIES:						
Amounts due to customers	995,765	215,470	489,419	104,434	43,125	1,848,213
Amounts due to credit institutions	24,908	-	274	3,837	78,173	107,192
Financial liabilities at fair value through profit or loss	3,131	-	-	-	-	3,131
Debt securities issued	2,797	-	13,754	113,869	180,589	311,009
Other financial liabilities	9,310	237	729	74	3	10,353
	1,035,911	215,707	504,176	222,214	301,890	2,279,898

	31 December 2014					
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Net position	(293,100)	(24,988)	575,802	232,726	(95,825)	
Accumulated gap	(293,100)	(318,088)	257,714	490,440	394,615	

	31 December 2013					
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
FINANCIAL ASSETS:						
Cash and cash equivalents	462,744	23,569	-	-	-	486,313
Obligatory reserves	25,666	3,095	11,145	2,360	2,010	44,276
Financial assets at fair value through profit or loss	1,334	-	-	-	-	1,334
Amounts due from credit institutions	2,784	1,539	5,183	16,297	5	25,808
Available-for-sale investment securities	11,292	20,090	31,346	221,720	66,104	350,552
Loans to customers	176,593	174,538	869,799	217,895	43,420	1,482,245
Other financial assets	3,499	217	64	140	59	3,979
	683,912	223,048	917,537	458,412	111,598	2,394,507
FINANCIAL LIABILITIES:						
Amounts due to customers	954,509	126,847	531,262	121,948	32,082	1,766,648
Amounts due to credit institutions	99,191	2,945	627	1,141	3,491	107,395
Financial liabilities at fair value through profit or loss	69	-	-	-	-	69
Debt securities issued	2,377	-	5,329	109,368	72,441	189,515
Other financial liabilities	6,571	307	1,232	138	-	8,248
	1,062,717	130,099	538,450	232,595	108,014	2,071,875
Net position	(378,805)	92,949	379,087	225,817	3,584	

	31 December 2013					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Accumulated gap	(378,805)	(285,856)	93,231	319,048	322,632	

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Group possesses a right to unilaterally call back part of long-term loans provided to customers in ten months period after proper notification would be issued by the Group.

A significant portion of the Group's liabilities is represented by customer term deposits, current accounts of corporate and retail customers, and bonds.

Management believes that although a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group indicate that these deposits provide a long-term and stable source of funding for the Group. Therefore an essential part of current accounts is considered as stable resources for the purposes of liquidity analysis and management.

A further analysis of the liquidity risk is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities and contingent liabilities based on the remaining contractual payments (including interest payments).

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2015 Total
Amounts due to customers	1,513,423	157,975	1,289,364	40,141	131,846	3,132,749
Amounts due to credit institutions	65,908	158	1,213	9,815	121,931	199,025
Debt securities issued	11,135	8,739	42,555	353,676	436,265	852,370
Other financial liabilities	10,674	315	1,551	183	8	12,731
Guarantees issued	186,306	-	-	-	-	186,306
Commercial letters of credit	17,064	-	-	-	-	17,064
Commitments to extend credit	35,178	-	-	-	-	35,178
	1,839,688	167,187	1,334,683	403,815	690,050	4,435,423

	Up to 1 month	*1 month to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*31 December 2015 Total*
Derivative financial assets	99,199	38,492	376,966	-	-	514,657
Derivative financial liabilities	97,336	33,218	113,943	100,439	-	344,936

	Up to 1 month	*1 month to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*31 December 2014 Total*
Amounts due to customers	998,589	222,913	511,807	222,648	63,160	2,019,117
Amounts due to credit institutions	24,935	1	370	4,274	101,587	131,167
Debt securities issued	2,797	72	37,659	197,358	209,846	447,732
Other financial liabilities	9,310	237	729	74	3	10,353
Guarantees issued	155,639	-	-	-	-	155,639
Commercial letters of credit	6,657	-	-	-	-	6,657
Commitments to extend credit	20,525	-	-	-	-	20,525
	1,218,452	223,223	550,565	424,354	374,596	2,791,190
Derivative financial assets	78,612	92,682	-	182,350	-	353,644
Derivative financial liabilities	75,310	-	94,906	174,466	-	344,682

	Up to 1 month	*1 month to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*31 December 2013 Total*
Amounts due to customers	956,471	132,320	547,930	197,744	53,166	1,887,631
Amounts due to credit institutions	99,286	2,965	637	1,292	5,810	109,990
Debt securities issued	2,377	-	20,332	151,928	84,054	258,691
Other financial liabilities	6,571	307	1,232	138	-	8,248
Guarantees issued	156,699	-	-	-	-	156,699

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2013 Total
Commercial letters of credit	12,093	-	-	-	-	12,093
Commitments to extend credit	13,810	-	-	-	-	13,810
	1,247,307	135,592	570,131	351,102	143,030	2,447,162
Derivative financial assets	68,517	-	1,212	-	-	69,729
Derivative financial liabilities	68,446	-	961	-	-	69,407

Market risk

Market risk is a risk that Group's earnings or equity or its ability to meet business objectives will be adversely affected by changes in market variables such as interest rates, foreign exchange rates, securities prices and other basic variables.

