JSC HALYK BANK

Separate Financial Statements
and Independent Auditor's Report
For the Year Ended 31 December 2015

JSC HALYK BANK

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JSC HALYK BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

In preparing the separate 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 Bank's separate financial position and financial performance; and
- Making an assessment of the Bank'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 Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the separate financial position of the Bank, and which enable them to ensure that the separate financial statements of the Bank 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 Bank; and
- Preventing and detecting fraud and other irregularities.

These separate financial statements of the Bank for the year ended 31 December 2015 were approved by the Management Board on 16 March 2016.

On behalf of the Management Board:

Umut B. Shayakhmetova	**Pavel A. Cheussov**
Chairperson of the Board	**Chief Accountant**
16 March 2016	16 March 2016
Almaty, Kazakhstan	Almaty, Kazakhstan

Deloitte, LLP
36 Al Farabi Ave.
Almaty, 050059
Republic of Kazakhstan

Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
deloitte.kz

INDEPENDENT AUDITOR'S REPORT

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

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

Management's responsibility for the separate financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate financial statements.

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

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Opinion

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

Other matters

As described in Note 2 to the separate financial statements, the Bank also prepares consolidated financial statements. These separate financial statements should be read in conjunction with the consolidated financial statements, which were authorized for issue by the Management Board on 10 March 2016.

Deloitte, LLP

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

16 March 2016
Almaty, Kazakhstan

JSC HALYK BANK

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015
(Millions of Kazakhstani Tenge)

	Notes	31 December 2015	31 December 2014
ASSETS			
Cash and cash equivalents	5, 34	1,189,327	457,484
Obligatory reserves	6	59,049	43,761
Financial assets at fair value through profit or loss	7	175,308	11,921
Amounts due from credit institutions	8, 34	64,561	40,980
Available-for-sale investment securities	9	285,782	323,152
Investments in subsidiaries	10, 34	86,880	86,320
Precious metals		2,436	1,385
Loans to customers	11, 34	2,076,217	1,577,466
Property and equipment	12	72,276	69,727
Assets held for sale	14	7,745	8,312
Intangible assets	13	4,413	5,006
Current tax assets	20	16,040	-
Other assets	15, 34	13,851	7,967
TOTAL ASSETS		4,053,885	2,633,481
LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to customers	16, 34	2,754,071	1,736,395
Amounts due to credit institutions	17, 34	155,040	101,976
Financial liabilities at fair value through profit or loss	7	1,306	2,826
Debt securities issued	18, 34	599,984	312,286
Provisions	19	309	-
Deferred tax liability	20	36,815	10,015
Current tax liability	20	-	2,429
Other liabilities	21	16,087	9,396
Total liabilities		3,563,612	2,175,323
EQUITY			
Share capital	22	147,358	147,358
Share premium reserve		1,976	1,984
Treasury shares		(106,614)	(82,432)
Retained earnings and other reserves		447,553	391,248
Total equity		490,273	458,158
TOTAL LIABILITIES AND EQUITY		4,053,885	2,633,481

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

16 March 2016
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

16 March 2016
Almaty, Kazakhstan

The notes on pages 11 to 82 form an integral part of these separate financial statements.

JSC HALYK BANK

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2015
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Interest income	24, 34	233,429	200,463
Interest expense	24, 34	(99,355)	(77,014)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	24	134,074	123,449
Impairment charge	19	(4,276)	(5,657)
NET INTEREST INCOME		129,798	117,792
Fee and commission income	25, 34	49,633	44,007
Fee and commission expense	25, 34	(9,555)	(8,011)
Fees and commissions, net		40,078	35,996
Net gain from financial assets and liabilities at fair value through profit or loss	26	197,285	7,520
Net realized (loss)/gain from available-for-sale investment securities		(193)	235
Net foreign exchange (loss)/gain	27	(186,774)	5,843
Dividends received from subsidiaries	34	2,631	20,842
Other income		2,548	1,540
OTHER NON-INTEREST INCOME		15,497	35,980
Operating expenses	28, 34	(55,164)	(51,177)
Impairment loss of non-current assets-held for sale	14	-	(102)
(Additional provisions)/recoveries of provisions	19	(309)	4,073
NON-INTEREST EXPENSES		(55,473)	(47,206)
INCOME BEFORE INCOME TAX EXPENSE		129,900	142,562
Income tax expense	20	(26,864)	(23,166)
NET INCOME		103,036	119,396
Attributable to:			
Common shareholders		103,030	117,312
Preferred shareholders		6	2,084
		103,036	119,396

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

16 March 2016
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

16 March 2016
Almaty, Kazakhstan

The notes on pages 11 to 82 form an integral part of these separate financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

(Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Net income		103,036	119,396
Other comprehensive income, net of tax			
Items not to be subsequently reclassified to profit or loss:			
Loss resulting on revaluation of property and equipment (2015 and 2014 – net of tax – KZT Nil, KZT 868 million)		-	2,899
Items to be subsequently reclassified to profit or loss:			
Loss on revaluation of available-for-sale investment securities (2015, 2014 – net of tax – KZT Nil)		(9,865)	(7,613)
Reclassification adjustment relating to available-for-sale investment securities disposed of in the year (2015, 2014 – net of tax – KZT Nil)		-	(235)
Other comprehensive loss for the year		(9,865)	(4,949)
Total comprehensive income for the year		93,171	114,447
Attributable to:			
Common shareholders		93,165	112,449
Preferred shareholders		6	1,998
		93,171	114,447
Basic earnings per share (in Kazakhstani Tenge)	29	9.20	10.78
Diluted earnings per share (in Kazakhstani Tenge)	29	9.28	9.81

On behalf of the Management Board:

Umut B. Shayakhmetova	**Pavel A. Cheussov**
Chairperson of the Board	**Chief Accountant**
16 March 2016	16 March 2016
Almaty, Kazakhstan	Almaty, Kazakhstan

The notes on pages 11 to 82 form an integral part of these separate financial statements.

JSC HALYK BANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015
(**Millions of Kazakhstani Tenge**)

	Common shares	Share capital Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Treasury shares common shares	Treasury shares preferred shares	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total
31 December 2014	83,627	50,494	13,237	1,984	(39,918)	(42,514)	(6,928)	14,738	383,438	458,158
Net income									103,036	103,036
Other comprehensive loss	-	-	-	-	-	-	(9,865)	-	-	(9,865)
Total comprehensive (loss)/income	-	-	-	-		-	(9,865)	-	103,036	93,171
Treasury shares purchased	-	-	-	(8)	(2)	(24,180)		-	-	(24,190)
Dividends – preferred shares	-	-	-	-	-	-	-	-	(2,605)	(2,605)
Dividends – common shares	-	-	-	-	-	-	-	-	(34,261)	(34,261)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	(374)	374	-
31 December 2015	83,627	50,494	13,237	1,976	(39,920)	(66,694)	(16,793)	14,364	449,982	490,273

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Millions of Kazakhstani Tenge)

	Share capital				Treasury shares					
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	common shares	preferred shares	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total
31 December 2013	83,627	50,494	13,237	1,986	(39,918)	(41,054)	920	12,400	283,829	365,521
Net income	-	-	-	-	-	-	-	-	119,396	119,396
Other comprehensive (loss)/income	-	-	-	-	-	-	(7,848)	2,899	-	(4,949)
Total comprehensive (loss)/income	-	-	-	-	-	-	(7,848)	2,899	119,396	114,447
Treasury shares purchased				(2)	-	(1,460)	-	-	-	(1,462)
Dividends – preferred shares	-	-	-	-	-	-	-	-	(1,799)	(1,799)
Dividends – common shares	-	-	-	-	-	-	-	-	(18,549)	(18,549)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	(561)	561	-
31 December 2014	83,627	50,494	13,237	1,984	(39,918)	(42,514)	(6,928)	14,738	383,438	458,158

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

On behalf of the Management Board:

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

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

The notes on pages 11 to 82 form an integral part of these separate financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

(Millions of Kazakhstani Tenge)

	Year ended 31 December 2015	Year ended 31 December 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received from cash equivalents and amounts due from credit institutions	3,329	4,081
Interest received on available-for-sale investment securities	16,445	16,132
Interest received from loans to customers	189,085	175,622
Interest paid on amounts due to customers	(60,244)	(62,026)
Interest paid on amounts due to credit institutions	(3,938)	(2,430)
Interest paid on debt securities issued	(26,207)	(18,363)
Fee and commission received	50,192	44,026
Fee and commission paid	(9,555)	(8,011)
Receipts from financial derivatives	40,073	6,219
Other income received	2,542	6,435
Operating expenses paid	(46,842)	(51,277)
Cash flows from operating activities before changes in net operating assets	154,880	110,408
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets:		
Obligatory reserves	(15,288)	(69)
Financial assets at fair value through profit or loss	(6,174)	(16,535)
Amounts due from credit institutions	(16,688)	(3,893)
Precious metals	(483)	15,472
Loans to customers	(154,503)	(65,040)
Assets held for sale	567	(5,115)
Other assets	(19,987)	(2,731)
Increase/(decrease) in operating liabilities:		
Amounts due to customers	114,242	(32,855)
Amounts due to credit institutions	46,379	1,561
Financial liabilities at fair value through profit or loss	(1,520)	2,755
Other liabilities	857	156
Cash inflow from operating activities before income tax	102,282	4,114
Income tax paid	(26,504)	(16,222)
Net cash inflow/(outflow) from operating activities	75,778	(12,108)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase and prepayments for property and equipment and intangible assets	(12,448)	(14,436)
Proceeds on sale of property and equipment	250	1,536
Proceeds on sale of available-for-sale investment securities	139,941	129,843
Purchase of available-for-sale investment securities	(18,853)	(144,314)
Investments to share capital of subsidiaries	341	(28,016)
Proceeds from acquisition on subsidiary		
Dividends received from subsidiaries	2,631	20,842
Net cash inflow/(outflow) from investing activities	111,862	(34,545)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of treasury shares		(24,190)	(1,462)
Dividends paid – preferred shares		(2,605)	(1,799)
Dividends paid – common shares		(34,261)	(18,549)
Proceeds on debt securities issued		117,003	89,602
Redemption and repayment of debt securities issued		(7,627)	(4,075)
Net cash inflow from financing activities		48,320	63,717
Effect of changes in foreign exchange rate on cash and cash equivalents		495,883	(37,321)
Net change in cash and cash equivalents		731,843	(20,257)
CASH AND CASH EQUIVALENTS, beginning of the year	5	457,484	477,741
CASH AND CASH EQUIVALENTS, end of the year	5	1,189,327	457,484

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

16 March 2016
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

16 March 2016
Almaty, Kazakhstan

The notes on pages 14 to 82 form an integral part of these separate financial statements.

