ATFBank JSC

Consolidated Financial Statements

for the year ended 31 December 2015

Contents

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Independent Auditors' Report

To the Managing Board of ATFBank JSC

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген, Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group 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.

Yelena Kim
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ-0000042 of 6 August 2011

KPMG Audit LLC

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

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

21 April 2016

	Note	2015 KZT'000	2014 KZT'000
Interest income	4	77,923,462	64,811,350
Interest expense	4	(50,299,769)	(42,050,069)
Net interest income		**27,623,693**	**22,761,281**
Fee and commission income	5	11,708,349	12,573,619
Fee and commission expense	6	(3,713,743)	(4,983,524)
Net fee and commission income		**7,994,606**	**7,590,095**
Net loss on financial instruments at fair value through profit or loss		(6,257)	(1,408)
Net income/(loss) on derivative financial instruments	7	30,299,037	(3,268,861)
Net foreign exchange (loss)/gain		(12,309,916)	4,979,847
Net (loss)/income on available-for-sale financial assets		(65,027)	13,592
Net income on sale of foreclosed assets	19	78,352	1,065,955
Loss from repurchased own debt instruments		-	(50,631)
Other operating (loss)/income		(253,356)	725,992
Operating income		**53,361,132**	**33,815,862**
Impairment losses	8	(23,559,629)	(10,380,085)
General and administrative expenses	9	(18,690,304)	(18,321,147)
Taxes other than income tax	10	(892,566)	(1,051,912)
Profit before income tax		**10,218,633**	**4,062,718**
Income tax expense	11	(2,918,368)	(594,825)
Profit for the year		**7,300,265**	**3,467,893**
Attributable to:			
Equity holders of the Bank		7,230,142	3,381,237
Non-controlling interests		70,123	86,656
		7,300,265	**3,467,893**

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

	Note	2015 KZT'000	2014 KZT'000
Other comprehensive income/(loss) for the year, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(829,158)	113,832
- Net change in fair value transferred to profit or loss		65,027	(13,592)
Foreign currency translation differences for foreign operations			
- net change in foreign exchange differences		3,892,824	(261,623)
- net change in foreign exchange differences transferred to profit or loss		(144,749)	-
Total items that are or may be reclassified subsequently to profit or loss		*2,983,944*	*(161,383)*
Other comprehensive income/(loss) for the year, net of income tax		**2,983,944**	**(161,383)**
Total comprehensive income for the year		**10,284,209**	**3,306,510**
Attributable to:			
Equity holders of the Bank		10,102,894	3,225,957
Non-controlling interests		181,315	80,553
Total comprehensive income for the year		**10,284,209**	**3,306,510**
Earnings per share			
Basic earnings per share, in KZT	25	160	75
Diluted earnings per share, in KZT	25	160	75

The consolidated financial statements as set out on pages 5 to 84 were approved by the Management on 21 April 2016, and were signed on its behalf by:

Mr. Anthony Espina
Chairman of the Management Board

Mr. Nurlan Maketayev
Acting Chief Accountant

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

	Note	2015 KZT'000	2014 KZT'000
ASSETS			
Cash and cash equivalents	12	307,512,683	149,707,679
Financial instruments at fair value through profit or loss			
- Held by the Group	13	26,759,782	451,143
Available-for-sale financial assets			
- Held by the Group	14	1,863,355	27,019,938
Investments held to maturity	14	15,471,825	-
Loans and advances to banks	15	11,481,874	8,062,254
Loans to customers	16	790,282,556	649,756,690
Assets held for sale	16	71,385,592	-
Current tax asset		1,144,393	1,138,255
Property, equipment and intangible assets	17	18,991,086	18,366,634
Deferred tax asset	11	2,670,266	5,103,025
Receivable from UniCredit Bank Austria AG under guarantee agreement	18	-	115,753,133
Other assets	19	11,673,704	8,867,282
Total assets		**1,259,237,116**	**984,226,033**
LIABILITIES			
Financial instruments at fair value through profit or loss	13	657	272,156
Deposits and balances from banks and other financial institutions	20	11,977,802	120,705,578
Current accounts and deposits from customers	21	907,824,271	705,026,331
Other borrowed funds	22	153,013,623	59,827,535
Subordinated borrowings	22	95,057,199	18,431,310
Deferred tax liability	11	35,031	34,808
Other liabilities	23	3,625,894	2,472,414
Total liabilities		**1,171,534,477**	**906,770,132**
EQUITY			
Share capital	24	167,878,470	167,878,470
Additional paid-in capital		1,461,271	1,461,271
General reserve		15,181,181	15,181,181
Revaluation reserve for available-for-sale financial assets		(728,086)	36,033
Cumulative translation reserve		3,314,696	(322,175)
Accumulated losses		(99,806,356)	(107,036,498)
Total equity attributable to equity holders of the Bank		**87,301,176**	**77,198,282**
Non-controlling interests		401,463	257,619
Total equity		**87,702,639**	**77,455,901**
Total liabilities and equity		**1,259,237,116**	**984,226,033**

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

	2015 KZT'000	2014 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	60,671,510	57,128,933
Interest payments	(48,259,354)	(40,932,591)
Fee and commission receipts	11,471,883	12,402,127
Fee and commission payments	(1,843,950)	(3,866,584)
Net receipts/(payments) on financial instruments at fair value through profit or loss	4,690,426	(3,822,117)
Net receipts from foreign exchange	7,557,365	15,472,957
Other income receipts	370,624	1,691,989
Personnel expenses payments	(8,714,079)	(9,046,180)
Other general administrative expenses payments	(8,297,288)	(9,344,535)
Net change in operating assets		
Financial instruments at fair value through profit or loss	-	(5,752)
Loans and advances to banks	169,206	(4,107,732)
Loans to customers	14,677,513	(64,666,181)
Other assets	2,019,797	16,366,716
Net change in operating liabilities		
Financial instruments at fair value through profit or loss	-	450,616
Deposits and balances from banks and other financial institutions	3,156,353	(5,916,778)
Current accounts and deposits from customers	(62,492,581)	65,466,405
Other liabilities	(922,432)	101,236
Net cash (used in)/provided from operating activities before income tax paid	**(25,745,007)**	**27,372,529**
Income tax paid	(459,408)	(492,520)
Cash flows (used in)/provided from operations	**(26,204,415)**	**26,880,009**
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of held-to-maturity investments	-	1,324
Purchases of available-for-sale financial assets	(44,183,706)	(95,314,624)
Sales of available-for-sale financial assets	53,310,699	72,297,219
Purchases of property, equipment and intangible assets	(2,467,180)	(1,682,293)
Sales of property, equipment and intangible assets	327,192	1,114,177
Net cash flows from/(used in) investing activities	**6,987,005**	**(23,584,197)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of loans	10,317,787	13,000,000
Repayment of loans	(6,836,875)	(5,226,529)
Proceeds from debt securities issued	55,005,621	30,000
Repayment of debt securities	-	(54,324,599)
Proceeds from subordinated borrowings	58,143,763	-
Repayment of subordinated borrowings	-	(15,319,280)
Dividends paid	(38,833)	(36,376)
Net cash flows provided from/(used in) financing activities	**116,591,463**	**(61,876,784)**
Net increase/(decrease) in cash and cash equivalents	**97,374,053**	**(58,580,972)**
Effect of changes in exchange rates on cash and cash equivalents	60,430,951	8,307,004
Cash and cash equivalents as at the beginning of the year	149,707,679	199,981,647
Cash and cash equivalents as at the end of the year (Note 12)	**307,512,683**	**149,707,679**

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

KZT'000	Attributable to equity holders of the Bank								
	Share capital	**Additional paid-in capital**	**General reserve**	**Revaluation reserve for available-for-sale financial assets**	**Cumulative translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2015	167,878,470	1,461,271	15,181,181	36,033	(322,175)	(107,036,498)	77,198,282	257,619	77,455,901
Total comprehensive income									
Profit for the year	-	-	-	-	-	7,230,142	7,230,142	70,123	7,300,265
Other comprehensive income									
Items that are or may be reclassified subsequently to profit or loss:									
Net change in revaluation reserve of available-for-sale financial assets	-	-	-	(764,119)	-	-	(764,119)	(12)	(764,131)
Net change in accumulated reserve for translation into presentation currency	-	-	-	-	3,636,871	-	3,636,871	111,204	3,748,075
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*(764,119)*	*3,636,871*	-	*2,872,752*	*111,192*	*2,983,944*
Total other comprehensive income	**-**	**-**	**-**	**(764,119)**	**3,636,871**	**-**	**2,872,752**	**111,192**	**2,983,944**
Total comprehensive income for the year	**-**	**-**	**-**	**(764,119)**	**3,636,871**	**7,230,142**	**10,102,894**	**181,315**	**10,284,209**
Transactions with owners, recorded directly in equity									
Dividends of subsidiaries to minority shareholder	-	-	-	-	-	-	-	(37,471)	(37,471)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(37,471)**	**(37,471)**
Balance as at 31 December 2015	**167,878,470**	**1,461,271**	**15,181,181**	**(728,086)**	**3,314,696**	**(99,806,356)**	**87,301,176**	**401,463**	**87,702,639**

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

KZT'000	Attributable to equity holders of the Bank								
	Share capital	**Additional paid-in capital**	**General reserve**	**Revaluation reserve for available-for-sale financial assets**	**Cumulative translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2014	167,878,470	1,461,271	15,181,181	(64,465)	(66,397)	(110,417,735)	73,972,325	213,442	74,185,767
Total comprehensive income									
Profit for the year	-	-	-	-	-	3,381,237	3,381,237	86,656	3,467,893
Other comprehensive income									
Items that are or may be reclassified subsequently to profit or loss:									
Net change in fair value of available-for-sale financial assets	-	-	-	100,498	-	-	100,498	(258)	100,240
Net change in foreign currency translation differences for foreign operations	-	-	-	-	(255,778)	-	(255,778)	(5,845)	(261,623)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*100,498*	*(255,778)*	-	*(155,280)*	*(6,103)*	*(161,383)*
Total other comprehensive loss	**-**	**-**	**-**	**100,498**	**(255,778)**	**-**	**(155,280)**	**(6,103)**	**(161,383)**
Total comprehensive income for the year	**-**	**-**	**-**	**100,498**	**(255,778)**	**3,381,237**	**3,225,957**	**80,553**	**3,306,510**
Transactions with owners, recorded directly in equity									
Dividends of subsidiaries to minority shareholder	-	-	-	-	-	-	-	(36,376)	(36,376)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(36,376)**	**(36,376)**
Balance as at 31 December 2014	**167,878,470**	**1,461,271**	**15,181,181**	**36,033**	**(322,175)**	**(107,036,498)**	**77,198,282**	**257,619**	**77,455,901**

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

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of ATFBank JSC (the "Bank") and its subsidiaries (together referred to as the Group).

The Bank was established on 3 November 1995 as a closed joint stock company under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint stock company in October 2003. The Bank operates under a general banking license issued on 28 December 2007 by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Institutions. The license supercedes all previously issued general banking and other licenses.

ATFBank JSC and its subsidiaries provide retail and corporate banking services in Kazakhstan and Kyrgyzstan, cash collection services in Kazakhstan. The Bank accepts deposits from the public, extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its corporate and retail customers.

The Bank's registered legal address is 100 Furmanov Street, Almaty, Republic of Kazakhstan, 050000.

The Bank is a member of the obligatory deposit insurance system, which operates under the Law of the Republic of Kazakhstan "On Obligatory Insurance of Second Tier Banks Deposits" dated 7 July 2006 and is governed by the National Bank of the Republic of Kazakhstan (the NBRK).

The Bank has a primary listing on the Kazakhstan Stock Exchange (the KASE) and certain of its debt securities are listed on the Luxembourg and London Stock Exchanges. As at 31 December 2015 the Bank had 17 branches located throughout Kazakhstan (31 December 2014: 17 branches).

The principal subsidiaries are as follows:

			Ownership %	
Name	**Country of incorporation**	**Principal activity**	**31 December 2015**	**31 December 2014**
Tobet Group LLP (former ATF Inkassatsiya LLP)	Kazakhstan	Cash collection	100.0	100.0
Optima Bank (former UniCreditBank OJSC)	Kyrgyzstan	Banking	97.1	97.1
ATF Finance JSC	Kazakhstan	Investments	-	100.0
ATF Capital B.V.	The Netherlands	Special purpose entity	-	100.0

In December 2014, the Board of Directors of the Group made decision to liquidate ATF Capital B.V. due to the lack of volume in the primary activity of the company. On 26 June 2015 ATF Capital B.V. was liquidated.

In November 2013, the Board of Directors of the Group made decision to liquidate ATF Finance JSC due to the lack of volume in the primary activity of the company.

The impact of subsidiaries liquidation on the Group's assets and liabilities and the profit for the year is insignificant, accordingly the Group did not present these subsidiaries as discontinued operation in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 and the consolidated statement of financial position as at 31 December 2015.