The Group is exposed to market risks which include the following components:

- Risk of changes in interest rates (interest rate risk);
- Risk of changes in foreign exchange rates (currency risk);
- Risk of changes in securities prices (price risk).

The objective of market risk management is to optimize risk/return, minimize losses in case of adverse events and decrease deviation of factual financial results from the expected one.

Market risk management includes security portfolio management and control of open positions on currencies, interest rates and derivatives. For these purposes ALMC fixes limits on security portfolios, open positions, stop-loss limits and other limitations. Market risk limits are subject to review at least on an annual basis and should be monitored continuously.

Interest rate risk

The Group is exposed to interest rate risk. Interest rate risk is defined as the risk of interest income decrease, interest expense increase or negative impact on equity resulting from adverse changes of market interest rates.

The Group determines two types of interest rate risk:

- Interest rate risk related to securities portfolios changes in fair value of which are reflected through equity;
- Interest rate risk resulting from assets and liabilities maturity dates (dates of interest rates repricing) mismatch that are sensitive to the interest rates changes (risk of interest rates changes).

ALMC manages interest rate risks and market risks through the management of the Group's position on interest rates to reach positive interest margins. Budgeting and Controlling Department monitors current results of the Group's financial activity, estimates the Group's sensitivity in relation to interest rates changes and influence on the Group's profits.

The Group manages interest rates by determining the Group's exposure to the interest rate risk using the approach described by the Basel Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Group's exposure to the interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities by 200 basis points.

Sensitivity analysis of interest rate risk

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The impact on profit before tax is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2015, 2014 and 2013, and the effect of revaluing instruments with fixed rates accounted at fair value. The management of the Group believes income tax not to have substantial effect for the purpose of interest rate risk management.

Impact on income before tax based on asset values as at 31 December 2015, 2014 and 2013:

	31 December 2015		31 December 2014		31 December 2013	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Loans to customers	1,682	(1,682)	359	(359)	336	(336)
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	-	-	10	(10)	45	(45)
Net impact on income before tax	1,682	(1,682)	349	(349)	291	(291)

The impact on equity is the effect of the assumed changes in interest rate due to changes in retained earnings and the effect of revaluation of available-for-sale investment securities with fixed rates.

Impact on equity:

	31 December 2015		31 December 2014		31 December 2013	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Loans to customers	1,682	(1,682)	359	(359)	336	(336)
Available-for-sale investment securities	(30,024)	30,024	(28,359)	28,359	(19,471)	19,471
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	-	-	10	(10)	45	(45)
Net impact on equity	(28,342)	28,342	(28,010)	28,010	(19,180)	19,180

Currency Risk

The Group is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on the financial performance of the Group.

ALMC controls currency risk by management of the open currency position based on the estimations of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations of national and foreign currencies.

The Treasury Department performs daily monitoring of the Group's open currency position with the aim to comply with the requirements of the regulatory authority.

The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial position, results of operations and cash flows, which are monitored daily. ALMC sets limits on the level of exposure by currencies within the authority approved by the Board of Directors. These limits also comply with the minimum requirements of the regulator authority.

The Group's principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying values of the Group's USD denominated monetary assets and liabilities. Currency risk is assessed in relation to the consolidated statement of financial position and off-balance sheet positions. Current Group's sensitivity to fluctuations in exchange rates is acceptable due to the fact that the off balance sheet items significantly neutralize the statement of financial position.

The Group's exposure to foreign currency exchange rate risk follows:

	31 December 2015						
	USD	***EURO***	***RUR***	***Other***	***TOTAL foreign currencies***	***KZT***	***TOTAL***
FINANCIAL ASSETS:							
Cash and cash equivalents	1,246,957	46,458	17,737	25,328	1,336,480	68,200	1,404,680
Obligatory reserves	52,945	1,149	233	970	55,297	13,092	68,389
Financial assets at fair value through profit or loss	1,000	-	-	-	1,000	176,070	177,070
Amounts due from credit institutions	14,829	-	-	-	14,829	30,164	44,993
Available-for-sale investment securities	211,261	1,784	904	654	214,603	163,917	378,520
Loans to customers	671,755	5,986	15,653	12,430	705,824	1,470,245	2,176,069
Other financial assets	44	48	56	195	343	5,883	6,226
	2,198,791	55,425	34,583	39,577	2,328,376	1,927,571	4,255,947
FINANCIAL LIABILITIES							
Amounts due to customers	2,247,718	54,362	6,085	12,511	2,320,676	723,055	3,043,731
Amounts due to credit institutions	22,732	545	1,952	1,332	26,561	141,697	168,258
Financial liabilities at fair value through profit or loss	-	2	-	-	2	5,591	5,593
Debt securities issued	364,241	-	-	-	364,241	233,284	597,525
Other financial liabilities	853	72	151	315	1,391	11,340	12,731
	2,635,544	54,981	8,188	14,158	2,712,871	1,114,967	3,827,838
Net position – on balance	(436,753)	444	26,395	25,419	(384,495)	812,604	428,109
Net position – off-balance	462,886	37	(14,441)	(21,338)	427,144	(252,186)	
Net position	26,133	481	11,954	4,081	42,649	560,418	