1. PRINCIPAL ACTIVITIES

JSC Halyk Bank (the "Bank") provides retail and corporate banking 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 Committee for Control and Supervision of Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan ("FMSC" – previously known as Agency for Regulation and Supervision of Financial Market and Financial Organizations of the Republic of Kazakhstan) on 6 August 2008. The Bank is a member of the obligatory deposit insurance system provided by JSC Kazakhstan Fund for Deposits Guarantee.

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

Legal proceedings

From time to time and in the normal course of business, claims against the Bank 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 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 Bank is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Bank's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Bank 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 has also allocated Global Depository Receipts ("GDRs") through a listing 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 Bank recorded KZT 42,515 million as a cost of acquired treasury (see Note 22). After the repurchase, Samruk-Kazyna continues owning 100 of the Bank's preferred shares.

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

(Millions of Kazakhstani Tenge)

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

	31 December 2015					
	Total shares owned	**Stake in total shares in circulation**	**Common shares owned**	**Stake in common shares in circulation**	**Convertible and non-convertible preferred shares owned**	**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	98.3%
JSC Single Accumulated Pension Fund *	716,281,746	6.6%	716,281,746	6.6%	-	-
GDR	1,840,058,240	16.8%	1,840,058,240	16.8%	-	-
Other	351,714,614	3.2%	351,343,734	3.2%	370,880	1.7%
Total shares in circulation	**10,932,203,668**	**100.0%**	**10,911,065,220**	**100.0%**	**21,138,448**	**100%**

	31 December 2014					
	Total shares owned	**Stake in total shares in circulation**	**Common shares owned**	**Stake in common shares in circulation**	**Convertible and non-convertible preferred shares owned**	**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%	-	-
JSC Single Accumulated Pension Fund *	869,738,261	7.8%	710,233,299	6.5%	159,504,962	82.28%
GDR	1,848,929,480	16.6%	1,848,929,480	16.9%	-	-
Other	362,192,034	3.3%	348,612,311	3.2%	34,347,291	17.72%
Total shares in circulation	**11,105,008,843**	**100.0%**	**10,911,156,590**	**100.0%**	**193,852,253**	**100%**

*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.

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

Number of employees of the Bank as at 31 December 2015 was 8,822 full-time equivalent employees (31 December 2014 – 8,557).

The separate financial statements of the Bank for the year ended 31 December 2015 were authorised for issue by the Management Board on 16 March 2016.

2. BASIS OF PRESENTATION

Accounting basis

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

These separate financial statements are the separate financial statements of the parent JSC Halyk Bank. The subsidiaries are not consolidated in these separate financial statements. Investments in subsidiaries were accounted for at cost. These separate financial statements should be read in conjunction with the consolidated financial statements which were authorized for the issue by Management Board of the Bank on 10 March 2016.

The consolidated financial statements that comply with IFRS have been produced for public use by JSC Halyk Bank, the entity incorporated under the laws of the Republic of Kazakhstan. The consolidated financial statements are available at the head office of JSC Halyk Bank, registered at the following address: 109V Abai avenue, Almaty, 050008, the Republic of Kazakhstan.

These separate financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

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

The separate financial statements have been prepared under the historical cost convention except for certain financial instruments that are accounted for at fair value and certain property and equipment which are carried at revalued cost less depreciation and impairment as described 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 Bank 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 separate 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 Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 30.

Functional currency

Items included in the separate financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The functional currency of the Bank is KZT. The presentation currency of the separate financial statements is KZT.

3. SIGNIFICANT ACCOUNTING POLICIES

Investments in subsidiaries

A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by the Bank. Investments in subsidiaries are recorded in these separate financial statements at cost less impairment loss, 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 Bank of Republic of Kazakhstan ("NBRK") 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 NBRK and cash which are not available to finance the Bank's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the 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 Bank 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 Bank recognizes financial assets and liabilities on its 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 Bank 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 Bank determines the classification of its financial assets upon 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 Bank 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 Bank'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 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 Bank 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 statement of financial position.

Collateral

The Bank 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 Bank a claim on these assets for both existing and future customer liabilities.

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 statement of profit or loss. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognized in the statement of profit or loss. Dividends declared are included in “Other income” in the statement of profit or loss.
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.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the 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 Bank does not offset the transferred asset and the associated liability. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Repurchase and reverse repurchase agreements and securities lending

The Bank 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 Bank as an element of its treasury management.

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

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

The Bank 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.

Derivative financial instruments

In the normal course of business, the Bank 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 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 statement of profit or loss.

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 statement of profit or loss. 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 Bank to the risks associated with the absence of an exchange market on which to close out an open position. Additionally, derivative instruments expose the Bank to counterparty non-performance risk. Certain instruments also pose liquidity risk due to absence of net-settlement provisions between counterparties.

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future and are customized contracts transacted in the over–the–counter market. The Bank 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 Bank with other financial institutions in which the Bank 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 Bank pays a specified amount in one currency and receives a specified amount in another currency. The Bank'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 Bank purchases and sells options through regulated exchanges and in the over–the–counter markets. Options purchased by the Bank provide the Bank 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 Bank 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 Bank provide the purchaser the opportunity to purchase from or sell to the Bank the underlying asset at an agreed–upon value either on or before the expiration of the option.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market, credit, and liquidity risks (see also Note 30).

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 statement of profit or loss over the period of the borrowings using the effective interest method. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the statement of profit or loss.

Debt securities issued

Debt securities issued represent bonds issued by the Bank, 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 statement of profit or loss over the period of the borrowings using the effective interest method.

Allowances for impairment of financial assets

The Bank 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 statement of profit or loss.

The factors the Bank 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 Bank’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 statement of profit or loss, 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 Bank 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 Bank 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 Bank, and after the Bank has sold all available collateral. The decision to write off bad debt against the allowance for impairment losses for all major 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 statement of profit or loss.

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 11, 19 and 33.

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 income statement, is transferred from equity to the income statement. In respect to AFS equity securities, impairment losses previously recognized in the income statement are not reversed through the 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 Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. 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 Bank and after the Bank 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 statement of profit or loss 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 Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank 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 Bank 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 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 Bank assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank 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 Bank, the Bank 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 statement of profit or loss.

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan.

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

- The Bank 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 has various operating taxes that are assessed on the Bank’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 construction 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 construction	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 construction held for use in supply of services, or for administrative purposes, are stated in the 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 construction 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 statement of profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and construction 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 construction is charged to the statement of profit or loss. 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 Bank'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.

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

	Years
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 statement of profit or loss 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.

Provisions

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

Retirement and other benefit obligations

The Bank does not have any pension arrangements other than the state pension system of Kazakhstan, 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 statement of profit or loss. The Bank contributes social tax to the budget of Kazakhstan and other countries where the Bank operates for its employees. In addition, the Bank has no post-retirement benefits.

Equity

The Bank 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 Bank after the deduction of liabilities. The components of a compound financial instrument issued by the Bank 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 Bank 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 Bank 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

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 separate financial statements are authorized for issue.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Bank’s separate statement of financial position include:

- Available-for-sale reserve which comprises changes in fair value of available-for-sale investment securities;
- Property revaluation reserve which comprises revaluation reserve of land and building.

Contingencies

Contingent liabilities are not recognized in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

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 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 separate financial statements are presented in KZT, which is the functional currency of the Bank.. 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 statement of profit or loss 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.

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 was KZT 340.01 to USD 1 (31 December 2014 – KZT 182.35).

Segment reporting

A segment is a distinguishable component of the Bank 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 Bank 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 separate 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 separate financial statements.

The Bank 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 Bank 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 Bank anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank'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 Bank 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 Bank anticipates that the application of these amendments to IFRS 16 may have a significant effect on the separate 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 Bank anticipates that the application of these amendments to IFRS 11 may have an impact on the Bank's separate 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 Bank anticipates that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Bank's separate 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 Bank does not anticipate that the application of them will have a material impact on the Bank's separate financial statements.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Bank’s separate 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 Bank’s financial condition.

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank’s loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank 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 Bank’s estimated losses and actual losses will require the Bank to make provisions which, if significantly different, could have a material impact on its future statement of profit or loss and its statement of financial position.

The Bank 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 Bank 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 separate financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Kazakhstan 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 296,651 million (31 December 2014 is KZT 280,433 million).

Valuation of financial instruments

As described in Note 33, the Bank 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 33 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Bank's 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 2014. Details of the valuation techniques used are set out in Note 11.

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 Bank 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 proceeding the year of review.

As at 31 December 2015, Management of the Bank believes that its interpretation of the relevant legislation is appropriate and that the Bank'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 Bank's reported net income.

(Millions of Kazakhstani Tenge)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2015	31 December 2014
Cash on hand	116,165	125,776
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	103,561	74,872
Short-term deposits with OECD based banks	125,807	14,594
Correspondent accounts with NBRK	822,692	204,273
Short-term deposits with Kazakhstan banks	2,040	63
Correspondent accounts with non-OECD based banks	12,770	6,632
Short-term deposits with non-OECD based banks	6,292	274
Overnight deposits with OECD based banks	-	31,000
	1,189,327	457,484

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are as follows:

	31 December 2015		31 December 2014	
	KZT	Foreign currencies	KZT	Foreign currencies
Short-term deposits with OECD based banks	-	0.3%-0.9%	-	0.3%
Short-term deposits with Kazakhstan banks	-	1.0%	-	19.0%
Short-term deposits with non-OECD based bank	-	0.8%-1.0%	-	0.7%
Overnight deposits with OECD based banks	-	-	-	0.08%

6. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2015	31 December 2014
Recorded as loans and receivables in accordance with IAS 39:		
Due from the NBRK allocated to obligatory reserves	59,049	43,761
	59,049	43,761

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the NBRK and used for calculation of the minimum reserve requirement.