1 Background, continued

(b) Shareholders

As at 31 December 2015, the following shareholders own the outstanding common shares:

Shareholders	31 December 2015 %	31 December 2014 %
KNG Finance LLC	99.78	99.78
Other shareholders	0.22	0.22
	100.00	**100.00**

(c) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

The functional currency of the Bank and its subsidiary – Tobet Group LLP is the Kazakhstan Tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The functional currency of the Bank's subsidiary Optima Bank OJSC is Kyrgyz Som.

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

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

(d) Use of estimates and judgments

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

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

2 Basis of preparation, continued

(d) Use of estimates and judgments, continued

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

- deferred taxes - note 11;
- loan impairment estimates and sale of mortgage portfolio – note 16;
- estimates of fair values of financial instruments, including derivative financial instruments - note 34.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit of loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when the rights of protection arising from lending operation collateral become material. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Acquisitions and disposals of non-controlling interests

The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Bank. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statement of profit or loss and other comprehensive income.

(c) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

3 Significant accounting policies, continued

(d) Cash and cash equivalents

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

(e) Financial instruments

(i) Classification

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

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

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(i) Classification, continued

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Amortised cost

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

(v) Fair value measurement principles

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(v) Fair value measurement principles, continued

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

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

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

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

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

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(vii) Derecognition, continued

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

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

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

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

The Group writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

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

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

(ix) Derivative financial instruments

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

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

Changes in the fair value of derivatives are recognised immediately in profit or loss.

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

(x) Offsetting

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

3 Significant accounting policies, continued

(f) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

- Buildings	25 years;
- Computer equipment	5 years;
- Vehicles	7 years;
- Fixtures and fittings	8 years.

(g) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 2 to 10 years.

(h) Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

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

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

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

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

3 Significant accounting policies, continued

(i) Impairment, continued

(i) Financial assets carried at amortised cost

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

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

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

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

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

Loans to customers overdue for more than 90 days are usually written off in part or in full against the related allowance for loan impairment, when funds from sale of the available security have been received, or there is no real perspective for cash recovery or loan debt is uncollectable and the amount of loss has been determined. Subsequent recoveries of previously written-off amounts decrease the amount of impairment losses recognised in the consolidated statement of profit or loss and other comprehensive income. The balances of both secured and unsecured loans to customers are written off only when all necessary steps to collect the loan are completed and when management determines that the loans are uncollectible.

(ii) Financial assets carried at cost

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

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

3 Significant accounting policies, continued

(i) Impairment, continued

(iii) Available-for-sale financial assets

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

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

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

(iii) Non-financial assets

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

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

(j) Provisions

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

(k) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group’s accounting policies at the lower of their carrying amount and fair value less cost to sell.

(l) Credit related commitments

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

3 Significant accounting policies, continued

(l) Credit related commitments, continued

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

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

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

Loan commitments are not recognised, except in the following cases:

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

(m) Share capital

(i) Ordinary shares

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

(ii) Repurchase of share capital

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

(iii) Dividends

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

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

(n) Taxation

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

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

3 Significant accounting policies, continued

(n) Taxation, continued

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

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

(o) Income and expense recognition

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

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

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

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

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

(p) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

The Group has not yet analysed the likely impact of the new standard on its financial position or performance.

3 Significant accounting policies, continued

(q) New standards and interpretations not yet adopted, continued

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was finalised and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements.

  The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

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

4 Net interest income

	2015 KZT'000	2014 KZT'000
Interest income		
Loans to customers	76,264,422	63,816,717
Available-for-sale financial assets	1,034,067	653,908
Cash and cash equivalents	553,198	234,830
Loans and advances to banks	65,924	100,281
Financial instruments at fair value through profit or loss	5,851	5,614
	77,923,462	**64,811,350**
Interest expense		
Current accounts and deposits from customers	(34,138,125)	(31,299,728)
Other borrowed funds	(8,163,729)	(5,073,302)
Subordinated borrowings	(4,947,601)	(2,314,839)
Deposits and balances from banks and other financial institutions	(3,050,314)	(3,362,200)
	(50,299,769)	**(42,050,069)**

In accordance with requirements of IAS 39, interest should continue to be accrued on impaired financial assets. Included within interest income on loans to customers for the year ended 31 December 2015 is a total of KZT 11,182,376 thousand (for the year ended 31 December 2014: KZT 12,313,531 thousand) accrued mainly on impaired corporate and SME loans.

5 Fee and commission income

	2015 KZT'000	2014 KZT'000
Bank transfers	3,979,783	4,063,294
Cash operations	2,056,319	2,467,032
Plastic cards	1,801,398	2,500,632
Guarantees and letters of credit	1,378,707	1,832,498
Foreign currency trading	1,019,044	1,116,155
Agency services on insurance agreements	645,298	-
Fiduciary operations	100,608	135,140
Customer service	84,060	57,480
Custodian services	71,612	67,289
Processing centre services	63,330	53,319
Safe operations	53,138	60,473
Other	455,052	220,307
	11,708,349	**12,573,619**

In 2015 the Group started to act as an insurance company agent offering the insurance products to the consumer loan borrowers. Commission and fee income on the insurance contracts comprises commissions and fees for agency services that the Group has received from its partners. The Company does not share the insurance risk, which is a full responsibility of the partner. Commission and fee income on insurance is recognised in profit or loss as the Group provides agency services to the insurance company.

6 Fee and commission expenses

	2015 KZT'000	2014 KZT'000
Expenses on insurance of customer deposits	1,740,497	1,574,738
Guarantees (Note 18)	797,066	2,299,681
Plastic cards	723,525	693,747
Bank transfers	333,367	300,235
Custodian services	35,522	14,114
Foreign currency trading	31,159	22,898
Securities operations	12,100	39,428
Other	40,507	38,683
	3,713,743	**4,983,524**

7 Net income/(loss) from derivative financial instruments

Net income/(loss) from derivative financial instruments for the years ended 31 December 2015 and 31 December 2014 comprises mostly the results from currency swaps.

8 Impairment losses

	2015 KZT'000	2014 KZT'000
Loans to customers	(23,560,174)	(9,834,373)
Other assets	(29,695)	(388,785)
Credit related commitments	58,342	(156,927)
Loans and advances to banks	(28,102)	-
	(23,559,629)	**(10,380,085)**

9 General administrative expenses

	2015 KZT'000	2014 KZT'000
Personnel expenses		
Employee benefits	8,972,314	8,599,649
Payroll related taxes	941,162	923,225
	9,913,476	**9,522,874**
Other general administrative expenses		
Depreciation and amortisation	2,143,629	2,026,704
Repairs and maintenance	1,456,466	1,377,113
Rent	1,372,460	1,244,871
Professional services	771,554	312,218
Security	676,440	708,906
Communication and information services	475,418	540,347
Collectors	293,372	927,472
Advertising and marketing	256,810	308,988
Insurance	253,230	74,827
Lease of vehicles	247,216	219,561
Stationery, publications, packaging	214,094	344,038
Business travel	141,839	200,190
Transportation and logistics	112,673	120,000
Fines and penalties	86,815	43,359
Representation	15,542	16,225
Other	259,270	333,454
	18,690,304	**18,321,147**

10 Taxes other than income tax

Expenses on taxes other than income tax for the year ended 31 December 2015 comprised mostly the VAT expenses of KZT 550,556 thousand (31 December 2014: KZT 670,184 thousand) and property tax expenses of KZT 222,525 thousand (31 December 2014: KZT 274,015 thousand).

11 Income tax expense

	2015 '000 KZT	2014 '000 KZT
Current tax expense		
Current year	496,022	498,242
Deferred tax		
Origination and reversal of temporary differences	2,422,346	96,583
Total income tax expense	**2,918,368**	**594,825**

The Bank and its subsidiaries, other than ATF Capital B.V. and Optima Bank OJSC, are subject to taxation in the Republic of Kazakhstan. ATF Capital B.V. is subject to income tax in the Netherlands. Optima Bank OJSC is subject to income tax in Kyrgyzstan.

The Group's applicable tax rate for the period ended 31 December 2015 is the income tax rate of 20% for Kazakhstan companies (31 December 2014: 20%).

The applicable tax rate for current tax is 10% for Optima Bank OJSC (2014: 10%) and 25% for ATF Capital B.V. (2014: 25%).

11 Income tax expense, continued

During 2015, the Bank re-filed the Tax Returns for 2011-2013. The Bank claimed additional deduction for the total amount of KZT 251,941 thousand mainly with regard to other administrative expenses.

During 2014, the Bank re-filed the Tax Returns for 2011-2013. The Bank claimed an additional deduction for the total amount of KZT 591,858 thousand for bad debt related to interest income on loans overdue for over 3 years.

Reconciliation of effective tax rate:

	2015 '000 KZT	%	2014 '000 KZT	%
Profit before income tax	**10,218,633**	**100**	**4,062,718**	**100**
Income tax charge at the applicable tax rate	2,043,727	20	812,544	20
Income of subsidiaries taxed at different rates	(277,331)	(3)	(337,702)	(8)
Withholding tax on dividends	172,879	2	136,887	3
Non-deductible impairment losses	557,618	5	321,236	8
Non-deductible interest and commission expenses	41,591	-	33,880	1
Forgiven debt	260,393	3	193,470	5
Compensation for previous deductions on bad debt	197,087	2	-	-
Overprovided in prior period	(251,941)	(2)	(591,858)	(15)
Other non-deductible expenses	174,345	2	26,368	1
	2,918,368	**29**	**594,825**	**15**

Deferred tax assets and liabilities

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

Deferred tax asset is recognised in these consolidated financial statements based on the Bank's long-term business plan.

2015 '000 KZT	Balance at 1 January 2015	Recognised in profit or loss	Effect of foreign exchange difference	Balance at 31 December 2015
Loans to customers	(3,148,857)	3,148,857	-	-
Property, equipment and intangible assets	(973,416)	(80,653)	(10,636)	(1,064,705)
Other assets	186,101	146,542	-	332,643
Financial assets at fair value through profit or loss	-	(5,063,713)	-	(5,063,713)
Tax loss carried forward	9,004,389	(573,379)	-	8,431,010
	5,068,217	**(2,422,346)**	**(10,636)**	**2,635,235**

11 Income tax expense, continued

Deferred tax assets and liabilities, continued

2014 **’000 KZT**	**Balance at 1 January 2014**	**Recognised in profit or loss**	**Effect of foreign exchange difference**	**Balance at 31 December 2014**
Loans to customers	943,732	(4,092,589)	-	(3,148,857)
Property, equipment and intangible assets	(1,010,722)	37,242	64	(973,416)
Other assets	331,926	(145,825)	-	186,101
Tax loss carried forward	4,899,800	4,104,589	-	9,004,389
	5,164,736	**(96,583)**	**64**	**5,068,217**

As at 31 December 2015 the deferred liabilities on property, plant and equipment and intangible assets include the liabilities of foreign subsidiaries in the amount of KZT 35,031 thousand (31 December 2014: KZT 34,808 thousand).

The tax loss carry-forwards expire in 2020-2024.

12 Cash and cash equivalents

	2015 **’000 KZT**	**2014** **’000 KZT**
Cash on hand	29,665,284	39,835,965
Nostro accounts with the NBRK	148,999,655	55,749,253
Nostro accounts with the National Bank of the Kyrgyz Republic	9,268,669	3,886,380
Nostro accounts with other banks		
- rated AA- to AA+	15,743,240	11,497,979
- rated A- to A+	19,626,551	22,751,034
- rated BBB- to BBB+	39,842,709	4,401,223
- rated BB- to BB+	562,263	151,017
- rated below B+	63,160	96,035
- not rated	19,935,577	10,253,793
Reverse repurchase agreements up to 90 days	8,016,713	-
Term deposits with other banks up to 90 days		
- rated below B+	13,352,159	-
- not rated	2,436,703	1,085,000
Total cash and cash equivalents	**307,512,683**	**149,707,679**

None of the cash equivalents are impaired or past due.

The above table is based on the credit ratings assigned by Standard & Poor’s or other agencies converted into Standard & Poor’s scale.

As at 31 December 2015, included into cash equivalents are claims on reverse repurchase agreements up to 90 days made at KASE. These agreements are secured by treasury bills of the Ministry of Finance of the Republic of Kazakhstan of fair value of KZT 8,526,008 thousand as at 31 December 2015.

As at 31 December 2015 the Group has two banks (31 December 2014: three banks), whose balances exceeded 10% of statutory equity. The gross value of these balances as at 31 December 2015 is KZT 165,998,559 thousand (31 December 2014: KZT 76,359,001 thousand).

12 Cash and cash equivalents, continued

Minimum reserve requirements

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK and should be maintained as average of cash on hand and balances on current account and deposits with the NBRK for the two-week period calculated as certain minimum level of residents' and non-residents' of the Republic of Kazakhstan customer deposits and current accounts balances as well as other Bank liabilities. As at 31 December 2014, the minimum reserve is KZT 15,491,101 thousand.

In May 2015, in accordance with the Resolution of the Board of the National Bank of the Republic of Kazakhstan No. 38 of 20 March 2015 minimum reserve requirements were amended. As at 31 December 2015, to meet minimum reserve requirements, minimum reserve was calculated by the Bank as cash on hand denominated in national currency in the amount not exceeding 70% of average minimum reserve requirements for 28 calendar days and balances on correspondent accounts with the NBRK denominated in national currency. As at 31 December 2015, the Bank complies with minimum reserve requirements, and minimum reserve requirements amount to KZT 11,342,834 thousand.