	31 December 2014						
	USD	**EURO**	**RUR**	**Other**	**TOTAL foreign currencies**	**KZT**	**TOTAL**
FINANCIAL ASSETS:							
Cash and cash equivalents	399,727	44,879	9,395	13,434	467,435	73,102	540,537
Obligatory reserves	29,053	980	333	356	30,722	17,503	48,225
Financial assets at fair value through profit or loss	578	-	-	86	664	15,063	15,727
Amounts due from credit institutions	2,490	-	-	-	2,490	24,605	27,095
Available-for-sale investment securities	190,531	1,057	1,059	1,617	194,264	192,159	386,423
Loans to customers	427,775	4,289	8,208	9,011	449,283	1,198,730	1,648,013
Other financial assets	1,399	26	76	63	1,564	6,929	8,493
	1,051,553	51,231	19,071	24,567	1,146,422	1,528,091	2,674,513
FINANCIAL LIABILITIES							
Amounts due to customers	1,139,993	52,080	3,135	7,976	1,203,184	645,029	1,848,213
Amounts due to credit institutions	11,672	290	802	399	13,163	94,029	107,192
Financial liabilities at fair value through profit or loss	-	-	-	-	-	3,131	3,131
Debt securities issued	195,266		-	-	195,266	115,743	311,009
Other financial liabilities	199	118	32	173	522	9,831	10,353
	1,347,130	52,488	3,969	8,548	1,412,135	867,763	2,279,898
Net position – on balance	(295,577)	(1,257)	15,102	16,019	(265,713)	660,328	394,615
Net position – off-balance	318,777	(346)	(9,171)	(13,591)	295,669	(295,669)	
Net position	23,200	(1,603)	5,931	2,428	29,956	364,659	

	31 December 2013						
	USD	***EURO***	***RUR***	***Other***	***TOTAL foreign currencies***	***KZT***	***TOTAL***
FINANCIAL ASSETS:							
Cash and cash equivalents	288,851	22,138	8,086	6,858	325,933	160,380	486,313
Obligatory reserves	19,496	582	136	368	20,582	23,694	44,276
Financial assets at fair value through profit or loss	478	-	-	50	528	806	1,334
Amounts due from credit institutions	2,515	-	-	-	2,515	23,293	25,808
Available-for-sale investment securities	173,354	-	1,826	979	176,159	174,393	350,552
Loans to customers	493,463	3,056	7,103	5,017	508,639	973,606	1,482,245
Other financial assets	247	47	82	32	408	3,571	3,979
	978,404	25,823	17,233	13,304	1,034,764	1,359,743	2,394,507
FINANCIAL LIABILITIES							
Amounts due to customers	734,129	25,063	3,653	19,099	781,944	984,704	1,766,648
Amounts due to credit institutions	28,152	474	3	158	28,787	78,608	107,395
Financial liabilities at fair value through profit or loss	-	-	-	-	-	69	69
Debt securities issued	162,055	-	3,276	-	165,331	24,184	189,515
Other financial liabilities	25	58	14	100	197	8,051	8,248
	924,361	25,595	6,946	19,357	976,259	1,095,616	2,071,875
Net position – on balance	54,043	228	10,287	(6,053)	58,505	264,127	322,632
Net position – off-balance	(41,824)	36	(7,989)	(5,267)	(55,044)	55,044	
Net position	12,219	264	2,298	(11,320)	3,461	319,171	

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Group had significant exposure at 31 December 2015, 2014 and 2013, and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase. Sensitivity of currency risk is assessed based on balance sheet and off-balance open currency positions. The management of the Group believes income tax not to have substantial effect for the purpose of currency risk management.

Impact on income before tax based on asset values as at 31 December 2015, 2014 and 2013, calculated using currency rate fluctuations analysis:

	31 December 2015		31 December 2014		31 December 2013	
	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/ USD
Impact on income before tax	6,533	(6,533)	5,800	(5,800)	3,055	(3,055)

	31 December 2015		31 December 2014		31 December 2013	
	+25% KZT/EURO	-25% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO	+25% KZT/EURO	-25% KZT/ EURO
Impact on income before tax	120	(120)	(401)	401	66	(66)

	31 December 2015		31 December 2014		31 December 2013	
	+25% KZT/RUR	-25% KZT/RUR	+25% KZT/RUR	-25% KZT/RUR	+25% KZT/RUR	-25% KZT/ RUR
Impact on income before tax	2,989	(2,989)	1,483	(1,483)	575	(575)

Impact on equity:

	31 December 2015		31 December 2014		31 December 2013	
	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD	-25% KZT/USD	-25% KZT/ USD
Impact on equity	6,533	(6,533)	5,800	(5,800)	3,055	(3,055)

	31 December 2015		31 December 2014		31 December 2013	
	+25% KZT/EURO	-25% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO	-25% KZT/EURO	-25% KZT/ EURO
Impact on equity	120	(120)	(401)	401	66	(66)

	31 December 2015		31 December 2014		31 December 2013	
	+25% KZT/RUR	-25% KZT/RUR	+25% KZT/RUR	-25% KZT/RUR	-25% KZT/RUR	-25% KZT/ RUR
Impact on equity	2,989	(2,989)	1,483	(1,483)	575	(575)

Limitations of sensitivity analysis

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

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

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, where those changes are caused by factors specific to the individual security, its issuer, or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

To limit price risk the Group determines limits for maximum losses (stop-loss) on each security from trade portfolio to minimize potential losses of trade portfolio.