7. 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
Financial assets held for trading:		
Derivative financial instruments	175,260	11,872
Equity securities of Kazakhstan banks	48	49
	175,308	11,921

(Millions of Kazakhstani Tenge)

Financial liabilities at fair value through profit or loss comprise:

	31 December 2015	31 December 2014
Financial liabilities held for trading:		
Derivative financial instruments	1,306	2,826

Derivative financial instruments comprise:

	31 December 2015			31 December 2014		
	Notional	Fair value		Notional	Fair value	
	Amount	Asset	Liability	Amount	Asset	Liability
Foreign currency contracts						
Swaps	451,948	175,255	1,043	298,033	9,318	2,215
Forwards	-	-	-	55,610	2,554	611
Options	26,076	5	263	-	-	-
		175,260	1,306		11,872	2,826

As at 31 December 2015 and 2014, the Bank 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 Bank concluded swaps and non-deliverable forwards with the NBRK.

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2015	31 December 2014
Recorded as loans and receivables in accordance with IAS 39:		
Term deposits	45,283	24,011
Loans to credit institutions	14,307	14,303
Deposit pledged as collateral for derivative financial instruments	4,971	2,666
	64,561	40,980

Interest rates and maturities of amounts due from credit institutions are presented as follows:

	31 December 2015		31 December 2014	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Term deposits	0.5-7.0%	2016-2019	1.0%-9.0%	2015-2017
Loans to credit institutions	8.2%	2017	8.2%	2017
Deposit pledged as collateral for derivative financial instruments	0.2-1.8%	2016	0.2%-1.8%	2015

(Millions of Kazakhstani Tenge)

9. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2015	31 December 2014
Treasury bills of the Ministry of Finance of Kazakhstan	134,830	144,366
Corporate bonds	115,590	89,364
Bonds of JSC Development Bank of Kazakhstan	35,362	18,209
Securities of foreign organizations	-	43,498
Treasury Bills of Republic of Poland	-	17,536
Treasury bills of the Russian Federation	-	6,266
Local municipal bonds	-	3,913
	285,782	323,152

As at 31 December 2015 and 2014, investments available-for-sale included Treasury bills of the Ministry of Finance of Kazakhstan at fair value of KZT 43,659 million and KZT 12,575 million, respectively, were pledged under repurchase agreements with other banks (Note 17).

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	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	5.6%	2016-2045	5.3%	2015-2027
Corporate bonds	5.1%	2016-2023	6.6%	2015-2023
Bonds of JSC Development Bank of Kazakhstan	4.4%	2022-2026	4.9%	2022-2026
Securities of foreign organizations	-	-	3.9%	2015-2020
Treasury bills of Republic of Poland			2.2%	2019
Treasury bills of the Russian Federation	-	-	2.1%	2018
Local municipal bonds	-	-	4.9%	2015

(Millions of Kazakhstani Tenge)

10. INVESTMENTS IN SUBSIDIARIES

	Holding, %		Country	Industry
	31 December 2015	31 December 2014		
Halyk-Leasing JSC	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	Kazakhstan	Telecommunications
OJSC Halyk Bank Kyrgyzstan	100	100	Kyrgyzstan	Banking
Halyk Finance JSC	100	100	Kazakhstan	Broker and dealer activities
LLC Halyk Collection	100	100	Kazakhstan	Cash collection services
JSC Halyk-Life	100	100	Kazakhstan	Life insurance
Kazakhinstrakh JSC	100	100	Kazakhstan	Insurance
JSC APF of Halyk Bank of Kazakhstan (“APF”)*	N/A	100	Kazakhstan	Pension assets accumulation and management
OJSC NBK-Bank	100	100	Russia	Banking
JSC Halyk Bank Georgia	100	100	Georgia	Banking
LLC Halyk Project	100	100	Kazakhstan	Management of doubtful and loss assets
JSC Altyn Bank (SB of JSC Halyk Bank)	100	100	Kazakhstan	Banking

* In 2015, APF was liquidated in accordance with the Decision of the Board of Directors #353 dated 20 November 2015.

Subsidiaries	31 December 2015	31 December 2014
JSC Altyn Bank	30,468	30,968
Halyk Finance JSC	11,240	11,240
JSC Kazakhinstrakh	10,739	10,668
LLC Halyk Project	10,153	2,065
Halyk-Leasing JSC	9,268	9,258
OJSC NBK-Bank	5,095	5,095
JSC Halyk Bank Georgia	4,050	4,050
JSC Halyk-Life	3,097	3,082
OJSC Halyk Bank Kyrgyzstan	1,333	1,334
LLC Halyk Collection	830	670
JSC Kazteleport	607	578
JSC APF of Halyk Bank of Kazakhstan	-	7,312
	86,880	86,320

* During the year ended 31 December 2015 and 2014, the Bank provided loans to LLC Halyk Project at the interest rate of 0.1%. At the same time, the Bank sold its bad debts to Halyk Project. The summarized effect at initial recognition date was recognised as investments in subsidiary.

(Millions of Kazakhstani Tenge)

11. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2015	31 December 2014
Recorded as loans and receivables in accordance with IAS 39:		
Originated loans to customers	2,372,476	1,857,223
Overdrafts	392	676
	2,372,868	1,857,899
Less – Allowance for loan impairment losses (Note 19)	(296,651)	(280,433)
Loans to customers	2,076,217	1,577,466

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 years ended 31 December 2015 and 2014 average interest rate on loans was 12.3% and 12.1%, respectively.

As at 31 December 2015, the Bank had a concentration of loans of KZT 524,728 million to the ten largest borrowers that comprised 22% of the Bank's total gross loan portfolio (31 December 2014 – KZT 356,266 million, 21%) and 107% of the Bank's total equity (31 December 2014 – 78%).

As at 31 December 2015, an allowance for impairment amounting to KZT 60,784 million was made against these loans (31 December 2014 – KZT 58,214 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
Loans collateralized by pledge of real estate or rights thereon	901,031	698,204
Loans collateralized by guarantees	489,150	408,401
Consumer loans issued within the framework of payroll projects	373,211	330,158
Loans collateralized by cash	208,308	174,459
Loans collateralized by pledge of corporate shares	144,541	109,233
Loans collateralized by pledge of vehicles	69,362	27,596
Loans collateralized by pledge of inventories	43,089	50,170
Loans collateralized by mixed types of collateral	18,181	2,151
Loans collateralized by pledge of equipment	7,344	7,712
Loans collateralized by pledge of agricultural products	5,742	1,502
Unsecured loans	112,909	48,313
	2,372,868	1,857,899
Less - Allowance for loan impairment losses (Note 19)	(296,651)	(280,433)
Total loans to customers	2,076,217	1,577,466

(Millions of Kazakhstani Tenge)

Loans are granted to the following sectors:

	31 December 2015	**%**	**31 December 2014**	**%**
Retail loans:				
- consumer loans	384,134	16%	334,894	18%
- mortgage loans	171,802	7%	117,995	6%
	555,936		452,889	
Wholesale trade	408,711	17%	368,737	20%
Services	390,636	17%	229,150	12%
Construction	153,910	7%	149,173	8%
Real estate	148,501	6%	127,788	7%
Retail trade	148,068	6%	111,608	6%
Agriculture	116,778	5%	103,420	5%
Financial services	86,332	4%	60,146	4%
Transportation	58,516	3%	64,038	3%
Communication	57,089	2%	25,582	2%
Mining	50,331	2%	39,625	2%
Oil and gas	35,220	1%	8,229	1%
Hotel industry	30,217	1%	28,583	2%
Food industry	28,624	1%	26,280	1%
Metallurgy	25,519	1%	21,952	1%
Energy	23,917	1%	5,938	0%
Chemical industry	14,678	1%	8,775	1%
Machinery	13,264	1%	3,834	0%
Light industry	7,004	0%	4,163	0%
Other	19,617	1%	17,989	1%
	2,372,868	100%	1,857,899	100%

As at 31 December 2015, the amount of accrued interest on loans comprised KZT 136,365 million (31 December 2014 – KZT 102,420 million).

During the years ended 31 December 2015 and 2014 the Bank received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 2015 and 2014 such assets of KZT 7,401 million and KZT 8,029 million, respectively, are included in assets held for sale.

As at 31 December 2015 and 2014, loans to customers included loans of KZT 188,582 million, KZT 150,382 million, respectively, which terms were renegotiated. Otherwise, these loans would be past due or impaired.

(Millions of Kazakhstani Tenge)

12. 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:						
31December 2014	46,875	833	21,334	12,595	11,329	92,966
Additions	132	37	1,864	3,322	727	6,082
Disposals	(182)	(100)	(2,518)	(42)	(814)	(3,656)
Transfers	1,806	-	12	(1,898)	80	-
31 December 2015	48,631	770	20,692	13,977	11,322	95,392
Accumulated depreciation:						
31 December 2014	60	429	15,551	-	7,199	23,239
Charge for the year	721	111	1,529	-	916	3,277
Disposals	(2)	(83)	(2,507)	-	(808)	(3,400)
31 December 2015	779	457	14,573	-	7,307	23,116
Net book value:						
31 December 2015	47,852	313	6,119	13,977	4,015	72,276

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2013	42,285	877	20,889	980	11,286	76,317
Additions	750	89	2,665	13,662	484	17,650
Disposals	(1,095)	(133)	(2,334)	(391)	(327)	(4,280)
Write-off at revaluation	(1,251)	-	-	-	-	(1,251)
Revaluation	4,953	-	-	-	-	4,953
Impairment	(423)	-	-	-	-	(423)
Transfers	1,656	-	114	(1,656)	(114)	-
31 December 2014	46,875	833	21,334	12,595	11,329	92,966
Accumulated depreciation:						
31 December 2013	692	418	16,358	-	6,808	24,276
Charge for the year	635	142	1,149	-	1,036	2,962
Disposals	(16)	(131)	(2,294)	-	(307)	(2,748)
Write-off at revaluation	(1,251)	-	-	-	-	(1,251)
Transfer	-	-	338	-	(338)	-
31 December 2014	60	429	15,551	-	7,199	23,239
Net book value:						
31 December 2014	46,815	404	5,783	12,595	4,130	69,727

The Bank'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 Bank may opt to perform revaluations more regularly.