13 Financial instruments at fair value through profit or loss

	2015 '000 KZT	2014 '000 KZT
Held by the Group		
ASSETS		
Debt and other fixed-income instruments		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	91,990	97,996
Derivative financial instruments		
Foreign currency contracts	26,667,792	353,147
	26,759,782	**451,143**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	657	272,156
	657	**272,156**

None of the financial assets at fair value through profit and loss are past due.

Foreign currency contracts

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

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

Foreign currency contracts, continued

	Notional amount		Weighted average contractual exchange rate	
	2015 ’000 KZT	**2014 ’000 KZT**	**2015**	**2014**
Buy USD sell KZT				
From 3 to 12 months	27,312,000	-	182.08	-
More than12 months	-	27,312,000		182.08
Sell USD buy KZT				
Less than 1 month	41,245,150	-	343.71	-
Buy EURO sell USD				
Less than 1 month	-	221,590	-	1.22
Sell USD buy KGS				
Less than 3 months	-	922,374	-	54.00
From 3 to 12 months	-	1,458,054	-	49.48

As at 31 December 2015, included into derivative financial instruments was a currency swap contract concluded in August 2014 with the National Bank of the Republic of Kazakhstan, according to which the Group has to provide the sum of KZT 27,312,000 thousand in exchange for USD 150,000,000, in August 2016. This contract has an early repayment option. As at 31 December 2015, the fair value of this swap was KZT 26,223,842 thousand (31 December 2014: KZT 353,147 thousand).

14 Available-for-sale financial assets and investments held-to-maturity

Held by the Group	**2015 ’000 KZT**	**2014 ’000 KZT**
Debt and other fixed-income instruments		
Notes of the National Bank of the Kyrgyz Republic	1,765,720	773,492
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	-	16,362,475
Notes of the National Bank of the Republic of Kazakhstan	-	9,569,077
Bonds of Almaty Akimat	-	220,833
Total debt and other fixed-income instruments	**1,765,720**	**26,925,877**
Equity investments stated at cost	**97,635**	**94,061**
Total available-for-sale financial assets	**1,863,355**	**27,019,938**
Held-to-maturity investments		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	15,471,825	-
Total held-to-maturity investments	**15,471,825**	**-**

Investments without a determinable fair value

Available-for-sale investments stated at cost comprise unquoted equity securities in the finance industry. There is no market for these investments and there have not been any recent transactions that provide reliable evidence of their current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

14 Available-for-sale financial assets and investments held-to-maturity, continued

At 31 December 2015, treasury notes of the Ministry of Finance of the Republic of Kazakhstan of KZT 15,471,825 thousand were reclassified from available-for-sale financial assets to held-to-maturity investments as the Bank's management decided to hold these securities until the end of its maturity. These securities are measured and reclassified at fair value as at the date of its reclassification. Interest income on these securities as at the date of their reclassification amounted to KZT 945,757 thousand and was included into interest income on available-for-sale financial assets. Official price quotations for similar debt securities with similar terms are available on the local stock exchange.

As at 31 December 2015 and 2014 the available-for-sale financial assets and held-to-maturity investments are neither past due nor impaired.

15 Loans and advances to banks

	2015 ’000 KZT	2014 ’000 KZT
Account with the National Bank of the Republic of Kazakhstan	5,707,766	4,394,176
Other banks:		
- rated A- to A+	-	251,643
- rated BBB- to BBB+	5,168,683	3,062,322
- rated BB- to BB+	472,746	100,037
- rated below B+	350	182,345
- not rated	163,555	71,731
	11,513,100	**8,062,254**
Impairment allowance	(31,226)	-
Loans and advances to banks	**11,481,874**	**8,062,254**

The above table is based on the credit ratings assigned by Standard & Poor’s or other agencies converted into Standard & Poor’s scale.

Money on the special account with the National Bank of the Republic of Kazakhstan comprises funds provided by Damu Entrepreneurship Development Fund JSC (“Damu”) and Development Bank of Kazakhstan JSC (“DBK”) in accordance with the loan agreement concluded with Damu and DBK. Funds are to be distributed to small and medium businesses on preferential terms. In accordance with the agreements with Damu and DBK funds may be withdrawn with account of the National Bank of the Republic of Kazakhstan only after approval of Damu and DBK. Therefore, balances in the account are restricted funds.

Analysis of movements in the impairment allowance

	2015 ’000 KZT	2014 ’000 KZT
Balance at the beginning of the year	-	-
Net charge for the year	28,102	-
Effect of foreign currency translation	3,124	-
Balance at the end of the year	**31,226**	**-**

16 Loans to customers

	2015 ’000 KZT	2014 ’000 KZT
Loans to corporate customers		
Loans to large corporates	655,984,581	527,649,764
Loans to small and medium size companies	138,973,410	168,160,405
Total loans to corporate customers	**794,957,991**	**695,810,169**
Loans to retail customers		
Mortgage loans	60,839,237	59,818,944
Consumer loans	85,608,015	84,331,924
Auto loans	2,276,439	1,529,974
Total loans to retail customers	**148,723,691**	**145,680,842**
Gross loans to customers	**943,681,682**	**841,491,011**
Impairment allowance	(153,399,126)	(191,734,321)
Net loans to customers	**790,282,556**	**649,756,690**

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

	Loans to corporate customers ‘000 KZT	Loans to retail customers ‘000 KZT	Total ‘000 KZT
Balance at the beginning of the year	187,859,497	3,874,824	191,734,321
Net charge for the year	17,983,385	5,576,789	23,560,174
Write-offs	(141,848,856)	(8,205,859)	(150,054,715)
Reversals	14,003,758	2,888,305	16,892,063
Effect of foreign currency translation	69,112,107	2,155,176	71,267,283
Balance at the end of the year	**147,109,891**	**6,289,235**	**153,399,126**

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

	Loans to corporate customers ‘000 KZT	Loans to retail customers ‘000 KZT	Total ‘000 KZT
Balance at the beginning of the year	265,479,073	18,970,347	284,449,420
Net charge for the year	9,010,427	823,946	9,834,373
Write-offs	(122,653,000)	(18,998,587)	(141,651,587)
Reversals	776,047	582,700	1,358,747
Effect of foreign currency translation	35,246,950	2,496,418	37,743,368
Balance at the end of the year	**187,859,497**	**3,874,824**	**191,734,321**

16 Loans to customers, continued

During 2014-2015, upon decision of the management of the Bank, significant amounts of impaired loans overdue for more than 90 days were written off in the amount of provisions charged. This has not affected the carrying value of loans and their classification in terms of credit quality and overdue aging. Loans to customers are written off, in part or in full, when the loans are deemed uncollectible.

As at 31 December 2015 the Group has recovered the previously written off loans for the total amount of KZT 16,892,063 thousand. Recovery has been due to the Group's work with the troubled borrowers and with regard to these loans the Group expects that the debt will be repaid in the form of cash and through the Bank's recognition of the collaterals in its balance sheet and subsequent sale thereof. During 2015, the previously written off debt was repaid in the amount of KZT 3,551,508 thousand and the Group recognised the property for KZT 1,810,288 thousand related to the previously written-off loans in its statement of financial position.

(a) Credit quality of loans to customers

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

	2015 '000 KZT	**2014 '000 KZT**
Loans to corporate customers		
Loans to large corporates		
Loans without individual signs of impairment		
Standard loans, not overdue	426,478,559	262,910,167
Loans with individual signs of impairment:		
- not past due	76,093,347	78,821,339
- overdue less than 90 days	27,607,670	3,954,898
- overdue more than 90 days and less than 1 year	1,202,758	16,062,064
- overdue more than 1 year	124,602,247	165,901,296
Total loans to corporate customers	**655,984,581**	**527,649,764**
Impairment allowance on loans to large corporates	(138,414,941)	(180,330,980)
Net loans to large corporates	**517,569,640**	**347,318,784**
Loans to small and medium size companies		
Loans without individual signs of impairment:		
Standard loans, not overdue	85,178,376	102,369,562
Loans with individual signs of impairment:		
- not past due	9,495,112	4,571,095
- overdue less than 90 days	1,372,999	1,546,082
- overdue more than 90 days and less than 1 year	3,536,055	5,210,567
- overdue more than 1 year	39,390,868	54,463,099
Total loans to small and medium size companies	**138,973,410**	**168,160,405**
Impairment allowance on loans to small- and medium-sized companies	(8,694,950)	(7,528,517)
Net loans to small and medium-sized companies	**130,278,460**	**160,631,888**
Total loans to corporate customers	**794,957,991**	**695,810,169**
Impairment allowance on loans to corporate customers	(147,109,891)	(187,859,497)
Net loans to corporate customers	**647,848,100**	**507,950,672**

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	2015 '000 KZT	2014 '000 KZT
Loans to retail customers		
Mortgage loans		
- not overdue	41,318,037	41,334,377
- overdue less than 30 days	1,749,125	1,160,057
- overdue 30-89 days	1,114,470	726,828
- overdue 90-179 days	1,154,137	919,615
- overdue 180-360 days	1,059,868	1,687,867
- overdue more than 360 days	14,443,600	13,990,200
Total mortgage loans	**60,839,237**	**59,818,944**
Impairment allowance on mortgage loans	(3,422,251)	(1,331,566)
Net mortgage loans	**57,416,986**	**58,487,378**
Consumer loans		
- not overdue	66,709,761	65,014,082
- overdue less than 30 days	3,296,069	3,409,650
- overdue 30-89 days	1,267,701	1,030,133
- overdue 90-179 days	1,656,523	1,350,183
- overdue 180-360 days	1,012,467	1,365,658
- overdue more than 360 days	11,665,494	12,162,218
Total consumer loans	**85,608,015**	**84,331,924**
Impairment allowance on consumer loans	(2,773,414)	(2,514,912)
Net consumer loans	**82,834,601**	**81,817,012**
Auto loans		
- not overdue	1,904,500	1,209,371
- overdue less than 30 days	21,533	35,674
- overdue 30-89 days	11,803	14,524
- overdue 90-179 days	11,140	11,892
- overdue 180-360 days	29,509	32,675
- overdue more than 360 days	297,954	225,838
Total auto loans	**2,276,439**	**1,529,974**
Impairment allowance on auto loans	(93,570)	(28,346)
Net auto loans	**2,182,869**	**1,501,628**
Total loans to retail customers	**148,723,691**	**145,680,842**
Impairment allowance on loans to retail customers	(6,289,235)	(3,874,824)
Net loans to retail customers	**142,434,456**	**141,806,018**
Total loans to customers	**943,681,682**	**841,491,011**
Impairment allowance	(153,399,126)	(191,734,321)
Net loans	**790,282,556**	**649,756,690**

As at 31 December 2015 included in the loan portfolio are renegotiated loans to corporate and retail customers that would otherwise be past due or impaired for KZT 1,003,684 thousand and KZT 879,857 thousand, respectively (31 December 2014: KZT 4,489,974 thousand and KZT 1,606,042 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

16 Loans to customers, continued

(b) Key assumptions and judgments for estimating the loan impairment, continued

Historically the security realisation period, using both in court and out of court procedures, was more than 24 months, which is, in fact, longer than the exposure periods used to calculate the present value of the expected future cash flows from loans to customers as at 31 December 2015. Said period has been stipulated by the active work with the troubled borrowers and collaterals on the part of both the Bank and marshals of the court. The procedures of collection of overdue debt of such kind are at the closing state with regard to majority of troubled loans. As at 31 December 2015, the decisions of the court in favor of the Bank with regard to the major portion of the past due troubled loans were received from the high court instances; as a result, the management expects significant reduction in the period for security realisation. In future, if a plan for collection of past due troubled loans is not fulfilled, and collaterals are not sold within the expected period, the Group management is ready to review the exposure period.

Due to significant devaluation of tenge that has occurred recently, and based on results of analysis of the real estate and other property market, the Group has considered the effect of inflation in the value of the security collateralising the impaired or past due loans.

(i) Loans to corporate customers

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

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

- historic annual loss rate of 1 %;
- migration rates are constant and can be estimated based on historic loss migration pattern for the past 12 months;
- a discount of between 50% and 70% to the originally appraised value if the property pledged is sold;
- a delay of 12 to 24 months in obtaining proceeds from the sale of foreclosed collateral.

Change in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance for loans to corporate customers as at 31 December 2015 would be KZT 6,478,481 thousand lower/higher (31 December 2014: KZT 5,079,507 thousand).

(ii) Loans to retail customers

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

- migration rates are constant and can be estimated based on historic loss migration pattern for the past 12 months;
- in respect of mortgage loans, a delay of 24 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, if the property pledged is sold through court procedures at fair value.

Change in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance for loans to retail customers as at 31 December 2015 would be KZT 4,273,034 thousand lower/higher (31 December 2014: KZT 4,254,181 thousand).