Price risk assessment is also made on the basis of VaR method through establishment of Expected Shortfall (ES) limits on the level of the expected losses, which the Bank is able to undertake within one day in situation when factual losses may exceed the level of VaR.

Calculation of VaR is based on the following parameters:

- Reporting period – 252 working days;
- Confidence interval – 95%;
- The method of measurement – historical simulation.

The Group estimates the price risk at 31 December 2015, 2014 and 2013, to be not material and therefore quantitative information is not disclosed.

36. CAPITAL RISK MANAGEMENT

The Group's capital management objectives, which is a broader concept than the "equity" on the face of consolidated statement of financial position, are as follows:

- To comply with the capital requirements set by the NBRK;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined during the annual budgeting process taking into account the above objectives, and is approved by the Management Board and the Board of Directors. The capital adequacy of the Group is controlled according to the principles, methods and coefficients employed by Basel Committee. There have been no changes as to the way the Group measures capital.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and non-controlling interest less accrued dividends, net long position in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long-term debt calculated based on remaining maturities and is limited to 50% of Tier 1 capital.

The risk-weighted assets are measured based on a hierarchy of five risk weighting according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2015, 2014 and 2013. During those three years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 December 2015	***31 December 2014***	***31 December 2013***
Composition of regulatory capital			
Tier 1			
Share capital, net of treasury shares	40,520	64,701	66,161
Share premium	2,039	1,439	1,415
Retained earnings of prior periods	291,998	213,457	161,265
Net income for the current period	120,312	114,377	72,137
Accumulated reserves	73,353	74,043	74,068
Property and equipment and available-for-sale investment securities revaluation and translation reserves	1,707	7,204	16,200
Less: goodwill	(4,954)	(4,954)	(3,085)
Non-controlling interest	-	-	933
Total qualifying tier 1 capital	524,975	470,267	389,094
Tier 2			
Subordinated debt	5,508	7,760	12,557
Total qualifying tier 2 capital	5,508	7,760	12,557
Less: investments in associates	(65)	(30)	(24)
Total regulatory capital	530,418	477,997	401,627
Risk weighted assets	2,922,029	2,271,545	2,170,709
Tier 1 capital ratio	18.0%	20.7%	17.9%
Total capital adequacy ratio	18.2%	21.0%	18.5%

Basel standards set minimum capital adequacy ratio and tier 1 capital at 8% and 4%, respectively.

37. SEGMENT ANALYSIS

The Group is managed and reported on the basis of three main operating segments – corporate banking, small and medium enterprises banking and retail banking. These segments are strategic business units that offer different products and services and are managed separately.

Retail banking represents private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, cash and foreign currency related services to individuals.

Corporate banking represents bank services to corporate clients and financial organizations including current accounts, deposits, overdrafts, loans and other credit facilities, documentary operations and guarantees, trade finance products, interbank operations, as well as cash services and foreign exchange transactions.

SME banking represents bank services to SME clients including current accounts, deposits, overdrafts, loans and other credit facilities, documentary operations and guarantees, foreign exchange transactions and trade finance products.

Other represents capital market services.

Unallocated amounts are account balances and classes of transactions, which are not allocated to particular segment, not initiated by any business function and relate to the current activity of the Group. Unallocated assets include fixed assets, intangible assets, non-current assets held for sale, cash on hand and other unallocated assets. Unallocated liabilities include deferred tax liabilities and other unallocated liabilities. Unallocated income includes other income from main and nonoperating activities and insurance income. Unallocated expenses include provision on account receivables, operating overhead expenses, insurance expenses and income tax.

The segment information below is based on financial information used for performance evaluation by the Bank's Chairperson of the Management Board, the Group's chief operating decision maker, in accordance with IFRS 8. The Group's Management reviews discrete financial information for each segment, including evaluation of operating results, assets and liabilities.

There were no transactions bwetween business segments during the years ended 31 December 2015, 2014 and 2013.

Segment information for the main reportable business segments of the Group as at 31 December 2015, 2014 and 2013 and for the years then ended, is set out below:

	Retail banking	***Corporate banking***	***SME banking***	***Other***	***Unallocated***	***Total***
As at 31 December 2015 and for the year then ended						
External revenues	628,806	(131,817)	94,996	(60,757)	3,871	535,099
Total revenues	628,806	(131,817)	94,996	(60,757)	3,871	535,099
Total revenues comprise:						
- Interest income	94,560	112,057	27,054	21,185	-	254,856
- Fee and commission income	39,187	5,324	7,874	784	139	53,308
- Net gain/(loss)from financial assets and liabilities at fair value through profit or loss	495,059	(249,198)	60,068	(82,726)	(30,879)	192,324
- Insurance underwriting income and other income	-	-	-	-	34,611	34,611
Total revenues	628,806	(131,817)	94,996	(60,757)	3,871	535,099
- Interest expense	(40,515)	(60,800)	(3,237)	-	-	(104,552)
- Impairment charge	(11,553)	12,105	(11,244)	(1,311)	(114)	(12,117)
- Fee and commission expense	(9,659)	(301)	(183)	(35)	(659)	(10,837)
- Operating expenses	(40,465)	(5,417)	(7,080)	(4,287)	(13,556)	(70,805)
- Net realized loss from available-for-sale investment securities	-	-	-	(252)	-	(252)
- Net foreign exchange (loss)/gain	(485,238)	273,959	(56,820)	76,518	30,559	(161,022)
- Provisions	-	(319)	(34)	9	(15)	(359)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(22,793)	(22,793)
Segment result	41,376	87,410	16,398	9,885	(2,707)	152,362
Income before income tax expense						152,362
Income tax expense					(32,050)	(32,050)
Net income						120,312
Total segment assets	540,639	2,952,768	256,885	382,973	321,673	4,454,938
Total segment liabilities	1,468,313	2,082,308	259,757	230	114,402	3,925,010