(Millions of Kazakhstani Tenge)

The Bank has its buildings and properties revalued during 2014 by an independent appraiser Business Partner LLP. The independent appraiser 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 Bank's management believes that as at 31 December 2015 the fair value of the property does not differ materially from its carrying value.

As at 31 December 2015, the fair value measurements of the Bank's buildings and construction, are categorized into Level 2 and Level 3, in amount of KZT 47,773 million and KZT 79 million, respectively (description of measurement hierarchy is disclosed in Note 33).

As at 31 December 2015, total amount of fair value of buildings and construction was KZT 47,852 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 45,133 million.

13. INTANGIBLE ASSETS

	Software	Licensing agreements on the rights to use software	Other intangible assets	Total
Revalued/initial cost:				
31 December 2013	9,520	1,313	101	10,934
Additions	366	526	222	1,114
Disposals	(89)	-	(177)	(266)
31 December 2014	9,797	1,839	146	11,782
Additions	485	271	130	886
Disposals	(249)	(4)	(273)	(526)
31 December 2015	10,033	2,106	3	12,142
Accumulated depreciation				
31 December 2013	5,518	277	1	5,796
Charge for the year	833	220	-	1,053
Disposals	(73)	-	-	(73)
31 December 2014	6,278	497	1	6,776
Charge for the year	1,205	-	-	1,205
Disposals	(252)	-	-	(252)
31 December 2015	7,231	497	1	7,729
Net Book Value				
31 December 2014	3,519	1,342	145	5,006
31 December 2015	2,802	1,609	2	4,413

14. ASSETS HELD FOR SALE

During 2010 and 2009, after the default of certain counterparties on loans to customers, the Bank 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 cost to dispose or the carrying value, as the appropriate level of management committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan was initiated.

(Millions of Kazakhstani Tenge)

Assets held for sale comprised the following:

	31 December 2015	31 December 2014
Land	7,402	8,044
Real estate	343	268
	7,745	8,312

In November 2014, the Bank performed an independent valuation of its assets held for sale. Based on the result of the valuation the Bank recognized an impairment loss of KZT 102 million.

Despite the assets being actively marketed for sale, the majority have not been sold within a short timeframe. However, management of the Bank remains committed to the sale 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 and 2014.

The fair value of the Bank'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 Bank's assets held for sale and information about the fair value hierarchy as at 31 December 2015 and 2014 are as follows:

	Level 1	Level 2	Level 3
31 December 2014			
Land	-	-	8,044
Real estate	-	159	109
31 December 2015			
Land	-	-	7,402
Real estate	-	338	5

(Millions of Kazakhstani Tenge)

15. OTHER ASSETS

Other assets comprise:

	31 December 2015	31 December 2014
Other financial assets recorded as loans and receivables in accordance with IAS 39:		
Debtors on banking activities	6,902	6,841
Accrued other commission income	770	777
Debtors on non-banking activities	847	360
Other	2	4
	8,521	7,982
Less – Allowance for impairment (Note 19)	(4,507)	(4,229)
	4,014	3,753
Other non-financial assets:		
Receivables	45	15
Prepayments for property and equipment	7,461	1,836
Inventory	632	863
Advances for taxes other than income tax	409	554
Investments in associates	-	
Other	1,290	946
	9,837	4,214
	13,851	7,967

16. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2015	31 December 2014
Recorded at amortized cost:		
Term deposits:		
Individuals	1,245,374	753,595
Legal entities	788,247	372,364
	2,033,621	1,125,959
Current accounts:		
Legal entities	543,479	453,939
Individuals	176,971	156,497
	720,450	610,436
	2,754,071	1,736,395

As at 31 December 2015, the Bank’s ten largest groups of related customers accounted for approximately 28% of the total amounts due to customers (31 December 2014 – 23%), 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 Bank would be given sufficient notice so as to realize its liquid assets to enable repayment.

(Millions of Kazakhstani Tenge)

An analysis of customer accounts by sector is as follows:

	31 December 2015	%	31 December 2014	%
Individuals and entrepreneurs	1,422,345	51%	910,092	52%
Oil and gas	578,791	21%	296,982	17%
Other consumer services	84,054	3%	63,288	4%
Wholesale trade	141,259	5%	64,759	4%
Transportation	110,867	4%	100,969	6%
Construction	75,894	3%	63,303	4%
Financial services	95,255	4%	41,327	2%
Government	20,309	1%	24,840	1%
Insurance and pension funds activity	8,368	0%	22,284	1%
Education	17,384	1%	13,904	1%
Metallurgy	24,407	1%	26,276	2%
Communication	28,659	1%	5,469	0%
Energy	13,870	0%	13,960	1%
Healthcare and social services	47,417	2%	13,654	1%
Other	85,192	3%	75,288	4%
	2,754,071	100%	1,736,395	100%

17. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2015	31 December 2014
Recorded at amortized cost:		
Loans and deposits from Kazakhstan banks	46,456	17,450
Loans from KazAgro	41,866	47,846
Loans from Damu	32,882	21,127
Loans from JSC Development Bank of Kazakhstan	19,365	8,009
Loans and deposits from OECD based banks	6,976	3,963
Correspondent accounts	4,246	3,319
Overnight deposits	3,005	-
Loans from other financial institutions	244	262
	155,040	101,976

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.

(Millions of Kazakhstani Tenge)

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 Bank, the Bank 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 Bank's retail customers. According to the loan agreement between DBK and the bank, the Bank 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 Bank 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 presented as follows:

	31 December 2015		**31 December 2014**	
	Interest rate, %	**Maturity, Year**	**Interest rate, %**	**Maturity, Year**
Loans and deposits from Kazakhstan banks	10.0%-11.4%	2016	3.5%	2015
Loans from KazAgro	3.0%	2019-2022	3.0%	2019-2022
Loans from Damu	2.0%	2015-2035	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%	2015-2023
Overnight deposits	60.0%	2016	-	-
Loans from other financial institutions	5.0%-5.2%	2016	4.8%-5.9%	2015-2016

Fair value of assets pledged (Note 9) and carrying value of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 December 2015 and 2014, are as follows:

	31 December 2015		**31 December 2014**	
	Fair value of collateral	**Carrying amount of loans**	**Fair value of collateral**	**Carrying amount of loans**
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	43,659	39,429	12,575	12,017
	43,659	39,429	12,575	12,017

(Millions of Kazakhstani Tenge)

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2015 and 2014 are disclosed below:

	Investments available-for-sale (Note 9)
As at 31 December 2015:	
Carrying amount of transferred assets	43,659
Carrying amount of associated liabilities	39,429
As at 31 December 2014:	
Carrying amount of transferred assets	12,575
Carrying amount of associated liabilities	12,017

Loans under repurchase agreements are used by the Bank to provide current cash flows in KZT within the Bank's operating activities. The Bank 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 Bank 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.

In accordance with the contractual terms of the loans from certain OECD based banks, the Bank is required to maintain certain financial ratios, particularly with regard to capital adequacy. Certain of the Bank's outstanding financing agreements include covenants restricting the Bank's ability to create security interests over its assets. Should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements.

The Bank's management believes that as at 31 December 2015 and 2014, the Bank was in compliance with the covenants of the agreements the Bank has with the trustees and holders of the notes.

18. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2015	**31 December 2014**
Recorded at amortized cost:		
Subordinated debt securities issued:		
Fixed rate KZT denominated bonds	4,985	4,063
Reverse inflation indexed KZT denominated bonds	4,080	8,554
Inflation indexed KZT denominated bonds	-	8,019
Total subordinated debt securities outstanding	9,065	20,636
Unsubordinated debt securities issued:		
USD denominated bonds	366,244	196,105
KZT denominated bonds	224,675	95,545
Total unsubordinated debt securities outstanding	590,919	291,650
Total debt securities outstanding	599,984	312,286

(Millions of Kazakhstani Tenge)

In 2015, the Bank placed KZT 131,652 million 7.5% bonds with maturity in February 2025, issued as per Kazakhstan legislation. In 2014, the Bank placed KZT 100,000 million 7.5% bonds with maturity in November 2024, 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 follow:

	31 December 2015		**31 December 2014**	
	Coupon rate, %	**Maturity, year**	**Coupon rate, %**	**Maturity, year**
Subordinated debt securities issued:				
Fixed rate KZT denominated bonds	13.0%	2018	7.5%-13.0%	2015-2018
Reverse inflation indexed KZT denominated bonds	15% less inflation rate	2016	15% less inflation rate	2015-2016
Inflation indexed KZT denominated bonds	-	-	inflation rate plus 1%	2015
Unsubordinated debt securities issued:				
USD denominated bonds	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 12,044 million (as at 31 December 2014 – KZT 4,829 million).

Subordinated securities are unsecured obligations of the Bank and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Bank. Coupon payments on debt securities issued is payable on a semi-annual and annual basis.

In accordance with the terms of the USD denominated bonds, the Bank 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 Bank’s ability to create security interests over its assets. Should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank’s other financing arrangements. The Bank’s management believes that as at 31 December 2015 and 2014, the Bank was in compliance with the covenants of the agreements the Bank has with the trustees and holders of the notes.