16 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2015 KZT'000	Carrying amount of loans to customers	Fair value of collateral- for collateral assessed as of reporting date	Fair value of collateral- for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment				
Cash and deposits	28,693,940	28,693,940	-	-
Real estate	189,030,863	115,865,705	73,165,158	-
Motor vehicles	35,240,469	35,139,249	101,220	-
Equipment	4,263,728	4,260,833	2,895	-
Other collateral	92,754,696	33,600,060	59,154,636	-
Corporate guarantees (State owned companies)	29,933,684	-	-	29,933,684
Corporate guarantees (unrated)	40,011,519	-	-	40,011,519
No collateral or other credit enhancement (at carrying amount)	78,797,565	-	-	78,797,565
Total loans without individual signs of impairment	**498,726,464**	**217,559,787**	**132,423,909**	**148,742,768**
Overdue or impaired loans				
Cash and deposits	516,066	516,066	-	-
Real estate	144,468,553	131,160,642	13,307,911	-
Motor vehicles	425,330	414,241	11,089	-
Equipment	1,422,069	1,029,682	392,387	-
Other collateral	1,607,067	1,603,387	3,680	-
Corporate guarantees (unrated)	368,517	-	-	368,517
No collateral or other credit enhancement (at carrying amount)	314,034	-	-	314,034
Total overdue or impaired loans	**149,121,636**	**134,724,018**	**13,715,067**	**682,551**
Total loans to corporate customers	**647,848,100**	**352,283,805**	**146,138,976**	**149,425,319**

16 Loans to customers, continued

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

(i) Loans to corporate customers, continued

31 December 2014 KZT'000	**Carrying amount of loans to customers**	**Fair value of collateral- for collateral assessed as of reporting date**	**Fair value of collateral- for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Loans without individual signs of impairment				
Cash and deposits	8,047,794	8,047,794	-	-
Real estate	190,490,541	118,199439	72,291,102	-
Motor vehicles	43,292,912	37,813,655	5,479,257	-
Equipment	7,818,296	3,312,891	4,505,405	-
Other collateral	44,693,033	22,939,547	21,753,486	-
Corporate guarantees (State owned companies)	8,354,492	-	-	8,354,492
Corporate guarantees (unrated)	22,030,467	-	-	22,030,467
No collateral or other credit enhancement (at carrying amount)	36,135,694	-	-	36,135,694
Total loans without individual signs of impairment	**360,863,229**	**190,313,326**	**104,029,250**	**66,520,653**
Overdue or impaired loans				
Cash and deposits	111,165	111,165	-	-
Real estate	140,826,316	138,308,618	2,517,698	-
Motor vehicles	893,348	888,685	4,663	-
Equipment	2,010,449	1,993,938	16,511	-
Other collateral	2,924,130	2,874,606	49,524	-
Corporate guarantees (unrated)	147,187	-	-	147,187
No collateral or other credit enhancement (at carrying amount)	174,848	-	-	174,848
Total overdue or impaired loans	**147,087,443**	**144,177,012**	**2,588,396**	**322,035**
Total loans to corporate customers	**507,950,672**	**334,490,338**	**106,617,646**	**66,842,688**

16 Loans to customers, continued

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

(i) Loans to corporate customers, continued

The tables above are presented excluding overcollateralisation.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

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

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Certain guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as "loans without collateral or other credit enhancement".

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Group's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 80%. .

The following table provides information on fair value of real estate collateral securing mortgage loans, net of impairment:

31 December 2015 KZT'000	**Carrying amount of loans to customers**	**Fair value of collateral- for collateral assessed as of reporting date**	**Fair value of collateral- for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Not overdue loans	40,541,134	14,494,282	17,174,633	8,872,219
Overdue loans	16,875,852	15,707,097	672,974	495,781
Total mortgage loans	**57,416,986**	**30,201,379**	**17,847,607**	**9,368,000**

31 December 2014 '000 KZT	**Carrying amount of loans to customers**	**Fair value of collateral- for collateral assessed as of reporting date**	**Fair value of collateral- for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Not overdue loans	41,151,380	22,593,256	13,684,631	4,873,493
Overdue loans	17,335,998	16,401,247	762,782	171,969
Total mortgage loans	**58,487,378**	**38,994,503**	**14,447,413**	**5,045,462**

The tables above are presented excluding overcollateralisation.

16 Loans to customers, continued

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

(ii) Loans to retail customers, continued

For certain mortgage loans the Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For impaired or overdue mortgage loans management believes that the fair value of collateral is at least 96.99% of the carrying amount of the loans as at reporting date (31 December 2014: 99%).

Auto loans are secured by the underlying cars. The Group's policy is to issue auto loans with a loan-to-value ratio of a maximum of 80%.

For impaired or overdue auto loans management believes that the fair value of collateral is at least 93.89% of the carrying amount of the loans as at reporting date (31 December 2014: 98%).

The following table provides information on collateral securing consumer loans, net of impairment, by types of collateral:

31 December 2015 **'000 KZT**	**Carrying amount of loans to customers**	**Fair value of collateral- for collateral assessed as of reporting date**	**Fair value of collateral- for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Not overdue loans				
Cash and deposits	64,875	64,875	-	-
Real estate	29,838,696	13,513,761	16,324,935	-
Other collateral (equipment, motor vehicles, movables)	7,809,967	16,835	7,793,132	-
No collateral or other credit enhancement (at carrying amount)	28,153,748	-	-	28,153,748
Total not overdue loans	**65,867,286**	**13,595,471**	**24,118,067**	**28,153,748**
Overdue or impaired loans				
Cash and deposits	2,066	2,066	-	-
Real estate	13,578,201	13,263,446	314,755	-
Other collateral (equipment, motor vehicles)	51,376	14,095	37,281	-
No collateral or other credit enhancement (at carrying amount)	3,335,672	-	-	3,335,672
Total overdue or impaired loans	**16,967,315**	**13,279,607**	**352,036**	**3,335,672**
Total consumer loans	**82,834,601**	**26,875,078**	**24,470,103**	**31,489,420**

16 Loans to customers, continued

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

(ii) Loans to retail customers, continued

31 December 2014 ’000 KZT	**Carrying amount of loans to customers**	**Fair value of collateral- for collateral assessed as of reporting date**	**Fair value of collateral- for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Not overdue loans				-
Real estate	21,941,061	15,855,794	6,085,267	-
Other collateral (equipment, motor vehicles, movables)	7,244,478	74,602	7,169,876	-
No collateral or other credit enhancement (at carrying amount)	35,347,058	-	-	35,347,058
Total not overdue loans	**64,532,597**	**15,930,396**	**13,255,143**	**35,347,058**
Overdue or impaired loans				
Real estate	14,514,763	13,849,726	665,037	-
Other collateral (equipment, motor vehicles)	29,752	12,774	16,978	-
No collateral or other credit enhancement (at carrying amount)	2,739,900	-	-	2,739,900
Total overdue or impaired loans	**17,284,415**	**13,862,500**	**682,015**	**2,739,900**
Total consumer loans	**81,817,012**	**29,792,896**	**13,937,158**	**38,086,958**

(iii) Repossessed collateral

During the year ended 31 December 2015, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 3,628,652 thousand (31 December 2014: KZT 2,402,463 thousand). As at 31 December 2015, the repossessed collateral comprises:

	2015 ’000 KZT	**2014 ’000 KZT**
Real estate	9,108,752	5,785,505
Other assets	92,931	17,490
Total repossessed collateral	**9,201,683**	**5,802,995**

The Group’s policy is to sell these assets as soon as it is practicable.

16 Loans to customers, continued

(d) Industry and geographical analysis of the loan portfolio

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

	2015 ’000 KZT	2014 ’000 KZT
Wholesale trade	194,009,175	126,199,724
Individuals	148,723,691	145,680,842
Construction	104,548,996	95,902,756
Transport	89,958,621	76,050,267
Food	82,277,533	85,945,176
Real estate	65,392,978	37,176,540
Retail trade	41,971,231	37,665,498
Agriculture	10,180,327	13,238,030
Chemical	8,551,399	11,798,636
Mining	8,263,129	6,424,266
Hotel services	5,032,592	29,576,718
Entertainment	4,681,247	6,642,614
Metallurgy	3,736,336	4,234,028
Oil and gas	3,412,206	2,475,813
Textile	3,109,564	3,088,005
Communication	813,858	2,068,427
Other	169,018,799	157,323,671
	943,681,682	**841,491,011**
Impairment allowance	(153,399,126)	(191,734,321)
	790,282,556	**649,756,690**

(e) Significant credit exposures

As at 31 December 2015 the Group has 6 borrowers or groups of related borrowers (31 December 2014: 12), whose loan balances exceed 10% of statutory equity. The gross value of these balances as at 31 December 2015 is KZT 165,283,805 thousand (31 December 2014: KZT 153,179,041 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 28, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than the term based on contractual terms.

(g) Transfers of financial assets

In July 2013, the Group sold a portfolio of mortgage loans with a carrying value of KZT 35,524,925 thousand for KZT 38,781,330 thousand, but provided a guarantee that will purchase individual loans back or exchange it for other individual loans if a loan becomes delinquent for more than two months. The amount that will be repurchased or exchanged is limited to 20% of transferred financial assets at the date of sale. The net gain recognised in other income at the date of transfer amounted to KZT 440,475 thousand.

The Group has determined that a part of risks and rewards has been transferred to the transferee. The Group neither retained, nor transferred substantially all risks and rewards. The Group has retained control over non-transferred assets and continues recognising these assets to the extent of its continuing involvement in these assets.

The Group’s continuing involvement in the portfolios transferred is recognised in the statement of financial position as assets from continuing involvement within loans to customers of KZT 7,104,985 thousand with corresponding liability on continuing involvement included in deposits and balances from banks and other financial institutions of KZT 7,104,985 thousand (Note 20), while the fair value of guarantee of KZT 167,000 thousand is recognised in other liabilities.

16 Loans to customers, continued

(h) Assets held for sale

As at 31 December 2015, included in assets held for sale was a portion of bad loan portfolio of net carrying amount of KZT 71,385,592 thousand. According to the plans approved by the Bank, bad loan portfolio is to be disposed by the end of 2016.

Included in interest income on loans to customers for 2015 is interest income on loans which have been classified by the Group as at 31 December 2015 as assets held for sale in the amount of KZT 1,001,648 thousand.

As at 31 December 2015 the management believes that the carrying amount of the assets held for sale does not differ significatly from their fair value.

17 Property, equipment and intangible assets

'000 KZT	Land and buildings	Vehicles	Computer equipment and fixtures and fitting	Construction in progress	Software	Total
Cost						
Balance at 1 January 2015	18,214,304	616,250	8,978,630	439,792	3,689,817	31,938,793
Additions	267,190	23,237	1,648,659	120,611	407,483	2,467,180
Disposals	(276,730)	(167,404)	(476,970)	(1,756)	(3,339)	(926,199)
Transfers	152,216	-	358,315	(519,461)	8,930	-
Transfer to other assets	-	-	-	(2,927)	-	(2,927)
Effect of foreign currency translation	277,089	46,929	479,816	87,937	254,875	1,146,646
Balance at 31 December 2015	**18,634,069**	**519,012**	**10,988,450**	**124,196**	**4,357,766**	**34,623,493**
Depreciation and amortisation						
Balance at 1 January 2015	(4,638,097)	(467,687)	(6,150,305)	-	(2,316,070)	(13,572,159)
Depreciation and amortisation for the year	(637,279)	(39,671)	(938,070)	-	(528,609)	(2,143,629)
Disposals	70,840	166,273	416,465	-	3,339	656,917
Effect of foreign currency translation	(48,468)	(41,699)	(336,085)	-	(147,284)	(573,536)
Balance at 31 December 2015	**(5,253,004)**	**(382,784)**	**(7,007,995)**	**-**	**(2,988,624)**	**(15,632,407)**
Carrying amount						
At 31 December 2015	**13,381,065**	**136,228**	**3,980,455**	**124,196**	**1,369,142**	**18,991,086**
Cost						
Balance at 1 January 2014	19,011,872	673,656	8,540,659	78,702	3,705,040	32,009,929
Additions	500,054	80,595	713,122	361,761	224,299	1,879,831
Disposals	(1,291,434)	(136,993)	(266,461)	(231)	(233,415)	(1,928,534)
Effect of foreign currency translation	(6,188)	(1,008)	(8,690)	(440)	(6,107)	(22,433)
Balance at 31 December 2014	**18,214,304**	**616,250**	**8,978,630**	**439,792**	**3,689,817**	**31,938,793**
Depreciation and amortisation						
Balance at 1 January 2014	(4,233,917)	(559,161)	(5,544,334)	-	(1,947,254)	(12,284,666)
Depreciation and amortisation for the year	(667,949)	(47,015)	(846,975)	-	(464,765)	(2,026,704)
Disposals	261,830	136,993	224,876	-	86,625	710,324
Effect of foreign currency translation	1,939	1,496	16,128	-	9,324	28,887
Balance at 31 December 2014	**(4,638,097)**	**(467,687)**	**(6,150,305)**	**-**	**(2,316,070)**	**(13,572,159)**
Carrying amount						
At 31 December 2014	**13,576,207**	**148,563**	**2,828,325**	**439,792**	**1,373,747**	**18,366,634**

18 Receivable from UniCredit Bank Austria AG under guarantee agreement

On 25 December 2009, the Group signed a guarantee agreement with its parent UniCredit Bank Austria AG (the UniCredit). Under this agreement repayment of loan impairment losses on certain large corporate loans were guaranteed by the UniCredit. The Group paid a commission fee of 6% per annum of carrying value of loans covered by the guarantee. This guarantee agreement had an expiration date on 17 April 2027, but it could be terminated prior to such date either by the guarantor or the Group in certain circumstances. In particular, the main reason for early termination of the guarantee was the failure by the UniCredit to retain, directly or indirectly, the legal and beneficial ownership of at least 50% of the shares plus one share of the Group.