	Retail banking	Corporate banking	SME banking	Other	Unallocated	Total
Other segment items:						
Capital expenditures					(17,131)	(17,131)
Depreciation and amortization					(6,323)	(6,323)
As at 31 December 2014 and for the year then ended						
External revenues	107,416	115,940	30,341	34,467	26,075	314,239
Total revenues	107,416	115,940	30,341	34,467	26,075	314,239
Total revenues comprise:						
- Interest income	71,136	97,429	21,982	20,046	-	210,593
- Fee and commission income	32,564	5,408	6,205	14,421	40	58,638
- Net gain from financial assets and liabilities at fair value through profit or loss	-	7,842	-	-	-	7,842
- Net gain on foreign exchange operations	3,716	1,533	1,837	-	-	7,086
- Insurance underwriting income and other income	-	-	-	-	26,044	26,044
- Recoveries of other provisions/(other provisions)	-	3,728	317	-	(9)	4,036
Total revenues	107,416	115,940	30,341	34,467	26,075	314,239
- Interest expense	(42,278)	(32,693)	(2,487)	-	-	(77,458)
- Impairment charge	(1,905)	(6,013)	1,111	-	(580)	(7,387)
- Fee and commission expense	(7,600)	(162)	(190)	(536)	(71)	(8,559)
- Net realized loss from available-for-sale investment securities	-	-	-	(230)	-	(230)
- Operating expenses	(31,544)	(5,182)	(7,139)	(778)	(17,869)	(62,512)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(16,195)	(16,195)
Segment result	24,089	71,890	21,636	32,923	(8,640)	141,898
Income before income tax expense						141,898
Income tax expense					(27,521)	(27,521)
Net income						114,377
Total segment assets	441,336	1,508,888	215,783	391,306	252,469	2,809,782
Total segment liabilities	932,673	1,099,850	256,156	3,484	42,398	2,334,561

	Retail banking	Corporate banking	SME banking	Other	Unallocated	Total
Other segment items:						
Capital expenditures	-	-	-	-	(13,628)	(13,628)
Depreciation and amortization	-	-	-	-	(5,023)	(5,023)
As at 31 December 2013 and for the year then ended						
External revenues	90,709	96,031	26,055	32,765	21,216	266,776
Total revenues	90,709	96,031	26,055	32,765	21,216	266,776
Total revenues comprise:						
- Interest income	59,862	86,241	17,918	18,542	-	182,563
- Fee and commission income	28,444	5,429	5,426	12,078	29	51,406
- Net gain from financial assets and liabilities at fair value through profit or loss	-	-	-	261	-	261
- Net realized gain from available-for-sale investment securities	-	-	-	1,884	-	1,884
- Net gain on foreign exchange operations	2,717	3,833	2,711	-	-	9,261
- Insurance underwriting income and other income	-	-	-	-	21,191	21,191
- (Other provisions)/recoveries of other provisions	(314)	528	-	-	(4)	210
Total revenues	90,709	96,031	26,055	32,765	21,216	266,776
- Interest expense	(40,444)	(33,372)	(2,116)	-	-	(75,932)
- Impairment charge	(2,557)	(16,652)	(3,746)	(80)	(2,986)	(26,021)
- Fee and commission expense	(5,576)	(466)	(197)	(884)	(16)	(7,139)
- Operating expenses	(27,845)	(5,087)	(6,220)	(489)	(15,179)	(54,820)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(13,933)	(13,933)
Segment result	14,287	40,454	13,776	31,312	(10,898)	88,931
Income before income tax expense						88,931
Income tax expense					(16,522)	(16,522)
Net income						72,409
Total segment assets	356,555	1,430,688	187,838	351,551	179,782	2,506,414

	Retail banking	***Corporate banking***	***SME banking***	***Other***	***Unallocated***	***Total***
Total segment liabilities	803,122	968,238	274,878	-	67,997	2,114,235
Other segment items:						
Capital expenditures	-	-	-	-	(6,269)	(6,269)
Depreciation and amortization	-	-	-	-	(5,747)	(5,747)

Geographical information

Information for the main geographical areas of the Group is set out below as at 31 December 2015, 2014 and 2013, and for the years then ended.