(Millions of Kazakhstani Tenge)

19. 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 11)	Amounts due from credit institutions (Note 8)	Other Assets (Note 15)	Total
31 December 2013	(321,309)	(5)	(5,006)	(326,320)
Additional provisions recognized	(250,591)	-	(12,592)	(263,183)
Recoveries	244,317	-	13,209	257,526
Write-offs	73,028	-	119	73,147
Foreign exchange differences	(25,878)	5	41	(25,832)
31 December 2014	(280,433)	-	(4,229)	(284,662)
Additional provisions recognized	(146,726)	-	(7,377)	(154,103)
Recoveries	142,413	-	7,414	149,827
Write-offs	43,567	-	86	43,653
Foreign exchange differences	(55,472)	-	(401)	(55,873)
31 December 2015	(296,651)	-	(4,507)	(301,158)

During the years ended 31 December 2015 and 2014 the Bank wrote off loans for KZT 43,567 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
At the beginning of the year	-	(4,151)
Provisions	(529)	(27)
Recoveries of provisions	220	4,100
Foreign exchange differences	-	78
At the end of the year	(309)	-

(Millions of Kazakhstani Tenge)

20. TAXATION

The Bank is subject to income tax in the Republic of Kazakhstan.

The income tax expense comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax charge	64	16,467
Deferred income tax benefit relating to origination and reversal of temporary differences	26,800	3,911
Adjustments recognized in the current period of deferred tax of prior periods	-	2,788
Income tax expense	26,864	23,166

During the year ended 31 December 2014, due to the changes in the Tax Code related to the deduction of accrued interest expense, the Bank adjusted its deferred tax assets correspondingly.

Deferred income tax expense relating to the following temporary difference:

	Year ended 31 December 2015	Year ended 31 December 2014
Fair value of derivatives and investments available for sale	31,179	316
Loans to customers, allowance for impairment losses	354	2,280
Tax loss carry forward	(3,531)	-
Property and equipment, accrued depreciation	(972)	1,089
Other	(230)	226
Income tax expense	26,800	3,911

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2015 and 2014.

Income on state and other qualifying securities is tax exempt.

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
Income before income tax expense	129,900	142,562
Statutory tax rate	20%	20%
Income tax expense at the statutory rate	25,980	28,512
Tax-exempt interest income and other related income on state and other qualifying securities	(2,726)	(2,271)
Tax-exempt income on dividends	(526)	(4,168)
Non-deductible expenditures:		
- general and administrative expenses	197	150
- other provisions	2,459	123
- charity	100	114
Other	1,380	706
Income tax expense	26,864	23,166

(Millions of Kazakhstani Tenge)

Deferred tax assets and liabilities comprise:

	31 December 2015	31 December 2014
Tax effect of deductible temporary differences:		
Bonuses accrued	1,430	1,219
Vacation pay accrual	256	206
Fair value of derivatives	389	123
Tax loss carry forward	3,531	-
Other	71	-
Deferred tax asset	5,677	1,548
Tax effect of taxable temporary differences:		
Fair value of derivatives and investments available for sale	(31,831)	(387)
Property and equipment, accrued depreciation	(4,812)	(5,785)
Loans to customers, allowance for impairment	(3,804)	(3,804)
Other	(2,045)	(1,587)
Deferred tax liability	(42,492)	(11,563)
Net deferred tax liability	(36,815)	(10,015)

The Bank has offset deferred tax assets and liabilities on the statement of financial position where a right of offset existed. The amounts presented after offset comprise:

	31 December 2015	31 December 2014
Deferred tax liability	(36,815)	(10,015)
Net deferred tax liability	(36,815)	(10,015)

Kazakhstan has 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 Republic of Kazakhstan, 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 Bank’s business activities, was to be challenged by the tax authorities, the Bank 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 Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the separate financial statements.

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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 Bank is in compliance with the tax law 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
Net deferred tax liability at the beginning of the year	10,015	4,184
Deferred income tax benefit relating to origination and reversal of temporary differences	26,800	3,911
Adjustments recognized in the current period of deferred tax of prior periods	-	2,788
Credited to other comprehensive income at the date of property and equipment revaluation	-	(868)
Net deferred tax liability at the end of the year	36,815	10,015

Current tax assets and liabilities comprise:

	31 December 2015	31 December 2014
Current tax refund receivable	16,040	-
Current income tax payable	-	(2,429)
Current tax asset/(liability)	16,040	(2,429)

21. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2015	31 December 2014
Other financial liabilities:		
Salary payable	7,798	6,579
Creditors on non-banking activities	4,790	685
Payable for general and administrative expenses	502	408
Creditors on bank activities	226	54
Other	167	82
	13,483	7,808
Other non-financial liabilities:		
Taxes payable other than income tax	1,573	816
Other prepayments received	1,031	772
	2,604	1,588
	16,087	9,396

(Millions of Kazakhstani Tenge)

22. EQUITY

Authorized, issued and fully paid number of shares as at 31 December 2015 and 2014, 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	(217,453,231)	10,911,065,220
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(289,259,381)	20,600,049
Convertible preferred	80,225,222	-	80,225,222	(79,686,823)	538,399

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	(217,361,861)	10,911,156,600
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(196,232,399)	113,627,031
Convertible preferred	80,225,222	-	80,225,222	-	80,225,222

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Common	Non-convertible preferred	Convertible preferred	Common	Non-convertible preferred	Convertible preferred
31 December 2013	10,911,224,990	119,859,430	80,225,222	43,709	9,440	13,237
Purchase of treasury shares	(68,400)	(6,232,399)	-	-	(1,460)	-
Other purchases of treasury shares	-	-	-	-	-	-
31 December 2014	10,911,156,590	113,627,031	80,225,222	43,709	7,980	13,237
Purchase of treasury shares	(91,370)	(93,026,982)	(79,686,823)	(2)	(13,024)	(11,156)
Sale of treasury shares	-	-	-	-	-	-
31 December 2015	10,911,065,220	20,600,049	538,399	43,707	(5,044)	2,081

Common shares

At 31 December 2015, the Bank held 217,453,231 of the Bank's common shares as treasury shares at KZT 39,920 million (31 December 2014 – 217,361,861 at KZT 39,918 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 Bank 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.

(Millions of Kazakhstani Tenge)

The terms of the Preferred Shares require that the Bank 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 Bank's profitability. Where the Bank 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 only paid if declared and approved by the Board of Directors at the Annual General Meeting of the Shareholders. 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**
Dividend paid per one preferred share (convertible and non-convertible), tenge	13.44	9.28
Dividend paid per one common share, tenge	3.14	1.7

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 Bank 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 such that, at the date of conversion, if the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Bank will reimburse the preferred shareholders for the difference in cash at the time of conversion.

(Millions of Kazakhstani Tenge)

23. FINANCIAL COMMITMENTS AND CONTINGENCIES

The Bank’s financial commitments and contingencies comprised the following:

	31 December 2015	31 December 2014
Guarantees issued	164,450	139,629
Commitments to extend credit	23,591	13,212
Commercial letters of credit	15,821	4,842
Financial commitments and contingencies	203,862	157,683
Less: cash collateral against letters of credit	(18,675)	(1,908)
Less: provisions (Note 19)	(309)	-
Financial commitments and contingencies, net	184,878	155,775

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 84% of the Bank’s total financial guarantees (31 December 2014 – 85%) and represented 28% of the Bank’s total equity (31 December 2014 –26%).

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 100% of the Bank’s total commercial letters of credit (31 December 2014 – 100%) and represented 3% of the Bank’s total equity (31 December 2014 – 1%).

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary. The Bank 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 Bank. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Capital commitments

As at 31 December 2015 and 2014, the Bank had commitments for capital expenditures in respect of construction in progress for KZT 3,811 million and KZT Nil, respectively.

Operating lease commitments

There was no material operating lease commitments under non-cancellable operating leases outstanding as at 31 December 2015 and 2014.

(Millions of Kazakhstani Tenge)

24. NET INTEREST INCOME

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired assets	103,048	88,899
- interest income on impaired assets	27,083	24,319
- interest income on collectively assessed assets	88,960	73,055
Interest income on available-for-sale investment securities	14,338	14,190
Total interest income	233,429	200,463
Interest income on loans to customers	215,444	181,946
Interest income on amounts due from credit institutions and cash and cash equivalents	3,647	4,327
Total interest income on financial assets recorded at amortized cost	219,091	186,273
Interest income on available-for-sale investment securities	14,338	14,190
Total interest income	233,429	200,463
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost	(99,355)	(77,014)
Total interest expense	(99,355)	(77,014)
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest expense on amounts due to customers	(60,888)	(57,400)
Interest expense on debt securities issued	(34,382)	(17,305)
Interest expense on amounts due to credit institutions	(4,085)	(2,309)
Total interest expense on financial liabilities recorded at amortized cost	(99,355)	(77,014)
Net interest income before impairment charge	134,074	123,449

25. FEES AND COMMISSIONS

Fee and commission income was derived from the following sources:

	Year ended 31 December 2015	Year ended 31 December 2014
Bank transfers – settlements	13,387	11,065
Payment cards maintenance	9,429	7,933
Cash operations	9,148	8,679
Bank transfers – salary projects	6,862	6,456
Servicing customers’ pension payments	5,868	5,047
Letters of credit and guarantees issued	3,097	3,157
Maintenance of customer accounts	1,397	1,259
Other	445	411
	49,633	44,007

(Millions of Kazakhstani Tenge)

Fee and commission expense comprised the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Deposit insurance	(4,686)	(4,000)
Payment cards	(2,756)	(2,172)
Foreign currency operations	(916)	(778)
Commission paid to collectors	(438)	(495)
Bank transfers	(441)	(337)
Other	(318)	(229)
	(9,555)	(8,011)

26. NET GAIN FROM 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
Net gain on operations with financial assets and liabilities classified as held for trading:		
Unrealized net gain on derivative and trading operations	157,212	1,085
Realized net gain on derivative operations	40,073	6,219
Realized net gain on trading operations	-	216
Total net gain on operations with financial assets and liabilities classified as held for trading	197,285	7,520

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.

27. NET FOREIGN EXCHANGE (LOSS)/GAIN

Net foreign exchange (loss)/gain comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Dealing, net	1,910	10,384
Translation differences, net	(188,684)	(4,541)
Total net foreign exchange (loss)/gain	(186,774)	5,843

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.