On 29 April 2013, the UniCredit and the ATFBank signed an amendment to this guarantee agreement where a maximum liability was set at USD 630,639 thousand, and had to be paid by 2 November 2015 on a net basis against a cash deposit of USD 630,639 thousand from UniCredit. On 10 August 2015, receivables from UniCredit under guarantee agreement were repaid in full with the UniCredit deposited funds in the amount of USD 630,639 thousand which is equivalent of KZT 118,339,374 thousand.

Commission fee was reduced to 2% per annum for the period from 1 May 2013 to 30 April 2015 and in 2013 was paid in full by the Group.

19 Other assets

	2015 ’000 KZT	2014 ’000 KZT
Accrued commission income	708,265	470,703
Other financial assets	325,295	135,207
Total other financial assets	**1,033,560**	**605,910**
Foreclosed property	11,760,679	8,850,427
Advances paid for administrative activities	834,197	1,407,350
Advances paid for acquisition of property, equipment and intangible assets	584,574	519,401
Taxes prepaid other than income tax	229,177	89,981
Inventories	215,689	242,276
Precious metals	6,826	4,062
Settlements with employees	3,996	3,933
Other assets	527,202	383,884
Total other non-financial assets	**14,162,340**	**11,501,314**
Impairment allowance	(3,522,196)	(3,239,942)
Total other assets	**11,673,704**	**8,867,282**

As at 31 December 2015 and 31 December 2014 the Group had no past due financial assets.

During the year ended 31 December 2015, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 3,628,652 thousand (31 December 2014: KZT 2,402,463 thousand) (Note 16(c)).

In 2015 the Group disposed of the foreclosed asset of net carrying amount of KZT 427,472 thousand (2014: KZT 14,981,965 thousand) and recognised income from sale of KZT 78,352 thousand (2014: KZT 1,065,955 thousand). As at 31 December 2015 and 31 December 2014, the carrying value of the foreclosed properties is the lower of cost and net realisable value, where the selling price is based on the results of valuation performed by an independent appraiser.

19 Other assets, continued

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2015 and 2014 are as follows:

	2015 '000 KZT	2014 '000 KZT
Balance at the beginning of the year	3,239,942	3,337,640
Net charge for the year	29,695	388,785
Net reversals /(write-offs) for the year	223,805	(484,557)
Effect of foreign currency translation	28,754	(1,926)
Balance at the end of the year	**3,522,196**	**3,239,942**

20 Deposits and balances from banks and other financial institutions

	2015 '000 KZT	2014 '000 KZT
Liability on continuing involvement in loans to customers (Note 16(g))	7,104,985	7,104,985
Term deposits	4,083,065	97,316
Vostro accounts	244,735	517,634
Others	545,017	-
Deposit from UniCredit Bank Austria AG	-	112,985,643
	11,977,802	**120,705,578**

As at 31 December 2015 the Group has no banks whose balance exceeded 10% of statutory equity (31 December 2014: one bank).

21 Current accounts and deposits from customers

	2015 '000 KZT	2014 '000 KZT
Current accounts and demand deposits		
- Corporate	229,092,263	166,488,552
- Retail	31,349,585	28,641,990
Term deposits		
- Corporate	271,946,710	274,970,301
- Retail	375,435,713	234,925,488
	907,824,271	**705,026,331**

As at 31 December 2015, the Group maintained customer deposit balances of KZT 48,120,925 thousand (31 December 2014: KZT 25,989,464 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 31 December 2015 the Group has six customers (31 December 2014: nine customers), whose balances exceed 10% of statutory equity. The total balances of the above mentioned customers as at 31 December 2015 are KZT 227,853,428 thousand (31 December 2014: KZT 275,566,464 thousand).

22 Subordinated borrowings and other borrowed funds

	2015 '000 KZT	2014 '000 KZT
Subordinated borrowings		
- Subordinated debt securities issued	95,057,199	18,431,310
Total subordinated borrowings	**95,057,199**	**18,431,310**
Other borrowed funds		
- Loans issued by banks and financial institutions	25,526,183	21,660,032
	25,526,183	**21,660,032**
Bonds issued		
- USD Eurobonds	68,968,525	36,857,871
- KZT bonds	58,518,915	1,309,632
	127,487,440	**38,167,503**
Total other borrowed funds	**153,013,623**	**59,827,535**

In case of bankruptcy, the repayment of the subordinated borrowings will be made after full repayment of all other liabilities of the Group.

Financial covenants

In accordance with the contractual terms of certain long-term loans, the Group is required to maintain certain financial ratios, including with regard to its capital and lending exposure. The Group was in compliance with these ratios as at 31 December 2015 and 2014.

23 Other liabilities

	2015 '000 KZT	2014 '000 KZT
Accrued commission income	322,070	119,080
Accrued expenses on deposit guaranteeing fund	384,597	-
Other financial liabilities	9,607	3,079
Total other financial liabilities	**716,274**	**122,159**
Provision for guarantees and letters of credit issued	556,022	596,508
Amounts payable to employees	526,504	256,150
Other taxes payable	512,073	265,398
Vacation reserve	372,653	384,771
Deferred income	354,914	289,659
Accrued administrative expenses	317,279	313,712
Corporate income tax	154,367	75,426
Prepayments and other creditors	115,808	168,631
Total other non-financial liabilities	**2,909,620**	**2,350,255**
	3,625,894	**2,472,414**

24 Share capital and reserves

(a) Issued capital

As at 31 December 2015, authorised share capital comprised 54,000,000 ordinary shares (31 December 2014: 54,000,000), of which 45,294,733 ordinary shares had been issued (31 December 2014: 45,294,733) and 45,265,543 ordinary shares were outstanding (31 December 2014: 45,265,543 shares). The ordinary shares have no par value.

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

(b) Treasury shares

As at 31 December 2015, the Group held 29,190 of its own shares (31 December 2014: 29,190)

24 Share capital and reserves, continued

(c) Nature and purpose of reserves

General reserve

The general reserve is created, as permitted by the statutory regulations of the Republic of Kazakhstan, for general risks, including future losses and other unforeseen risks or contingencies. During the year ended 31 December 2015, no transfers to general reserve were made.

Revaluation reserve for available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

Cumulative translation reserve

The cumulative translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(d) Dividends

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

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

25 Earnings per share

The calculation of basic and diluted earnings per share as at 31 December 2015 is based on the net profit attributable to ordinary shareholders of KZT 7,230,142 thousand (31 December 2014: net earnings of KZT 3,381,237 thousand) and a weighted average number of ordinary shares outstanding of 45,265,543 (31 December 2014: 45,265,543) calculated as follows:

The following table shows the profit for the years ended 31 December 2015 and 2014 and share data used in the basic and diluted earnings per share calculations:

	2015	2014
Profit attributable to ordinary shareholders (KZT'000)	7,230,142	3,381,237
Weighted average number of participating shares for basic earnings per share	45,265,543	45,265,543
Basic and diluted earnings per share (KZT)	**160**	**75**

There are no potentially dilutive shares for the years ended 31 December 2015 and 2014.

26 Book value per share

Under the listing rules of the Kazakh Stock Exchange the Group should present book value per share in its consolidated statement of financial position. Book value per share as at 31 December 2015 is calculated based on outstanding ordinary shares of 45,265,543 (31 December 2014: 45,265,543) and net assets of KZT 86,333,497 thousand (31 December 2014: KZT 76,082,154 thousand) and is calculated as follows:

	31 December 2015 '000 KZT	31 December 2014 '000 KZT
Total assets	1,259,237,116	984,226,033
Intangible assets	(1,369,142)	(1,373,747)
Total liabilities	(1,171,534,477)	(906,770,132)
Net assets	**86,333,497**	**76,082,154**

26 Book value per share, continued

Book value per share as at 31 December 2015 and 2014 is presented below:

	31 December 2015 ’000 KZT	31 December 2014 ’000 KZT
Net assets	86,333,497	76,082,154
Outstanding ordinary shares at the end of the year	45,265,543	45,265,543
Book value per share (in KZT)	**1,907**	**1,681**

27 Analysis by segments

The Group has four reportable segments, as described below, which are the strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the reportable segments:

- Corporate banking - extension of loans, overdrafts, credit facilities and other types of financing to corporate and institutional customers, opening and maintenance of current accounts and deposit accounts, provision of customer services, custodial services, non-cash settlements, foreign exchange operations and trade finance;
- Small and medium size business – extension of loans, overdrafts, credit facilities and other types of financing to small and medium size enterprises, private entrepreneurs and farm households, opening and maintenance of current accounts and deposit accounts, provision of customer services, trade finance and electronic service systems;
- Retail banking – services for individual customers, including extension of consumer loans and mortgage loans, maintenance of current accounts, savings and deposit accounts, safekeeping, credit and debit cards and services related to cash and foreign exchange;
- other segments include subsidiaries as well as departments responsible for asset and liability management and treasury functions.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm’s length basis. Since the majority of each segment’s revenues are from interest and the CEO relies primarily on net interest revenue to assess performance of the segment and makes decisions about resources to be allocated to the segments.

Assets are concentrated mainly in the Republic of Kazakhstan, and revenues are derived mainly from operations in, and connected with, the Republic of Kazakhstan.

Segment breakdown of assets and liabilities is set out below:

	2015 ’000 KZT	2014 ’000 KZT
ASSETS		
Corporate banking	497,900,471	446,480,637
Small and medium size business	97,820,550	138,914,642
Retail banking	135,218,392	140,644,570
Other segments	528,297,703	258,186,184
Total assets	**1,259,237,116**	**984,226,033**
LIABILITIES		
Corporate banking	269,557,364	314,001,292
Small and medium size business	135,843,365	81,043,865
Retail banking	368,284,320	235,579,872
Other segments	397,849,428	276,145,103
Total liabilities	**1,171,534,477**	**906,770,132**

27 Analysis by segments, continued

Segment information for the reportable segments for the year ended 31 December 2015 is set below:

‘000 KZT	**Corporate banking**	**Small and medium size business**	**Retail banking**	**Other segments**	**Total**
Net interest income	14,214,963	1,101,043	6,368,702	5,938,985	27,623,693
Net fee and commission income	1,118,975	3,556,093	3,300,360	19,178	7,994,606
Net trading income	678,491	745,974	731,701	15,840,023	17,996,189
Other operating (expenses) /income	(1,729)	3,292	(304,125)	49,206	(253,356)
Revenue	**16,010,700**	**5,406,402**	**10,096,638**	**21,847,392**	**53,361,132**
Other general administrative expenses, including taxes, other than income tax	(3,179,429)	(4,756,454)	(7,599,719)	(1,903,639)	(17,439,241)
Depreciation and amortisation	(8,400)	(3,883)	(266,473)	(1,864,873)	(2,143,629)
Operating expenses	**(3,187,829)**	**(4,760,337)**	**(7,866,192)**	**(3,768,512)**	**(19,582,870)**
Segment result before impairment losses	**12,822,871**	**646,065**	**2,230,446**	**18,078,880**	**33,778,262**
Impairment losses	(12,886,586)	(1,676,774)	(6,702,660)	(2,293,609)	(23,559,629)
(Loss)/profit of the reporting segment before taxation	**(63,715)**	**(1,030,709)**	**(4,472,214)**	**15,785,271**	**10,218,633**
Income tax expense	-	-	-	(2,918,368)	(2,918,368)
Profit/(loss) for the year	**(63,715)**	**(1,030,709)**	**(4,472,214)**	**12,866,903**	**7,300,265**
Capital expenditure	-	-	-	2,467,180	2,467,180
Deferred tax assets	-	-	-	2,670,266	2,670,266

27 Analysis by segments, continued

Segment information for the reportable segments for the year ended 31 December 2014 is set below:

'000 KZT	Corporate banking	Small and medium size business	Retail banking	Other segments	Total
Net interest income	8,774,931	660,277	3,734,516	9,591,557	22,761,281
Net fee and commission income	452,694	4,161,468	2,862,882	113,051	7,590,095
Net trading income	452,433	755,770	1,052,003	478,288	2,738,494
Other operating income	-	-	9,598	716,394	725,992
Revenue	**9,680,058**	**5,577,515**	**7,658,999**	**10,899,290**	**33,815,862**
Other general administrative expenses, including taxes, other than income tax	(3,732,088)	(4,275,313)	(8,203,456)	(1,135,498)	(17,346,355)
Depreciation and amortisation	(156)	-	(187,215)	(1,839,333)	(2,026,704)
Operating expenses	**(3,732,244)**	**(4,275,313)**	**(8,390,671)**	**(2,974,831)**	**(19,373,059)**
Segment result before impairment losses	**5,947,814**	**1,302,202**	**(731,672)**	**7,924,459**	**14,442,803**
Impairment losses	(10,376,529)	1,864,465	(815,801)	(1,052,220)	(10,380,085)
(Loss)/profit before income tax per segment	**(4,428,715)**	**3,166,667**	**(1,547,473)**	**6,872,239**	**4,062,718**
Income tax expense	-	-	-	(594,825)	(594,825)
(Loss)/ profit for the year	**(4,428,715)**	**3,166,667**	**(1,547,473)**	**6,277,414**	**3,467,893**
Capital expenditure	-	-	-	1,879,831	1,879,831
Deferred tax assets	-	-	-	5,103,025	5,103,025

28 Risk management

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

(a) Risk management policies and procedures

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

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Management Board member is responsible for the overall risk management and reports directly to the CEO and indirectly to the Board of Directors. Head of Compliance Control is responsible for the compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. They report directly to the CEO and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of committees: Credit Committee, Risk committee and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

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

The Bank calculates mandatory ratios on a daily basis in accordance with the requirement of the NBRK. As at 31 December 2015 and 2014 the mandatory ratios were in compliance with limits set by the NBRK.