	Kazakhstan	*OECD*	*Non-OECD*	*Total*
2015				
Total assets	4,101,191	262,578	91,169	4,454,938
External revenues	526,779	1,846	6,474	535,099
Capital expenditure	(17,131)	-	-	(17,131)
2014				
Total assets	2,547,344	185,108	77,330	2,809,782
External revenues	304,840	3,089	6,310	314,239
Capital expenditure	(13,628)	-	-	(13,628)
2013				
Total assets	2,071,205	333,259	101,950	2,506,414
External revenues	256,673	2,995	7,108	266,776
Capital expenditure	(6,269)	-	-	(6,269)

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

38. FAIR VALUES OF FINANCIAL INSTRUMENTS

IFRS defines fair value as 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.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Management assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit/(loss) could be material.

The tables below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2015, 2014 and 2013, before any allowances for impairment losses:

Financial Assets/Liabilities	***Fair value at***			***Fair value hierarchy***	***Valuation technique(s) and key input(s)***	***Significant unobservable input(s)***	***Relationship of unobservable inputs to fair value***
	31 December 2015	***31 December 2014***	***31 December 2013***				
Non-derivative financial assets at fair value through profit or loss (Note 9)	1,757	3,633	943	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss excluding options (Note 9)	1,509	4,318	140	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss excluding options (Note 9)	173,804	7,776	-	Level 3	Future cash flows in USD discounted using LIBOR rate obtained from available sources. Future cash flows in KZT discounted using internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to zero at initial recognition.	KZT implied rate	The greater KZT implied rate – the smaller fair value
Derivative financial assets at fair value through profit or loss - options (Note 9)	-	-	251	Level 2	Binominal model with primary data based on average price without using maximum and minimum values from KASE.	Not applicable	Not applicable
Derivative financial liabilities at fair value through profit or loss excluding options (Note 9)	5,593	3,131	69	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Non-derivative available-for-sale investment securities (Note 11)	378,174	384,327	348,498	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities included in bonds of foreign organizations (Note 11)	248	172	931	Level 2	Discounted cash flows. Future cash flows discounted using LIBOR adjusted for credit risk of the issuer obtained from available sources	Not applicable	Not applicable
Non-derivative available-for-sale investment securities – unquoted equity securities (Note 11)	98	1,924	1,123	Level 3	Valuation model based on internal rating model	Percentage discount	The greater discount - the smaller fair value

There were no transfers between Level 1 and 2 during the years ended 31 December 2015, 2014 and 2013.

	Financial assets at fair value through profit or loss (Level 3)	***Available-for-sale investment securities Unquoted equity securities (Level 3)***
31 December 2012	3	1,242
Total gains or losses		
- to profit or loss	(3)	(27)
- in other comprehensive income	-	(14)
Redemption/sale	-	(78)
31 December 2013	-	1,123
Total gains or losses		
- additions	7,597	-
- to profit or loss	179	813
- in other comprehensive income	-	-
Redemption/sale	-	(12)
31 December 2014	7,776	1,924
Total gains or losses		
- additions	19,281	-
- to profit or loss	146,747	(1,268)
- in other comprehensive income	-	(27)
Redemption/sale	-	(531)
31 December 2015	173,804	98

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value.

Amounts due to and from credit institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Amounts due to customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

The following table sets out the carrying amount and fair values of financial assets and liabilities not carried at their fair values:

	31 December 2015		31 December 2014		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Amounts due from credit institutions	44,993	45,058	27,095	27,296	25,808	27,757
Loans to customers	2,176,069	2,106,902	1,648,013	1,742,664	1,482,245	1,582,638
Financial liabilities						
Amounts due to customers	3,043,731	3,197,750	1,848,213	1,850,824	1,766,648	1,763,968
Amounts due to credit institutions	168,258	193,863	107,192	111,426	107,395	106,350
Debt securities issued	597,525	611,607	311,009	323,244	189,515	212,827

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	45,058	-	45,058
Loans to customers	-	-	2,106,902	2,106,902
Financial liabilities				
Amounts due to customers	-	3,197,750	-	3,197,750

	31 December 2015			
	Level 1	***Level 2***	***Level 3***	***Total***
Amounts due to credit institutions	-	193,863	-	193,863
Debt securities issued	611,607	-	-	611,607

	31 December 2014			
	Level 1	***Level 2***	***Level 3***	***Total***
Financial assets				
Amounts due from credit institutions	-	27,296	-	27,296
Loans to customers	-	-	1,742,664	1,742,664
Financial liabilities				
Amounts due to customers	-	1,850,824	-	1,850,824
Amounts due to credit institutions	-	111,426	-	111,426
Debt securities issued	323,244	-	-	323,244

	31 December 2013			
	Level 1	***Level 2***	***Level 3***	***Total***
Financial assets				
Amounts due from credit institutions	-	27,757	-	27,757
Loans to customers	-	-	1,582,638	1,582,638
Financial liabilities				
Amounts due to customers	-	1,763,968	-	1,763,968
Amounts due to credit institutions	-	106,350	-	106,350
Debt securities issued	212,827	-	-	212,827

The carrying amounts of cash and cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

39. RELATED PARTY TRANSACTIONS

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

Considering each possible related party not only their legal status is taken into account but also the substance of the relationship between these parties.