(Millions of Kazakhstani Tenge)

28. OPERATING EXPENSES

Operating expenses comprised:

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and other employee benefits	28,696	26,518
Depreciation and amortization expenses	4,481	4,015
Taxes other than income tax	3,067	2,406
Loss on investments in subsidiaries	2,325	1,403
Security	1,641	1,321
Repair and maintenance	1,629	1,572
Communication	1,481	1,339
Rent	1,274	1,039
Information services	1,199	1,069
Utilities	1,153	987
Advertisement	993	853
Stationery and office supplies	648	568
Professional services	531	1,264
Charity	502	572
Business trip expenses	418	431
Hospitality expenses	102	90
Transportation	95	100
Social events	76	200
Impairment and write off of of property and equipment and intangible assets	-	423
Other	4,853	5,007
	55,164	51,177

29. 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 22, 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.

(Millions of Kazakhstani Tenge)

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2015	Year ended 31 December 2014
Basic earnings per share		
Net income for the year attributable to equity holders of the parent	103,036	119,396
Less: Dividends paid on preferred shares	(2,605)	(1,799)
Earnings attributable to common shareholders	100,431	117,597
Weighted average number of common shares for the purposes of basic earnings per share	10,911,129,320	10,911,195,560
Basic earnings per share (in Kazakhstani Tenge)	9.20	10.78
Diluted earnings per share		
Earnings used in the calculation of basic earnings per share	100,431	117,597
Add: Dividends paid on convertible preferred shares	899	899
Add: Additional dividends that would be paid on full distribution of profit to the convertible preferred shareholders*	N/A	N/A
Less: Amounts payable to convertible preferred shareholders upon conversion	(37)	(10,626)
Earnings used in the calculation of total diluted earnings per share	101,293	107,870
Weighted average number of common shares for the purposes of basic earnings per share	10,911,129,320	10,911,195,560
Weighted average number of common shares that would be issued for the convertible preferred shares	298,333	80,225,222
Weighted average number of common shares for the purposes of diluted earnings per share	10,911,427,653	10,991,420,782
Diluted earnings per share (in Kazakhstani Tenge)	9.28	9.81

* 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 and 2014, is disclosed as follows:

		31 December 2015	
Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
Common	10,911,065,220	487,700	44.70
Non-convertible preferred	20,600,049	(3,975)	(192.96)
Convertible preferred	538,399	2,135	3,965.00
		485,860	

		31 December 2014	
Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
Common	10,911,156,590	430,699	39.47
Non-convertible preferred	113,627,031	9,216	81.11
Convertible preferred	80,225,222	13,237	165.00
		453,152	

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 Bank believes that it fully complies with the requirement of KASE as at the reporting dates.

30. FINANCIAL RISK MANAGEMENT

Risk management is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk

Credit risk is the risk of loss arising for the Bank when a counterparty is unable to meet its contractual obligations on time or in full.

The 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 Bank 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 Bank 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 Bank applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the 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 Bank 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 package of documents, including complex analysis, 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.

(Millions of Kazakhstani Tenge)

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.

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 Bank’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 Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on (Note 23). 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*	1,073,162	-	1,073,162	-
Financial assets at fair value through profit or loss (less equity securities)	175,260	-	175,260	-
Amounts due from credit institutions	64,561	-	64,561	-
Available-for-sale investment securities (less equity securities)	285,782	-	285,782	-
Loans to customers	2,076,217	-	2,076,217	1,963,308
Other financial assets	4,014	-	4,014	-
Total financial assets	3,678,996	-	3,678,996	1,963,308
Commitments and contingencies	203,553	-	203,553	18,675

(Millions of Kazakhstani Tenge)

	31 December 2014			
	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral Pledged**
Cash equivalents*	331,708	-	331,708	-
Financial assets at fair value through profit or loss (less equity securities)	11,872	-	11,872	-
Amounts due from credit institutions	40,980	-	40,980	-
Available-for-sale investment securities	323,152	-	323,152	-
Loans to customers	1,577,466	-	1,577,466	1,529,153
Other financial assets	3,753	-	3,753	-
Total financial assets	2,288,931	-	2,288,931	1,529,153
Commitments and contingencies	157,683	-	157,683	1,908

* 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 Bank’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 Bank, before any impairment losses:

	AA	**AA-**	**A**	**BBB**	**<BBB**	**Not rated**	**31 December 2015 Total**
Cash and cash equivalents	74,268	85,108	30,785	823,041	49,191	10,769	1,073,162
Financial assets at fair value through profit or loss	-	-	992	173,915	276	125	175,308
Amounts due from credit institutions	-	-	4,971	22,737	15,485	21,368	64,561
Available-for-sale investment securities	-	-	-	225,054	60,728	-	285,782
Other financial assets	-	-	-	-	-	8,521	8,521
Commitments and contingencies	-	-	-	-	-	203,862	203,862

(Millions of Kazakhstani Tenge)

	AA	AA-	A	BBB	<BBB	Not rated	31 December 2014 Total
Cash and cash equivalents	43,135	2,263	75,261	205,485	-	5,564	331,708
Financial assets at fair value through profit or loss	-	-	431	11,167	267	56	11,921
Amounts due from credit institutions	-	-	2,501	22,416	-	16,063	40,980
Available-for-sale investment securities	9,393	-	30,943	230,235	52,581	-	323,152
Other financial assets	-	-	-	-	-	7,982	7,982
Commitments and contingencies	-	-	-	-	-	157,683	157,683

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank 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 Bank'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 Bank, and this classification is verified by the Risk Management function.

The Bank 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 Bank 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.

(Millions of Kazakhstani Tenge)

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**
1	46,913	9,722
2	-	-
3	-	8,967
4	158,907	198,024
5	270,050	203,773
6	500,177	339,761
7	412,839	200,479
8-10	158,859	220,756
Loans to corporate customers that are individually assessed for impairment	1,547,745	1,181,482
Loans to SME customers and retail business that are individually assessed for impairment SME	127,502	98,483
Loans to customers that are collectively assessed for impairment	697,621	577,934
	2,372,868	1,857,899
Less – Allowance for loan impairment (Note 19)	(296,651)	(280,433)
Loans to customers	2,076,217	1,577,466

(Millions of Kazakhstani Tenge)

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	
Financial assets at fair value through profit or loss	175,308	-	-	-	-	-	175,308
Amounts due from credit institutions	64,561	-	-	-	-	-	64,561
Available-for-sale investment securities	285,782	-	-	-	-	-	285,782
Loans to customers	1,207,670	(14,674)	467,577	(192,024)	697,621	(89,953)	2,076,217
Other financial assets	2,018	-	6,503	(4,507)	-	-	4,014

	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	40,980	-	-	-	-	-	40,980
Available-for-sale investment securities	323,152	-	-	-	-	-	323,152
Loans to customers	859,242	(9,235)	420,723	(196,180)	577,934	(75,018)	1,577,466
Other financial assets	1,141	-	6,841	(4,229)	-	-	3,753

As at 31 December 2015 the carrying amount of unimpaired overdue loans was KZT 11,119 million (31 December 2014 – KZT 1,528 million). Maturities of these overdue loans are not greater than 90 days.

(Millions of Kazakhstani Tenge)

Liquidity risk

Liquidity risk is the risk resulting from the inability of the Bank to provide funds for repayment of its obligations in a due time. The Bank'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 Bank'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 Bank 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 Bank's short-term liquidity needs.

	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	1,189,327	-	-	-	-	1,189,327
Obligatory reserves	27,154	2,864	20,677	4,522	3,832	59,049
Financial assets at fair value through profit or loss	6,509	8,058	86,331	74,410	-	175,308
Amounts due from credit institutions	5,516	876	25,923	17,109	15,137	64,561
Available-for-sale investment securities	2,123	2,516	22,159	129,055	129,929	285,782
Loans to customers	143,268	215,685	1,390,309	259,143	67,812	2,076,217
Other financial assets	3,262	694	24	-	34	4,014
	1,377,159	230,693	1,545,423	484,239	216,744	3,854,258
FINANCIAL LIABILITIES:						
Amounts due to customers	1,319,546	144,067	1,170,116	35,413	84,929	2,754,071
Amounts due to credit institutions	53,948	154	894	7,300	92,744	155,040
Financial liabilities at fair value through profit or loss	1,306	-	-	-	-	1,306
Debt securities issued	5,016	3,812	7,394	203,090	380,672	599,984
Other financial liabilities	13,317	74	47	40	5	13,483
	1,393,133	148,107	1,178,451	245,843	558,350	3,523,884
Net position	(15,974)	82,586	366,972	238,396	(341,606)	
Accumulated gap	(15,974)	66,612	433,584	671,980	330,374	

(Millions of Kazakhstani Tenge)

	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	454,199	3,285	-	-	-	457,484
Obligatory reserves	22,611	3,353	12,141	3,320	2,336	43,761
Financial assets at fair value through profit or loss	11,921	-	-	-	-	11,921
Amounts due from credit institutions	2,667	8,106	9,044	17,141	4,022	40,980
Available-for-sale investment securities	4,001	2,150	39,492	165,988	111,521	323,152
Loans to customers	151,593	170,288	984,534	223,716	47,335	1,577,466
Other financial assets	3,571	30	10	96	46	3,753
	650,563	187,212	1,045,221	410,261	165,260	2,458,517
FINANCIAL LIABILITIES:						
Amounts due to customers	894,383	210,872	484,192	103,823	43,125	1,736,395
Amounts due to credit institutions	20,663	1	258	3,133	77,921	101,976
Financial liabilities at fair value through profit or loss	2,826	-	-	-	-	2,826
Debt securities issued	2,798	-	13,829	115,000	180,659	312,286
Other financial liabilities	7,722	12	48	23	3	7,808
	928,392	210,885	498,327	221,979	301,708	2,161,291
Net position	(277,829)	(23,673)	546,894	188,282	(136,448)	
Accumulated gap	(277,829)	(301,502)	245,392	433,674	297,226	

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Bank 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 Bank.

A significant portion of the Bank's liabilities is represented by customer term deposits, current accounts of corporate and retail customers, 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 Bank indicate that these deposits provide a long-term and stable source of funding for the Bank. Therefore, an essential part of current accounts is considered as stable resources for the purposes of liquidity analysis and management.