(b) Market risk

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

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

Overall authority for market risk is vested in the Credit and Risk committees, which are chaired by the Chairman. Market risk limits are considered by Credit and Risk committees for further approval of the Board of Directors.

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

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include risk factor stress testing, where stress movements are applied to each risk category, and ad hoc stress testing, which includes applying possible stress events to specific positions. The Group also utilises Value-at-Risk (VAR) methodology to monitor market risk of its trading positions.

28 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk

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

Interest rate gap analysis

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

'000 KZT	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Non-interest bearing**	**Carrying amount**
31 December 2015						
ASSETS						
Financial instruments at fair value through profit or loss	-	576	-	91,414	-	91,990
Available-for-sale financial assets	1,765,720	-	-	-	97,635	1,863,355
Held-to-maturity investments	133,467	91,416	15,246,942	-	-	15,471,825
Loans and advances to banks	2,722,169	8,214,967	429,410	115,328	-	11,481,874
Loans to customers	128,633,142	147,991,652	344,590,215	169,067,547	-	790,282,556
Assets held for sale	-	71,385,592	-	-	-	71,385,592
	133,254,498	**227,684,203**	**360,266,567**	**169,274,289**	**97,635**	**890,577,192**
LIABILITIES						
Deposits and balances from banks and other financial institutions	4,092,022	500,941	7,108,961	31,143	244,735	11,977,802
Current accounts and deposits from customers	211,650,270	259,593,716	243,192,521	53,228,033	140,159,731	907,824,271
Other borrowed funds	2,980,203	69,076,640	5,286,026	75,670,754	-	153,013,623
Subordinated borrowings	2,402,353	481,681	34,001,000	58,172,165	-	95,057,199
	221,124,848	**329,652,978**	**289,588,508**	**187,102,095**	**140,404,466**	**1,167,872,895**
	(87,870,350)	**(101,968,775)**	**70,678,059**	**(17,827,806)**	**(140,306,831)**	**(277,295,703)**

28 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

‘000 KZT	Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014						
ASSETS						
Financial instruments at fair value through profit or loss	-	-	-	97,996	-	97,996
Available-for-sale financial assets	10,342,569	220,833	12,223,299	4,139,176	94,061	27,019,938
Loans and advances to banks	2,009,337	5,937,122	53,181	62,614	-	8,062,254
Loans to customers	81,875,213	219,611,093	186,057,210	162,213,174	-	649,756,690
	94,227,119	**225,769,048**	**198,333,690**	**166,512,960**	**94,061**	**684,936,878**
LIABILITIES						
Deposits and balances from banks and other financial institutions	93,903	112,987,560	7,106,481	-	517,634	120,705,578
Current accounts and deposits from customers	127,557,718	160,052,229	130,079,972	155,990,803	131,345,609	705,026,331
Other borrowed funds	24,027	3,685,793	40,873,007	15,244,708	-	59,827,535
Subordinated borrowings	-	258,667	18,172,643	-	-	18,431,310
	127,675,648	**276,984,249**	**196,232,103**	**171,235,511**	**131,863,243**	**903,990,754**
	(33,448,529)	**(51,215,201)**	**2,101,587**	**(4,722,551)**	**(131,769,182)**	**(219,053,876)**

28 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

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

	31 December 2015 Average effective interest rate, %			31 December 2014 Average effective interest rate, %		
	KZT	USD	Other currencies	KZT	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	0.47	0.05	-	-	0.03	0.5
Including REPO	36.4	-	-	-	-	-
Financial instruments at fair value through profit or loss	6.1	-	-	5.9	-	-
Available-for-sale financial assets	-	-	7.7	4.9	-	6.5
Held-to-maturity investments	5.7	-	-	-	-	-
Loans and advances to banks	5.4	2.8	4.4	5.4	0.9	-
Loans to customers	11.8	9.2	21.2	11.0	8.9	18.2
Interest liabilities						
Deposits and balances from banks and other financial institutions	6.1	2.9	-	-	2.2	-
Including REPO	17.1	-	-		-	-
Current accounts and deposits from customers	6.3	3.6	4.6	5.1	4.1	4.9
Subordinated borrowings	10.9	10.1	-	8.2	9.9	-
Other borrowed funds						
- Loans	3.3	6.4	15.0	4.1	6.8	-
- Bonds issued	10.1	9.4	-	8.6	9.7	-

Interest rate sensitivity analysis

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

	2015		2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel rise	(6,341)	(6,972)	(7,357)	(554,678)
100 bp parallel fall	6,962	7,593	8,148	580,628

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

	2015		2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel rise	(1,314,775)	(1,314,775)	(604,839)	(604,839)
100 bp parallel fall	1,314,775	1,314,775	604,839	604,839

28 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

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

	KZT ’000 KZT	USD USA ’000 KZT	EUR ’000 KZT	RUB ‘000 KZT	KGS ‘000 KZT	Other currencies ‘000 KZT	Total ’000 KZT
ASSETS							
Cash and cash equivalents	31,802,648	236,024,518	22,683,095	2,283,149	14,096,453	622,820	307,512,683
Financial instruments at fair value through profit or loss	91,990	-	-	-	-	-	91,990
Available-for-sale financial assets	97,635	-	-	-	1,765,720	-	1,863,355
Held-to-maturity investments	15,471,825	-	-	-	-	-	15,471,825
Loans and advances to banks	5,824,687	4,608,834	1,005,016	43,337	-	-	11,481,874
Loans to customers	376,693,986	393,573,924	2,574,588	3,506	17,436,552	-	790,282,556
Assets held for sale	36,860,967	33,564,982	959,643	-	-	-	71,385,592
Other financial assets	528,268	351,940	35,672	8,459	109,214	7	1,033,560
Total assets	**467,372,006**	**668,124,198**	**27,258,014**	**2,338,451**	**33,407,939**	**622,827**	**1,199,123,435**
LIABILITIES							
Deposits and balances from banks and other financial institutions	10,972,670	145,378	1,954	27,850	829,950	-	11,977,802
Current accounts and deposits from customers	281,841,157	578,474,695	26,996,337	2,861,280	17,260,825	389,977	907,824,271
Other borrowed funds	82,494,576	68,968,525	-	-	1,550,522	-	153,013,623
Subordinated borrowings	60,619,216	34,437,983	-	-	-	-	95,057,199
Other financial liabilities	632,353	6,602	7,284	7	69,574	454	716,274
Total liabilities	**436,559,972**	**682,033,183**	**27,005,575**	**2,889,137**	**19,710,871**	**390,431**	**1,168,589,169**
The effect of derivatives held for risk management	13,933,150	12,583,337	-	-	150,648	-	26,667,135
Net position	**44,745,184**	**(1,325,648)**	**252,439**	**(550,686)**	**13,847,716**	**232,396**	**57,201,401**

28 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT ’000 KZT	USD USA ’000 KZT	EUR ’000 KZT	RUB ‘000 KZT	KGS ’000 KZT	Other currencies ‘000 KZT	Total ’000 KZT
ASSETS							
Cash and cash equivalents	27,963,829	95,637,115	17,114,022	1,854,621	6,822,453	315,639	149,707,679
Financial instruments at fair value through profit or loss	451,143	-	-	-	-	-	451,143
Available-for-sale financial assets	26,246,446	-	-	-	773,492	-	27,019,938
Loans and advances to banks	4,544,356	2,702,896	686,274	128,728	-	-	8,062,254
Loans to customers	382,727,290	250,724,145	3,730,510	2,653	12,546,468	25,624	649,756,690
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	115,753,133	-	-	-	-	115,753,133
Other financial assets	441,159	122,171	32,058	1,059	9,426	37	605,910
Total assets	**442,374,223**	**464,939,460**	**21,562,864**	**1,987,061**	**20,151,839**	**341,300**	**951,356,747**
LIABILITIES							
Deposits and balances from banks and other financial institutions	7,299,445	113,198,055	1,179	81	206,818	-	120,705,578
Current accounts and deposits from customers	329,357,944	337,193,513	22,300,539	2,187,409	13,685,636	301,290	705,026,331
Other borrowed funds	22,664,820	37,022,164	140,200	-	351	-	59,827,535
Subordinated borrowings	-	18,431,310	-	-	-	-	18,431,310
Other financial liabilities	81,195	3,457	2,410	3	34,786	308	122,159
Total liabilities	**359,403,404**	**505,848,499**	**22,444,328**	**2,187,493**	**13,927,591**	**301,598**	**904,112,913**
The effect of derivatives held for risk management	(27,312,000)	24,702,436	221,590	-	2,468,965	-	80,991
Net position	**55,658,819**	**(16,206,603)**	**(659,874)**	**(200,432)**	**8,693,213**	**39,702**	**47,324,825**

28 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	2015 ’000 KZT	**2014 ’000 KZT**
25% appreciation of USD against KZT	(265,130)	(3,241,321)
25% appreciation of EUR against KZT	50,488	(131,975)
25% appreciation of RUB against KZT	(110,137)	(40,086)
25% appreciation of other foreign currencies against KZT	46,479	7,940

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

(iii) Value at Risk estimates

The Group utilises VaR methodology to monitor market risk of its currency positions.

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VAR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period depending on the type of positions. The VAR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential movements in market prices are determined with reference to market data from at least the last 12 months.

Although VAR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature
- a 10-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period

(iii) Value at Risk estimates

- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VAR estimate.
- VAR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day.

The VAR measure is dependent upon the position and the volatility of market prices. The VAR of an unchanged position reduces if market volatility declines and vice versa.

The Group does not solely rely on its VAR calculations in its market risk measurement due to inherent risk of usage of VAR as described above. The limitations of the VAR methodology are recognised by supplementing VAR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

28 Risk management, continued

(b) Market risk, continued

(iii) Value at Risk estimates, continued

A summary of the VAR estimates of losses that could occur in respect of the portfolio of financial instruments at fair value as at 31 December is as follows:

	31 December 2015 ’000 KZT	31 December 2014 ’000 KZT
Foreign exchange risk	(1,710,828)	(120,799)
	(1,710,828)	**(120,799)**

(iv) Other price risk

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

As at 31 December 2015 and 2014 the Group is not exposed to other significant price risk.

(c) Credit risk

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

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Underwriting Unit, which is responsible for the corporate loan portfolio. Credit applications prepared by the Relationship Manager and a Credit Analyst are the basis for the Risk Underwriter’s due diligence and recommendation. After the Risk Underwriter has concluded his analysis, the application is presented to the respective Credit Committee for its decision. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the requirements of the respective application.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer’s most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. Retail loan credit applications are reviewed by the Underwriting Department’s Retail Underwriting Unit through the use of scoring models and application data verification procedures.

Apart from individual customer analysis, the credit portfolio is assessed by the Group with regard to credit concentration and market risks.

28 Risk management, continued

(c) Credit risk, continued

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

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

	2015 ’000 KZT	2014 ’000 KZT
ASSETS		
Cash equivalents	277,847,399	109,871,714
Financial instruments at fair value through profit or loss	26,759,782	451,143
Available-for-sale financial assets	1,765,720	26,925,877
Held-to-maturity investments	15,471,825	-
Loans and advances to banks	11,481,874	8,062,254
Loans to customers	790,282,556	649,756,690
Assets held for sale	71,385,592	-
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	115,753,133
Other financial assets	1,033,560	605,910
Total maximum exposure	**1,196,028,308**	**911,426,721**

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 16.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 30.

As at 31 December 2015, the Group has one counterparty with carrying amount of balances of KZT 154,707,421 thousand, which exceed 10% of maximum credit risk exposure (31 December 2014: one counterparty, KZT 115,753,133 thousand).