The Group had the following transactions outstanding as at 31 December 2015, 2014 and 2013, with related parties:

	31 December 2015		31 December 2014		31 December 2013	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers before allowance for impairment losses	3,537	2,481,183	4,597	1,934,031	6,852	1,805,556
- the parent	8		-		-	
- entities with joint control or significant influence over the entity	3,426		4,597		5,948	
- key management personnel of the entity or its parent	90		-		-	
- other related parties	13		-		904	
Allowance for impairment losses	(47)	(305,114)	(15)	(286,018)	(216)	(323,311)
- the parent	(1)		-		-	
- entities with joint control or significant influence over the entity	(46)		(15)		(202)	
- key management personnel of the entity or its parent	-		-		(14)	
Amounts due to customers	181,164	3,043,731	105,405	1,848,213	101,562	1,766,648
- the parent	116,204		73,757		60,184	

	31 December 2015		***31 December 2014***		***31 December 2013***	
	Related party balances	***Total category as per financial statements caption***	***Related party balances***	***Total category as per financial statements caption***	***Related party balances***	***Total category as per financial statements caption***
- entities with joint control or significant influence over the entity	12,525		8,086		33,546	
- associates	-		-		27	
- key management personnel of the entity or its parent	9,818		5,903		2,602	
- other related parties	42,617		17,659		5,203	

Included in the consolidated income statement for the years ended 31 December 2015, 2014 and 2013, are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2015		***Year ended 31 December 2014***		***Year ended 31 December 2013***	
	Related party transactions	***Total category as per financial statements caption***	***Related party transactions***	***Total category as per financial statements caption***	***Related party transactions***	***Total category as per financial statements caption***
Interest income	444	254,856	547	210,593	829	182,563
- entities with joint control or significant influence over the entity	431		547		749	
- key management personnel of the entity or its parent	11		-		-	
- other related parties	2		-		80	
Interest expense	(3,196)	(104,552)	(3,541)	(77,458)	(1,973)	(75,932)
- the parent	(2,499)		(3,073)		(1,792)	
- entities with joint control or significant influence over the entity	(6)		-		-	

	Year ended 31 December 2015		***Year ended 31 December 2014***		***Year ended 31 December 2013***	
	Related party transactions	***Total category as per financial statements caption***	***Related party transactions***	***Total category as per financial statements caption***	***Related party transactions***	***Total category as per financial statements caption***
- key management personnel of the entity or its parent	(265)		(250)		(111)	
- other related parties	(426)		(218)		(70)	

	Year ended 31 December 2015		***Year ended 31 December 2014***		***Year ended 31 December 2013***	
	Related party transactions	***Total category as per financial statements caption***	***Related party transactions***	***Total category as per financial statements caption***	***Related party transactions***	***Total category as per financial statements caption***
Key management personnel compensation:	1,433	40,886	1,333	35,767	835	30,899
- Salaries and other employee benefits	1,433		1,333		835	

40. SUBSEQUENT EVENTS

On 25 January 2016, the NBRK registered the second issue of KZT 130,000 million 10 year 7.5% per annum coupon rate bonds within the Bank's fourth bond program with a nominal value of KZT 10,000 per one bond.

On 8 February 2016, the NBRK registered the fifth bond program for KZT 300,000 million KZT. The bond program is included in the State Register of Issue-Grade securities under number F24.

INFORMATION FOR SHAREHOLDERS

JOINT STOCK COMPANY HALYK SAVINGS BANK OF KAZAKHSTAN

Registered address	109"V", Abay Ave., Almaty, 050008, Kazakhstan
Telephone	+ 7 727 259 0777
Fax	+ 7 727 259 0271
Website	www.halykbank.kz https://halykbank.kz/en/investor-relations/reports
Registered with	The Ministry of Justice of the Republic of Kazakhstan
Registered number	3898-1900-AO
Date of re-registration	12 November 2003

SHAREHOLDER'S ENQUIRIES

Holders of common and preferred shares:
JSC The Integrated Securities Registrar
30A/3, Satpayev St.
Kazakhstan
Tel: +7 (727) 272 4760
Fax: +7 (727) 272 4760 (ext. 230)

Holders of GDRs:
Deutsche Bank Trust Company Americas
60 Wall Street, New York
NY 10005, USA
Tel: +1 212 250 2500
SWIFT: BKTRUS33

CONTACT INFORMATION

Investor relations

Halyk Bank
Holders of GDRs
Tel: +7 (727) 259 0427
Fax: +7 (727) 259 0464
Holders of common and preferred shares
Tel: +7 727 259 0599

Auditor
Deloitte LLP
Bldg B, Almaty Financial District, Almaty
Kazakhstan
Tel: +7 (727) 258 1340
Fax: +7 (727) 258 1341

Registrar
JSC The Integrated Securities Registrar
30A/3, Satpayev St.
Kazakhstan
Tel: +7 (727) 272 4760
Fax: +7 (727) 272 4760 (ext. 230)

Depositary
Deutsche Bank Trust Company Americas
60 Wall Street, New York
NY 10005, USA
Tel: +1 212 250 2500
SWIFT: BKTRUS33

REPRESENTATIVE OFFICES

Representative office in Beijing, Peoples Republic of China
No.41 East Fourth Ring Road, Chaoyang District, Beijing
Room 2006, A TOWER, Jia Tai International Mansion
Post code: 100026
Tel/Fax: 65047265