(Millions of Kazakhstani Tenge)

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 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
FINANCIAL LIABILITIES:						
Amounts due to customers	1,320,448	144,758	1,205,651	37,043	131,845	2,839,745
Amounts due to credit institutions	54,504	154	907	8,236	121,931	185,732
Debt securities issued	11,179	8,749	42,584	354,588	437,729	854,829
Other financial liabilities	13,317	74	47	40	5	13,483
Guarantees issued	164,450	-	-	-	-	164,450
Commercial letters of credit	15,821	-	-	-	-	15,821
Commitments to extend credit	23,591	-	-	-	-	23,591
	1,603,310	153,735	1,249,189	399,907	691,510	4,097,651
Derivative financial assets	84,293	36,721	374,011	-	-	495,025
Derivative financial liabilities	81,123	30,559	108,950	100,439	-	321,071

	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
FINANCIAL LIABILITIES:						
Amounts due to customers	896,951	218,287	506,524	221,941	63,153	1,906,856
Amounts due to credit institutions	20,689	1	263	3,570	101,335	125,858
Debt securities issued	2,798	72	37,734	198,489	209,917	449,010
Other financial liabilities	7,722	12	48	23	3	7,808
Guarantees issued	139,629	-	-	-	-	139,629
Commercial letters of credit	4,842	-	-	-	-	4,842
Commitments to extend credit	13,212	-	-	-	-	13,212
	1,085,843	218,372	544,569	424,023	374,408	2,647,215
Derivative financial assets	78,612	92,682	-	182,350	-	353,644
Derivative financial liabilities	75,226	-	94,906	174,466	-	344,598

Market risk

Market risk is a risk that Bank'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 Bank 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 Bank 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 Bank 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 Bank's position on interest rates to reach positive interest margins. Budgeting and Controlling Department monitors current results of the Bank's financial activity, estimates the Bank's sensitivity in relation to interest rates changes and influence on the Bank's profits.

The Bank manages interest rates by determining the Bank'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 Bank'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 and 2014, and the effect of revaluing instruments with fixed rates accounted at fair value. The management of the Bank believes income tax not to have substantial effect for the purpose of interest rate risk management.

(Millions of Kazakhstani Tenge)

Impact on income before tax based on asset values as at 31 December 2015 and 2014:

	31 December 2015		31 December 2014	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
FINANCIAL ASSETS:				
Loans to customers	(1,681)	1,681	(408)	408
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	-	-	10	(10)
Net impact on income before tax	(1,681)	1,681	(398)	398

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	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
FINANCIAL ASSETS:				
Loans to customers	1,681	(1,681)	408	(408)
Available-for-sale investment securities	(23,949)	23,949	(29,428)	29,428
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	-	-	10	(10)
Net impact on equity	(22,268)	22,268	(29,010)	29,010

Currency Risk

The Bank 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 Bank.

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 Bank an opportunity to minimize losses from significant currency rate fluctuations of national and foreign currencies.

The Treasury Department performs daily monitoring of the Bank’s open currency position with the aim to comply with the requirements of the regulatory authority.

The Bank 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 Bank’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 Bank’s USD denominated monetary assets and liabilities. Currency risk is assessed in relation to the statement of financial position and off-balance sheet positions. Current Bank'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.

(Millions of Kazakhstani Tenge)

The Bank's exposure to foreign currency exchange rate risk follows:

	31 December 2015						
	USD	**EUR**	**RUB**	**Other foreign currencies**	**Total**	**KZT**	**TOTAL**
FINANCIAL ASSETS:							
Cash and cash equivalents	1,076,602	31,664	17,164	10,620	1,136,050	53,277	1,189,327
Obligatory reserves	46,716	729	106	38	47,589	11,460	59,049
Financial assets at fair value through profit or loss	-	-	-	-	-	175,308	175,308
Amounts due from credit institutions	38,517	-	3,227	-	41,744	22,817	64,561
Available-for-sale investment securities	162,680	1,784	-	-	164,464	121,318	285,782
Loans to customers	636,546	3,783	889	3,368	644,586	1,431,631	2,076,217
Other financial assets	644	35	-	-	679	3,335	4,014
	1,961,705	37,995	21,386	14,026	2,035,112	1,819,146	3,854,258
FINANCIAL LIABILITIES:							
Amounts due to customers	2,054,327	37,950	5,290	1,847	2,099,414	654,657	2,754,071
Amounts due to credit institutions	13,315	339	1,986	2	15,642	139,398	155,040
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1,306	1,306
Debt securities issued	366,244	-	-	-	366,244	233,740	599,984
Other financial liabilities	561	53	-	-	614	12,869	13,483
	2,434,447	38,342	7,276	1,849	2,481,914	1,041,970	3,523,884
Net balance sheet position	(472,742)	(347)	14,110	12,177	(446,802)	777,176	330,374
Net off balance sheet position	477,281	371	(14,186)	(14,303)	449,163	(274,205)	
Net position	4,539	24	(76)	(2,126)	2,361	502,971	

(Millions of Kazakhstani Tenge)

	31 December 2014						
	USD	**EUR**	**RUB**	**Other foreign currencies**	**Total**	**KZT**	**TOTAL**
FINANCIAL ASSETS:							
Cash and cash equivalents	335,364	37,280	9,634	7,462	389,740	67,744	457,484
Obligatory reserves	28,500	973	57	26	29,556	14,205	43,761
Financial assets at fair value through profit or loss	-	-	-	-	-	11,921	11,921
Amounts due from credit institutions	13,241	-	1,311	-	14,552	26,428	40,980
Available-for-sale investment securities	169,838	1,057	-	-	170,895	152,257	323,152
Loans to customers	416,494	1,954	225	4,219	422,892	1,154,574	1,577,466
Other financial assets	290	24	39	5	358	3,395	3,753
	963,727	41,288	11,266	11,712	1,027,993	1,430,524	2,458,517
FINANCIAL LIABILITIES:							
Amounts due to customers	1,078,230	40,588	2,497	1,056	1,122,371	614,024	1,736,395
Amounts due to credit institutions	9,129	294	801	2	10,226	91,750	101,976
Financial liabilities at fair value through profit or loss	-	-	-	-	-	2,826	2,826
Debt securities issued	196,106	-	-	-	196,106	116,180	312,286
Other financial liabilities	-	3	-	-	3	7,805	7,808
	1,283,465	40,885	3,298	1,058	1,328,706	832,585	2,161,291
Net balance sheet position	(319,738)	403	7,968	10,654	(300,713)	597,939	297,226
Net off balance sheet position	321,960	-	(9,895)	(11,577)	300,488	(300,488)	
Net position	2,222	403	(1,927)	(923)	(225)	297,451	

(Millions of Kazakhstani Tenge)

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Bank had significant exposure at 31 December 2015 and 2014, 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 statement of profit or loss. A negative amount in the table reflects a potential net reduction in the statement of profit or loss, while a positive amount reflects a net potential increase. Sensitivity of currency risk is assessed based on balance sheet and off-balance sheet open currency positions. The management of the Bank 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 and 2014, calculated using currency rate fluctuations analysis:

	31 December 2015		31 December 2014	
	+25% KZT/USD	**-25% KZT/USD**	**+25% KZT/USD**	**-25% KZT/USD**
Impact on income before tax	(1,135)	1,135	(556)	556

	31 December 2015		31 December 2014	
	+25% KZT/EUR	**-25% KZT/EUR**	**+25% KZT/EUR**	**-25% KZT/EUR**
Impact on income before tax	(6)	6	(101)	101

	31 December 2015		31 December 2014	
	+25% KZT/RUB	**-25% KZT/RUB**	**+25% KZT/RUB**	**-25% KZT/RUB**
Impact on income before tax	19	(19)	482	(482)

Impact on equity:

	31 December 2015		31 December 2014	
	+25% KZT/USD	**-25% KZT/USD**	**+25% KZT/USD**	**-25% KZT/USD**
Impact on equity	(1,135)	1,135	(556)	556

	31 December 2015		31 December 2014	
	+25% KZT/EUR	**-25% KZT/EUR**	**+25% KZT/EUR**	**-25% KZT/EUR**
Impact on equity	(6)	6	(101)	101

	31 December 2015		31 December 2014	
	+25% KZT/RUB	**-25% KZT/RUB**	**+25% KZT/RUB**	**-25% KZT/RUB**
Impact on equity	19	(19)	482	(482)

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 Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank'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 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 Bank'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 Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

To limit price risk the Bank 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 Bank estimates the price risk at 31 December 2015 and 2014, to be not material and therefore quantitative information is not disclosed.

(Millions of Kazakhstani Tenge)

31. CAPITAL RISK MANAGEMENT

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are as follows:

- To comply with the capital requirements set by the NBRK;
- To safeguard the Bank'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 Bank is controlled according to the principles, methods and coefficients employed by Basel Committee. There have been no changes as to the way the Bank 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 Bank for the years ended 31 December 2015 and 2014. During those two years, the individual entities within the Bank and the Bank complied with all of the externally imposed capital requirements to which they are subject.

	31 December 2015	31 December 2014
Composition of regulatory capital		
Tier 1		
Share capital, net of treasury shares	40,744	64,926
Share premium	1,976	1,984
Retained earnings of prior periods	273,621	190,711
Net income for the current period	103,031	119,396
Accumulated reserves	73,330	73,330
Property and equipment and available for sale investment securities revaluation and translation reserves	(2,429)	7,811
Less: goodwill	(4,542)	(4,542)
Total qualifying tier 1 capital	485,731	453,616
Tier 2		
Subordinated debt	5,508	7,760
Total qualifying tier 2 capital	5,508	7,760
Less: investments in subsidiaries and associates	(82,338)	(81,778)
Total regulatory capital	408,901	379,598
Risk weighted assets	2,585,532	2,046,090
Tier 1 capital ratio	18.8%	22.2%
Total capital adequacy ratio	15.8%	18.6%

Basel Committee set minimum capital adequacy ratio and tier 1 capital at 8% and 4%, respectively.