Offsetting financial assets and financial liabilities

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

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

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

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28 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

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

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

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

'000 KZT Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position Financial instruments	 Cash collateral received	Net amount
Loans to customers	78,375,564	-	78,375,564	-	(45,536,196)	32,839,368
Accounts receivable under reverse repurchase agreements	8,016,713	-	8,016,713	(8,016,713)	-	-
Total financial assets	**86,392,277**	**-**	**86,392,277**	**(8,016,713)**	**(45,536,196)**	**32,839,368**
Current accounts and deposits of customers	(45,536,196)	-	(45,536,196)	45,536,196	-	-
Total financial liabilities	**(45,536,196)**	**-**	**(45,536,196)**	**45,536,196**	**-**	**-**

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

'000 KZT Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position Financial instruments	 Cash collateral received	Net amount
Loans to customers	38,700,680	-	38,700,680	-	(24,145,628)	14,555,052
Total financial assets	**38,700,680**	**-**	**38,700,680**	**-**	**(24,145,628)**	**14,555,052**
Current accounts and deposits of customers	(24,145,628)	-	(24,145,628)	24,145,628	-	-
Total financial liabilities	**(24,145,628)**	**-**	**(24,145,628)**	**24,145,628**	**-**	**-**

28 Risk management, continued

(c) Credit risk, continued

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

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, inter-bank facilities and other money market instruments, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Bank. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial assets and liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

28 Risk management, continued

(d) Liquidity risk, continued

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

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative financial assets						
Cash and cash equivalents	295,866,258	11,765,852	-	-	307,632,110	307,512,683
Financial instruments at fair value through profit or loss	-	-	5,600	153,955	159,555	91,990
Available-for-sale financial assets	1,869,635	-	-	-	1,869,635	1,863,355
Held-to-maturity investments	-	182,000	752,000	18,270,440	19,204,440	15,471,825
Loans and advances to banks	287,763	2,434,406	8,214,967	544,738	11,481,874	11,481,874
Loans to customers	33,536,248	58,884,659	155,781,573	845,643,183	1,093,845,663	790,282,556
Assets held for sale	-	-	71,385,592	-	71,385,592	71,385,592
Other financial assets	901,250	3,399	102,713	26,198	1,033,560	1,033,560
Derivative assets						
Net settled derivatives	443,950	-	25,118,935	-	25,562,885	26,667,792
Gross settled derivatives						
- Inflow	41,245,150	-	52,430,935	-	93,676,085	94,780,992
- Outflow	(40,801,200)	-	(27,312,000)	-	(68,113,200)	(68,113,200)
Total assets	332,905,104	73,270,316	261,361,380	864,638,514	1,532,175,314	**1,225,791,227**
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	(327,536)	(4,115,071)	(500,941)	(7,112,727)	(12,056,275)	(11,977,802)
Current accounts and deposits from customers	(305,680,629	(46,525,730)	(281,488,012)	(337,869,495)	(971,563,866)	(907,824,271)
Other borrowed funds	(47,464)	(3,554,897)	(75,147,376)	(132,181,876)	(210,931,613)	(153,013,623)
Subordinated borrowings	-	(3,088,740)	(6,970,521)	(154,474,568)	(164,533,829)	(95,057,199)
Other financial liabilities	(683,612)	(26,900)	(5,762)	-	(716,274)	(716,274)
Derivative liabilities						
Net settled derivatives	(657)	-	-	-	(657)	(657)
Gross settled derivatives		-	-	-		
- Inflow	150,648	-	-	-	150,648	150,648
- Outflow	(151,305)	-	-	-	(151,305)	(151,305)
Total liabilities	**(306,739,898**	**(57,311,338)**	**(364,112,612)**	**(631,638,666)**	**(1,359,802,514)**	**(1,168,589,826)**
Net liquidity gap on recognised financial assets and liabilities	**26,165,206**	**15,958,978**	**(102,751,232)**	**232,999,848**	**172,372,800**	**57,201,401**
Credit related commitments	**226,809,432**	**-**	**-**	**-**	**226,809,432**	**226,809,432**

28 Risk management, continued

(d) Liquidity risk, continued

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

‘000 KZT	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Total gross amount outflow/(inflow)**	**Carrying amount**
Non-derivative financial assets						
Cash and cash equivalents	149,707,679	-	-	-	149,707,679	149,707,679
Financial instruments at fair value through profit or loss	-	-	-	162,674	162,674	97,996
Available-for-sale financial assets	10,446,599	-	230,335	20,024,469	30,701,403	27,019,938
Loans and advances to banks	335,351	1,673,986	5,937,122	115,795	8,062,254	8,062,254
Loans to customers	18,357,050	70,695,961	171,827,418	526,133,763	787,014,192	649,756,690
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	-	114,996,988	-	114,996,988	115,753,133
Other financial assets	373,252	30,994	170,754	30,910	605,910	605,910
Derivative assets						
Net settled derivatives	-	-	(132,360)	-	(132,360)	353,147
Gross settled derivatives						
- Inflow	-	-	27,998,640	-	27,998,640	28,484,147
- Outflow	-	-	(28,131,000)	-	(28,131,000)	(28,131,000)
Total assets	**179,219,931**	**72,400,941**	**293,030,257**	**546,467,611**	**1,091,118,740**	**951,356,747**
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	(610,553)	(984)	(117,016,866)	(7,106,481)	(124,734,884)	(120,705,578)
Current accounts and deposits from customers	(225,927,632)	(33,419,030)	(165,059,299)	(426,737,991)	(851,143,952)	(705,026,331)
Other borrowed funds	(737)	(23,995)	(3,789,599)	(72,952,945)	(76,767,276)	(59,827,535)
Subordinated borrowings	-	-	(258,667)	(21,569,849)	(21,828,516)	(18,431,310)
Other financial liabilities	(122,159)	-	-	-	(122,159)	(122,159)
Derivative liabilities						
Net settled derivatives	(272,156)	-	-	-	(272,156)	(272,156)
Gross settled derivatives						
- Inflow	2,690,555	-	-	-	2,690,555	2,690,555
- Outflow	(2,962,711)	-	-	-	(2,962,711)	(2,962,711)
Total liabilities	**(226,933,237)**	**(33,444,009)**	**(286,124,431)**	**(528,367,266)**	**(1,074,868,943)**	**(904,385,069)**
Net liquidity gap on recognised financial assets and liabilities	**(47,713,306)**	**38,956,932**	**6,905,826**	**18,100,345**	**16,249,797**	**46,971,678**
Credit related commitments	**224,039,530**	**-**	**-**	**-**	**224,039,530**	**224,039,530**

28 Risk management, continued

(d) Liquidity risk, continued

The gross nominal inflow/(outflow) disclosed in the tables above represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

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

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	295,862,062	11,650,621	-	-	-	-	-	307,512,683
Financial instruments at fair value through profit or loss	443,950	-	26,224,418	-	91,414	-	-	26,759,782
Available-for-sale financial assets	1,765,720	-	-	-	-	97,635	-	1,863,355
Held-to-maturity investments	-	133,467	91,416	15,246,942	-	-	-	15,471,825
Loans and advances to banks	287,763	2,434,406	8,214,967	429,410	115,328	-	-	11,481,874
Loans to customers	27,768,188	26,107,131	117,620,390	354,708,123	176,542,656	-	87,536,068	790,282,556
Assets held for sale	-	-	71,385,592	-	-	-	-	71,385,592
Current tax asset	-	-	-	-	-	1,144,393	-	1,144,393
Property, plant and equipment and intangible assets	-	-	-	-	-	18,991,086	-	18,991,086
Deferred tax asset	-	-	-	2,670,266	-	-	-	2,670,266
Other assets	2,194,804	86,235	199,984	9,185,180	7,501	-	-	11,673,704
Total assets	**328,322,487**	**40,411,860**	**223,736,767**	**382,239,921**	**176,756,899**	**20,233,114**	**87,536,068**	**1,259,237,116**
Financial instruments at fair value through profit or loss	(657)	-	-	-	-	-	-	(657)
Deposits and balances from banks and other financial institutions	(323,286)	(4,013,471)	(500,941)	(7,108,961)	(31,143)	-	-	(11,977,802)
Current accounts and deposits from customers	(305,646,706)	(46,163,295)	(259,593,716)	(243,192,521)	(53,228,033)	-	-	(907,824,271)
Other borrowed funds	(45,106)	(2,935,097)	(69,076,640)	(5,286,026)	(75,670,754)	-	-	(153,013,623)
Subordinated borrowings	-	(2,402,353)	(481,681)	(34,001,000)	(58,172,165)	-	-	(95,057,199)
Deferred tax liability	-	-	-	(35,031)	-	-	-	(35,031)
Other liabilities	(2,960,358)	(298,323)	(206,844)	(157,795)	(2,574)	-	-	(3,625,894)
Total liabilities	**(308,976,113)**	**(55,812,539)**	**(329,859,822)**	**(289,781,334)**	**(187,104,669)**	**-**	**-**	**(1,171,534,477)**
Net position	**19,346,374**	**(15,400,679)**	**(106,123,055)**	**92,458,587**	**(10,347,770)**	**20,233,114**	**87,536,068**	**87,702,639**

28 Risk management, continued

(d) Liquidity risk, continued

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

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	149,707,679	-	-	-	-	-	-	149,707,679
Financial instruments at fair value through profit or loss	-	-	353,147	-	97,996	-	-	451,143
Available-for-sale financial assets	10,342,569	-	220,833	12,223,299	4,139,176	94,061	-	27,019,938
Loans and advances to banks	335,351	1,673,986	5,937,122	53,181	62,614	-	-	8,062,254
Loans to customers	11,396,459	28,474,941	129,735,495	215,993,028	166,999,198	-	97,157,569	649,756,690
Current tax asset	-	-	6,550	-	-	1,131,705	-	1,138,255
Property, plant and equipment and intangible assets	-	-	-	-	-	18,366,634	-	18,366,634
Deferred tax asset	-	-	-	5,103,025	-	-	-	5,103,025
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	-	115,753,133	-	-	-	-	115,753,133
Other assets	2,694,884	138,472	198,802	5,824,984	10,140	-	-	8,867,282
Total assets	**174,476,942**	**30,287,399**	**252,205,082**	**239,197,517**	**171,309,124**	**19,592,400**	**97,157,569**	**984,226,033**
Financial instruments at fair value through profit or loss	(272,156)	-	-	-	-	-	-	(272,156)
Deposits and balances from banks and other financial institutions	(610,553)	(984)	(112,987,560)	(7,106,481)	-	-	-	(120,705,578)
Current accounts and deposits from customers	(225,758,908)	(33,144,419)	(160,052,229)	(130,079,972)	(155,990,803)	-	-	(705,026,331)
Other borrowed funds	(32)	(23,995)	(3,685,793)	(40,873,007)	(15,244,708)	-	-	(59,827,535)
Subordinated borrowings	-	-	(258,667)	(18,172,643)	-	-	-	(18,431,310)
Deferred tax liability	-	-	(34,808)	-	-	-	-	(34,808)
Other liabilities	(1,889,744)	(243,066)	(273,288)	(61,657)	(4,659)	-	-	(2,472,414)
Total liabilities	**(228,531,393)**	**(33,412,464)**	**(277,292,345)**	**(196,293,760)**	**(171,240,170)**	**-**	**-**	**(906,770,132)**
Net position	**(54,054,451)**	**(3,125,065)**	**(25,087,263)**	**42,903,757**	**68,954**	**19,592,400**	**97,157,569**	**77,455,901**

28 Risk management, continued

(d) Liquidity risk, continued

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band, is given below:

- less than 1 month: KZT 45,204,858 thousand (31 December 2014: KZT 30,628,366 thousand);
- from 1 to 3 months: KZT 46,163,295 thousand (31 December 2014: KZT 33,144,419 thousand);
- from 3 to 12 months: KZT 259,593,716 thousand (31 December 2014: KZT 160,052,229 thousand);
- from 1 to 5 years: KZT 243,192,521 thousand (31 December 2014: KZT 130,079,972 thousand).
- more than 5 years: KZT 53,228,033 thousand (31 December 2014: KZT 155,990,803 thousand).

29 Capital management

The NBRK sets and monitors capital requirements for the Group as a whole. The Bank and its subsidiaries are directly supervised by their respective local regulators.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. As at 31 December 2015 under the current capital requirements set by the Committee, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. Amendments to guidelines on standard values and methods of calculating prudential ratios approved by the Committee for Regulation and Supervision of Financial Market and Financial Institutions are effective as of 1 January 2015, according to which the capital adequacy ratio was set at 7.5%. In addition to capital adequacy ratio, the capital conservation buffer for 2015 was set at 1%. As at 31 December 2015 and 2014 the minimum ratios were set at 8.5% and 10%. As at 31 December 2015, the Bank's capital adequacy ratio was 16.5% (31 December 2014: 11.9%). The Bank complied with the statutory capital requirements as at 31 December 2015 and 2014.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I and Basel II.

29 Capital management, continued

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2015 and 2014:

	2015 '000 KZT	2014 '000 KZT
Tier 1 capital		
Share capital	167,878,470	167,878,470
Additional paid-in capital	1,461,271	1,461,271
Disclosed reserves	(81,310,479)	(92,177,492)
Non-controlling interests	401,463	257,619
Total tier 1 capital	**88,430,725**	**77,419,868**
Tier 2 capital		
Hybrid capital instruments	34,001,000	18,235,000
Asset revaluation reserve	(728,086)	36,033
Subordinated borrowings (unamortised portion)	44,215,363	-
Equity investments stated at cost	(97,635)	(94,061)
Total tier 2 capital	**77,390,642**	**18,176,972**
Total equity	**165,821,367**	**95,596,840**
Risk-weighted assets		
Banking book	1,113,998,701	703,852,435
Trading book	17,746,757	47,250,833
Total risk-weighted assets	**1,131,745,458**	**751,103,268**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**14.65**	**12.73**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**7.81**	**10.31**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature 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 unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group complied with all externally imposed capital requirements as at 31 December 2015 and 2014.