Representative office in London, United Kingdom
68 Lombard Street, London EC3V 9LJ, United Kingdom
Tel: +44 (0) 20 7861 9530
Fax: +44 (0) 20 7861 9531

REGIONAL BRANCHES

Astana regional branch
17, Kabanbai Batyr St., Astana
Tel: +7 7172 59 1114
Fax: +7 7172 59 1148

Aktobe regional branch
16B, Microdistrict 12, Aktobe
Tel: +7 7132 94 2403
Fax: +7 7132 94 2443

Almaty regional branch
101, Rozybakiyev St., Almaty
Tel: +7 727 259 7271
Fax: +7 727 330 1479

Atyrau regional branch
4, Satpayev Ave., Atyrau
Tel: +7 7122 27 0145
Fax: +7 7122 27 0143

Eastern Kazakhstan regional branch
57a, Gorky St., Ust-Kamenogorsk
Tel: +7 7232 59 3538
Fax: +7 7232 26 0888

Zhambyl regional branch
145, Zhambyl Ave., Taraz
Tel: +7 7262 59 5999, 45 9290, 45 2523
Fax: +7 7262 45 2523

Zheskazgan regional branch
31A, Garyshker Blvd., Zheskazgan
Tel: +7 7102 76 4857
Fax: +7 7102 76 4857

Western Kazakhstan regional branch
194/1, Dostyk-Druzhba Ave., Uralsk
Tel: +7 7112 59 3920
Fax: +7 7112 59 3996

Karaganda regional branch
56, Teatralnaya St., Karaganda
Tel: +7 7212 58 9222, 56 3677
Fax: +7 7212 56 3677

Kostanai regional branch
146, Taran St., Kostanay
Tel: +7 7142 59 3388
Fax: +7 7142 54 0803

Kyzylorda regional branch
5, Kazybek bi, Kyzylorda
Tel: +7 7242 55 0001
Fax: +7 7242 55 0002

Mangistau regional branch
6, Microdistrict 9, Aktau
Tel: +7 7292 70 0101
Fax: +7 7292 70 0111

Pavlodar regional branch
1/1, Lermonotov St., Pavlodar
Tel: +7 7182 59 3685
Fax: +7 7182 32 3760

Northern Kazakhstan regional branch
36, Konstitutsiya St., Petropavlovsk
Tel/fax: +7 7152 59 5707

Semey regional branch
109, Abay Kunanbayev St., Semey
Tel: +7 7222 55 8803
Fax: +7 7222 55 8805

Southern Kazakhstan regional branch
2B, Beibitshilik St., Shymkent
Tel: +7 7252 58 9779
Fax: +7 7252 53 6660

Taldykorgan regional branch
22/1, Zhansugurov St., Karatal Microdistrict, Taldykorgan
Tel: +7 7282 55 5000
Fax: +7 7282 55 5008

Akmola regional branch
33, Gorky St., Kokshetau
Tel: +7 7162 59 5472
Fax: +7 7162 31 1857

Baikonyr regional branch
16, Gorky St., Baikonyr
Tel: +7 33622 7 4654
Fax: +7 33622 7 0233

Zhanaozen regional branch
15, Zhalyn Microdistrict, Zhanaozen
Tel/fax: +7 729 34 3 4237

Ekibastuz regional branch
49A, Stroitelnaya St., Ekibastuz
Tel: +7 7187 34 8980
Fax: +7 7187 34 8981

Temirtau regional branch
26A, Respublika Ave., Temirtau
Tel: + 7 7213 93 3130
Fax: +7 7213 93 3131

SUBSIDIARIES

Kazakhstan

Halyk Collection
26, Masanchi St., Almaty
Tel: +7 727 292 04 45

Halyk-Leasing
96/98, Zheltoksan St., Almaty
Tel: +7 727 239 87 98

Halyk Finance
19/1, Al-Farabi St., Block 3B
Nurly Tau Business Centre, Almaty
Tel: +7 727 244 65 40

Kazteleport
23, Bukhar Zhyrau St., Almaty
Tel/Fax: +7 727 392 58 92

Halyk-Life
26, Masanchi St., Almaty
Tel: +7 727 244 62 22

Kazakhinstrakh
109V, Abay Ave., Almaty
Tel: +7 727 331 50 72

Halyk-Project
96/98, Zheltoksan St., Almaty
Tel: + 7 727 259 65 78

Altyn Bank
77/7, Al-Farabi St.,
Esentai Business Centre, Almaty
Tel: +7 727 259 69 00

Georgia

Halyk Bank Georgia
40, Shartava St., Tbilisi
Tel: +995 32 224 07 07

Kyrgyzstan

Halyk Bank Kyrgyzstan
390, Frunze St., Bishkek, Kyrgyzstan
Tel: +996 312 614 128

Russia

NBK-Bank
20, Malaya Ordynka St.,
119017 Moscow, Russia
Tel: +7 495 961 24 70

USEFUL LINKS

National Bank of the Republic of Kazakhstan
www.nationalbank.kz
Kazakhstan Stock Exchange (KASE)
www.kase.kz
London Stock Exchange (LSE)
www.londonstockexchange.com
Financial Conduct Authority (FCA)
www.fca.org.uk
Prudential Regulation Authority (PRA)
http://www.bankofengland.co.uk/pra