32. SEGMENT ANALYSIS

The Bank 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 Bank. 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 Bank's chief operating decision maker, in accordance with IFRS 8. The Bank's Management reviews discrete financial information for each segment, including evaluation of operating results, assets and liabilities.

There were no transactions between business segments during the years ended 31 December 2015 and 2014.

(Millions of Kazakhstani Tenge)

Segment information for the main reportable business segments of the Bank for the years ended 31 December 2015 and 2014, is set out below:

	Retail banking	Corporate banking	SME Banking	Other	Unallocated amounts	Total
As at 31 December 2015 and for the year then ended						
External revenues	602,977	(118,879)	87,507	(59,241)	(26,838)	485,526
Total revenues	602,977	(118,879)	87,507	(59,241)	(26,838)	485,526
Total revenues comprise:						
- Interest income	88,305	107,282	23,504	14,338	-	233,429
- Fee and commission income	38,504	4,943	6,186	-	-	49,633
- Net gain/(loss) from financial assets and liabilities at fair profit or loss	476,168	(233,735)	57,817	(73,579)	(29,386)	197,285
- Dividends received from subsidiaries	-	2,631	-	-	-	2,631
- Other income	-	-	-	-	2,548	2,548
Total revenues	602,977	(118,879)	87,507	(59,241)	(26,838)	485,526
- Interest expense	(39,928)	(56,233)	(3,194)	-	-	(99,355)
- Impairment charge	(10,536)	12,384	(6,160)	-	36	(4,276)
- Fee and commission expense	(9,021)	(295)	(213)	(21)	(5)	(9,555)
- Net realized loss from available-for-sale investment securities	-	-	-	(193)	-	(193)
- Net foreign exchange (loss)/gain	(466,593)	232,593	(54,675)	72,818	29,083	(186,774)
- Operating expenses	(35,644)	(5,600)	(11,367)	(256)	(2,297)	(55,164)
- Provisions	-	(309)	-	-	-	(309)
Segment result	41,255	63,661	11,898	13,107	(21)	129,900
Income before income tax expense						129,900
Income tax expense					(26,864)	(26,864)
Net income						103,036
Total segment assets	494,221	2,821,711	217,089	285,831	235,034	4,053,886
Total segment liabilities	1,414,498	1,832,747	258,585		57,782	3,563,612
Other segment items:						
Capital expenditure						(12,448)
Depreciation and amortization expense						(4,481)

(Millions of Kazakhstani Tenge)

	Retail banking	Corporate banking	SME Banking	Other	Unallocated amounts	Total
As at 31 December 2014 and for the year then ended						
External revenues	106,505	127,578	27,536	21,945	959	284,523
Total revenues	106,505	127,578	27,536	21,945	959	284,523
Total revenues comprise:						
- Interest income	70,264	96,434	19,575	14,190	-	200,463
- Fee and commission income	32,525	5,532	5,950	-	-	44,007
- Net gain from financial assets and liabilities at fair value throug profit or loss	-	-	-	7,520	-	7,520
- Net realized gain from available-for-sale investment securities	-	-	-	235	-	235
- Net gain on foreign exchange operations	3,716	474	1,653	-	-	5,843
- Dividends received from subsidiaries	-	20,842	-	-	-	20,842
- Other income	-	581	-	-	959	1,540
- Recoveries of provisions	-	3,715	358	-	-	4,073
Total revenues	106,505	127,578	27,536	21,945	959	284,523
- Interest expense	(42,080)	(32,597)	(2,337)	-	-	(77,014)
- Impairment charge	(1,674)	(6,518)	2,054	-	481	(5,657)
- Fee and commission expense	(7,575)	(212)	(181)	(40)	(3)	(8,011)
- Impairment loss from assets held for sale	-	-	-	-	(102)	(102)
- Operating expenses	(30,913)	(10,607)	(6,931)	(320)	(2,406)	(51,177)
Segment result	24,263	77,644	19,825	21,585	(755)	142,562
Income before income tax expense	-	-	-	-	-	142,562
Income tax expense	-	-	-	-	(23,166)	(23,166)
Net income						119,396
Total segment assets	405,597	1,502,451	177,533	323,201	224,699	2,633,481
Total segment liabilities	904,712	1,021,212	209,415	2,826	37,158	2,175,323
Other segment items:						
Capital expenditure	-	-	-	-	(14,436)	(14,436)
Depreciation and amortization expense	-	-	-	-	(4,015)	(4,015)

(Millions of Kazakhstani Tenge)

Geographical information

Information for the main geographical areas of the Bank is set out below as at 31 December 2015 and 2014, and for the years then ended.

	Kazakhstan	OECD	Non OECD	Total
2015				
Total assets	3,753,263	234,339	66,284	4,053,886
External revenues	483,165	281	2,080	485,526
Capital expenditure	(12,448)	-	-	(12,448)
2014				
Total assets	2,423,657	165,557	44,267	2,633,481
External revenues	279,001	2,416	3,106	284,523
Capital expenditure	(14,436)	-	-	(14,436)

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 in the Republic of Kazakhstan.

33. 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 Bank's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank'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).

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 Bank 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 statement of financial position as well as its profit/(loss) could be material.

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:

(Millions of Kazakhstani Tenge)

The tables below summarises the Bank's financial assets and liabilities held at fair value by valuation methodology at 31 December 2015 and 2014, 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				
Non-derivative financial assets at fair value through profit or loss (Note 7)	48	49	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 7)	1,456	4,096	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 - options (Note 7)	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 liabilities at fair value through profit or loss excluding options (Note 7)	1,306	2,826	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 9)	285,782	323,152	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable

(Millions of Kazakhstani Tenge)

There were no transfers between Level 1 and 2 during the years ended 31 December 2015 and 2014.

	Financial assets at fair value through profit or loss (Level 3)
31 December 2013	-
Total gains or losses	-
- additions	7,597
- to profit or loss	179
- in other comprehensive income	-
Redemption/sale	-
31 December 2014	7,776
Total gains or losses	-
- additions	19,281
- to profit or loss	146,747
- in other comprehensive income	-
Redemption/sale	-
31 December 2015	173,804

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 Bank to estimate the fair value of financial instruments not carried at fair value.

Amounts due from and to 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.

(Millions of Kazakhstani Tenge)

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	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Amounts due from credit institutions	64,561	64,654	40,980	37,109
Loans to customers	2,076,217	2,008,036	1,577,466	1,671,927
Financial liabilities				
Amounts due to customers	2,754,071	2,884,608	1,736,395	1,738,681
Amounts due to credit institutions	155,040	189,297	101,976	113,757
Debt securities issued	599,984	614,085	312,286	323,244

	31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Amounts due from credit institutions	-	64,654	-	64,654
Loans to customers	-	-	2,008,036	2,008,036
Financial liabilities				
Amounts due to customers	-	2,884,608	-	2,884,608
Amounts due to credit institutions	-	189,297	-	189,297
Debt securities issued	614,085	-	-	614,085

	31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Amounts due from credit institutions	-	37,109	-	37,109
Loans to customers	-	-	1,671,927	1,671,927
Financial liabilities				
Amounts due to customers	-	1,738,681	-	1,738,681
Amounts due to credit institutions	-	113,757	-	113,757
Debt securities issued	323,244	-	-	323,244

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.

34. 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.

(Millions of Kazakhstani Tenge)

The Bank had the following transactions outstanding as at 31 December 2015 and 2014, with related parties:

	31 December 2015		31 December 2014	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Cash and cash equivalents	12,240	1,189,327	3,210	457,484
- subsidiaries	12,240		3,210	
Amounts due from credit institutions	36,703	64,561	15,908	36,958
- subsidiaries	36,703		15,908	
Investments in subsidiaries	86,880	86,880	86,320	86,320
- subsidiaries	86,880		86,320	
Loans to customers before allowance for impairment losses	50,486	2,372,868	24,131	1,857,899
- the parent	8		-	
- entities with joint control or significant influence over the entity	3,426		4,597	
- key management personnel of the entity or its parent	90		-	
- subsidiaries	46,949		19,534	
- other related parties	13		-	
Allowance for impairment losses	(463)	(296,651)	(140)	(280,433)
- the parent	(1)		-	
- entities with joint control or significant influence over the entity	(46)		(15)	
- subsidiaries	(416)		(125)	
Other assets	518	13,851	217	11,989
- subsidiaries	518		217	
Amounts due to customers	183,150	2,754,071	111,790	1,736,395
- the parent	116,204		73,757	
- entities with joint control or significant influence over the entity	12,525		8,086	
- key management personnel of the entity or its parent	9,817		5,902	
- subsidiaries	1,987		6,386	
- other related parties	42,617		17,659	
Amounts due to credit institutions	257	155,040	1,094	101,976
- subsidiaries	257		1,094	
Debt securities issued	2,480	599,984	1,289	312,286
- subsidiaries	2,480		1,289	

(Millions of Kazakhstani Tenge)

Included in the statement of profit or loss for the years ended 31 December 2015 and 2014, are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2015		Year ended 31 December 2014	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	4,099	233,429	2,440	200,463
- entities with joint control or significant influence over the entity	431		547	
- key management personnel of the entity or its parent	11		-	
- subsidiaries	3,655		1,893	
- other related parties	2		-	
Interest expense	(3,344)	(99,355)	(3,608)	(77,014)
- the parent	(2,499)		(3,073)	
- entities with joint control or significant influence over the entity	(6)		-	
- key management personnel of the entity or its parent	(265)		(250)	
- subsidiaries	(148)		(67)	
- other related parties	(426)		(218)	
Fee and commission income	374	49,633	125	44,007
- subsidiaries	374		125	
Fee and commission expense	(95)	(9,555)	(51)	(8,011)
- subsidiaries	(95)		(51)	
Dividends received	(2,631)	(2,631)	(20,842)	(20,842)
- subsidiaries	(2,631)		(20,842)	
Operating expenses	(4,847)	(55,164)	(4,476)	(51,177)
- subsidiaries	(4,847)		(4,476)	

	Year ended 31 December 2015		Year ended 31 December 2014	
	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	28,696	1,333	26,518
- salaries and other employee benefits	1,433		1,333	

35. 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.