30 Commitments

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

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

30 Commitments, continued

The contractual amounts of commitments as at 31 December 2015 are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2015 '000 KZT	2014 '000 KZT
Contracted amount		
Loan and credit line commitments	173,404,054	150,447,024
Guarantees	48,880,159	69,963,466
Letters of credit	4,525,219	3,629,040
	226,809,432	**224,039,530**
Less provisions	(556,022)	(596,508)
Less cash collateral	(2,584,729)	(1,843,836)
	223,668,681	**221,599,186**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Group.

Of these commitments, KZT 83,281,625 thousand are to three customers at 31 December 2015 (2014: KZT 123,760,133 thousand are to seven customers).

Movements in provision for losses on credit related commitments for the year ended 31 December 2015 and 2014 are as follows:

	2015 '000 KZT	2014 '000 KZT
Balance at the beginning of the year	596,508	441,362
Net charge for the year	(58,342)	156,927
Effect of foreign currency translation	17,856	(1,781)
Balance at the end of the year	**556,022**	**596,508**

31 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December 2015 are presented as follows:

	2015 '000 KZT	2014 '000 KZT
Less than 1 year	273,327	311,847
Between 1 and 5 years	434,739	168,773
More than 5 years	8,677	6,328
	716,743	**486,948**

The Group leases a number of premises under operating leases.

During the year ended 31 December 2015 KZT 1,372,460 thousand is recognised as an expense in profit or loss in respect of operating leases (31 December 2014: KZT 1,244,871 thousand).

32 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

(d) Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

33 Related party transactions

(a) Control relationships

As at 31 December 2015 and 2014 the Bank’s parent company is KNG Finance LLP.

The ultimate controlling owner of the Group is Mr. Galimzhan Yessenov.

The Group’s parent KNG Finance LLP produces publicly available financial statements.

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

Total remuneration included in personnel expenses for the year ended 31 December 2015 and 2014 is as follows:

	2015 ’000 KZT	**2014 ’000 KZT**
Short term employee benefits	256,761	170,918

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

33 Related party transactions, continued

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

The outstanding balances and average interest rates as at 31 December 2015 and 2014 for transactions with the members of the Board of Directors and the Management Board, key management personnel of the Parent Company and their close family members are as follows:

	2015 ’000 KZT	Average interest rate, %	2014 ’000 KZT	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	39,344	11.33	43,630	19.69
LIABILITIES				
Current accounts and deposits from customers	1,331,773	3.81	537,775	4.34

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board, key management personnel of the Parent Company and their close family members for the year ended 31 December 2015 and 2014 are as follows:

	2015 ’000 KZT	2014 ’000 KZT
Profit or loss		
Interest income	4,698	5,601
Interest expense	(19,472)	(27,453)

(c) Transactions with the Parent Company and other related parties

Other related parties include entities under control or significant influence of the parent company and the ultimate controlling owner.

33 Related party transactions, continued

(c) Transactions with the Parent Company and other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2015 and 2014 and related profit or loss amounts of transactions for the year ended 31 December 2015 and 2014 with other related parties are as follows:

	2015					2014				
	Parent company		Other related parties			Parent company		Other related parties		
	’000 KZT	Average interest rate, %	‘000 KZT	Average interest rate, %	Total KZT’000	‘000 KZT	Average interest rate, %	‘000 KZT	Average interest rate, %	Total KZT’000
Consolidated statement of financial position										
ASSETS										
Loans to customers										
- in USD	-	-	-	-	-	-	-	2,204,303	5.0	2,204,303
- In KZT	-	-	2,041,636	12.0	2,041,636	-	-	-	-	-
Other assets										
- in KZT	-	-	53,422	-	53,422	-	-	909	-	909
LIABILITIES										
Current accounts and deposits from customers										
- in KZT	4,058	-	205,432	0.12	209,490	94,872	6.92	117,584	-	212,456
- in USD	4,747,366	1.96	46,065	1.0	4,793,431	5,404,915	1.62	524,419	-	5,929,334
- in other currency	211	-	5,150	-	5,361	1,546	-	55,328	-	56,874
Other liabilities	-	-	142	-	142	-	-	-	-	-
Profit/(loss)										
Interest income	-	-	173,468	-	173,468	-	-	98,067	-	98,067
Interest expense	(128,089)	-	(280)	-	(128,369)	(160,005)	-		-	(160,005)
Fee and commission income	1,367	-	646,397	-	647,764	3,395	-	42,549	-	45,944
Other general and administrative expenses	-	-	(72,237)	-	(72,237)	-	-	(8,718)	-	(8,718)

34 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

'000 KZT	Designated at fair value through profit or loss	Held-to-maturity	Loans, deposits and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash equivalents	-	-	277,847,399	-	-	277,847,399	277,847,399
Financial instruments at fair value through profit or loss	26,759,782	-	-	-	-	26,759,782	26,759,782
Available-for-sale financial assets	-	-	-	1,765,720	-	1,765,720	1,765,720
Held-to-maturity investments	-	15,471,825	-	-	-	15,471,825	15,471,825
Loans and advances to banks	-	-	11,481,874	-	-	11,481,874	11,481,874
Loans to customers:							
Loans to corporate customers	-	-	647,848,100	-	-	647,848,100	642,420,169
Loans to retail customers	-	-	142,434,456	-	-	142,434,456	144,654,633
Assets held for sale		-	71,385,592	-	-	71,385,592	71,776,640
Other financial assets	-	-	1,033,560	-	-	1,033,560	1,033,560
	26,759,782	**15,471,825**	**1,152,030,981**	**1,765,720**	**-**	**1,196,028,308**	**1,193,211,602**
Financial instruments at fair value through profit or loss	657	-	-	-	-	657	657
Deposits and balances from banks and other financial institutions	-	-	-	-	11,977,802	11,977,802	11,977,802
Current accounts and deposits from customers	-	-	-	-	907,824,271	907,824,271	916,443,842
Other borrowed funds	-	-	-	-	153,013,623	153,013,623	155,727,097
Subordinated borrowings	-	-	-	-	95,057,199	95,057,199	91,230,547
Other financial liabilities	-	-	-	-	716,274	716,274	716,274
	657	**-**	**-**	**-**	**1,168,589,169**	**1,168,589,826**	**1,176,096,219**

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

(a) Accounting classifications and fair values, continued

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

’000 KZT	Designated at fair value through profit or loss	Loans, deposits and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash equivalents	-	109,871,714	-	-	109,871,714	109,871,714
Financial instruments at fair value through profit or loss	451,143	-	-	-	451,143	451,143
Available-for-sale financial assets	-	-	26,925,877	-	26,925,877	26,925,877
Loans and advances to banks	-	8,062,254		-	8,062,254	8,062,254
Loans to customers:						
Loans to corporate customers	-	507,950,672	-	-	507,950,672	501,004,073
Loans to retail customers	-	141,806,018	-	-	141,806,018	137,239,994
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	115,753,133	-	-	115,753,133	115,753,133
Other financial assets	-	605,910	-	-	605,910	605,910
	451,143	**884,049,701**	**26,925,877**	**-**	**911,426,721**	**899,914,098**
Financial instruments at fair value through profit or loss	272,156	-	-	-	272,156	272,156
Deposits and balances from banks and other financial institutions	-	-	-	120,705,578	120,705,578	120,705,578
Current accounts and deposits from customers	-	-	-	705,026,331	705,026,331	712,547,329
Other borrowed funds	-	-	-	59,827,535	59,827,535	58,680,077
Subordinated borrowings	-	-	-	18,431,310	18,431,310	12,606,585
Other financial liabilities	-	-	-	122,159	122,159	122,159
	272,156	**-**	**-**	**904,112,913**	**904,385,069**	**904,933,884**

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

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

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

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

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

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

As disclosed, in Note 13 as at 31 December 2015 the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 97,635 thousand (31 December 2014: KZT 94,061 thousand) cannot be determined.

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

- discount rates of 8.2%-16.5% and 10.2% – 18.1% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively (2014: 7.7%-15.4% and 11.5%-19%, respectively);
- discount rate of 9.14% is used for discounting future cash flows from deposits of customers in Tenge and 2.98% is used for discounting future cash flows from deposits of customers in foreign currency (2014: 7.3% and 3.9%, respectively);
- quoted market prices are used for determination of fair value of debt securities issued.

(b) Fair value hierarchy

The Group measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

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

(b) Fair value hierarchy, continued

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

The table below analyses financial instruments measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised:

'000 KZT	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	91,990	-	91,990
- Derivative assets	443,950	26,223,842	26,667,792
- Derivative liabilities	(657)	-	(657)
Available-for-sale financial assets			
- Debt and other fixed income instruments	1,765,720	-	1,765,720
	2,301,003	**26,223,842**	**28,524,845**

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised:

'000 KZT	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	97,996	-	97,996
- Derivative assets	-	353,147	353,147
- Derivative liabilities	(272,156)	-	(272,156)
Available-for-sale financial assets			
- Debt and other fixed income instruments	26,925,877	-	26,925,877
	26,751,717	**353,147**	**27,104,864**

The transaction price of the swap transactions with the NBRK is different from fair value of the swap instruments in the principal markets (Note 13). At initial recognition, the Group estimates the fair values of the swaps transacted with the NBRK using valuation techniques.

In accordance with the terms and conditions of swap agreements signed with the NBRK, the NBRK has a right, having sent a notice to a counterparty at least one day before the date of early closing of a swap transaction, to close unilaterally a transaction with financial derivatives before the schedule.

Due to existence of such option, the Group has adopted approach to use NDF 1 –week forward rate (an average of bid/offer price) to measure fair value of swap. Fair value is determined on a weekly basis as a difference between the swap value according to the forecast forward rate and transaction rate.

In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the currency market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Group uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlying financial assets, expectations on termination periods.

When fair value at initial recognition is not evidenced by a quoted price in an active market or based on a valuation technique that uses data only from observable markets, any difference between the fair value at initial recognition and the transaction price is not recognised in profit or loss immediately, but is deferred (see Note 3(e)(v)).

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

(b) Fair value hierarchy, continued

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

	Level 3	
	Derivative assets	
	2015 ’000 KZT	**2014 ’000 KZT**
Balance at 1 January	353,147	-
Net profit/(loss) from financial instruments at fair value through profit or loss	25,027,170	(466,213)
Issues	843,525	819,360
Balance at 31 December	**26,223,842**	**353,147**

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changes in risk-free rate used for KZT leg by a 100 basis point (bp) would have the following effects as at 31 December 2015:

	2015 ’000 KZT		**2014 ’000 KZT**	
	Effect on profit or loss		**Effect on profit or loss**	
’000 KZT	**Favourable**	**Unfavourable**	**Favourable**	**Unfavourable**
Financial instruments at fair value through profit or loss:				
- Derivative assets	138,499	(136,524)	86,923	(85,816)
Total	**138,499**	**(136,524)**	**86,923**	**(85,816)**

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values using unobservable inputs, based on the averages of the upper and lower quartiles, respectively, of the Group’s ranges of possible estimates. Key inputs and assumptions used in the models as at 31 December 2015:

- Changing the estimated risk-free rate for KZT leg by 1% (31 December 2014: 1%);
- Changing the estimated risk-free rate for USD leg by 0.5% (31 December 2014: 0.5%)

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

(b) Fair value hierarchy, continued

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

'000 KZT	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	277,847,399	-	277,847,399	277,847,399
Held-to-maturity investments	15,471,825	-	15,471,825	15,471,825
Loans and advances to banks	11,481,874	-	11,481,874	11,481,874
Loans to customers	617,662,980	169,411,822	787,074,802	790,282,556
Assets held for sale	-	71,776,640	71,776,640	71,385,592
Liabilities				
Deposits and balances from banks and other financial institutions	11,977,802	-	11,977,802	11,977,802
Current accounts and deposits from customers	916,443,842	-	916,443,842	907,824,271
Other borrowed funds	155,727,097	-	155,727,097	153,013,623
Subordinated borrowings	91,230,547	-	91,230,547	95,057,199

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

'000 KZT	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	109,871,714	-	109,871,714	109,871,714
Loans and advances to banks	8,062,254	-	8,062,254	8,062,254
Loans to customers	462,899,849	175,344,218	638,244,067	649,756,690
Receivable from UniCredit Bank Austria AG under guarantee agreement	115,753,133	-	115,753,133	115,753,133
Liabilities				
Deposits and balances from banks and other financial institutions	120,705,578	-	120,705,578	120,705,578
Current accounts and deposits from customers	712,547,329	-	712,547,329	705,026,331
Other borrowed funds	58,680,077	-	58,680,077	59,827,535
Subordinated borrowings	12,606,585	-	12,606,585	18,431,310