# ATFBank JSC

Separate Financial Statements

for the year ended

31 December 2015

## Contents

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
050051 Алматы, Достық д-лы 180,
Tel./fax 8 (727) 298-08-98, 298-07-08

Limited Liability
Company KPMG Audit
050051 Almaty, 180 Dostyk Avenue,
E-mail: company@kpmg.kz

# Independent Auditors' Report

To the Managing Board of ATFBank JSC

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

*Management's Responsibility for the Separate Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

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

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 | 70,238,206 | 58,213,291 |
| Interest expense | 4 | (47,567,945) | (40,470,100) |
| **Net interest income** | | **22,670,261** | **17,743,191** |
| Fee and commission income | 5 | 10,808,021 | 11,678,760 |
| Fee and commission expense | 6 | (3,399,763) | (4,729,806) |
| **Net fee and commission income** | | **7,408,258** | **6,948,954** |
| Net (loss)/gain on financial instruments at fair value through profit or loss | | (6,257) | 1,079 |
| Net income/(loss) on derivative financial instruments | 7 | 30,070,566 | (3,468,798) |
| Net foreign exchange (loss)/gain | | (13,324,041) | 4,205,772 |
| Dividend income | | 1,272,730 | 1,880,944 |
| Net (loss)/gain on available-for-sale financial assets | | (65,027) | 65,086 |
| Net income on sale of foreclosed assets | 20 | 78,352 | 1,065,955 |
| Loss on repurchased own debt instruments | | - | (50,631) |
| Other operating (loss)/income | | (817,397) | 285,341 |
| **Operating income** | | **47,287,445** | **28,676,893** |
| Impairment losses | 8 | (22,739,763) | (10,288,356) |
| General administrative expenses | 9 | (15,033,993) | (15,402,610) |
| Taxes other than income tax | 10 | (872,282) | (1,042,500) |
| **Profit before income tax** | | **8,641,407** | **1,943,427** |
| Income tax expense | 11 | (2,607,325) | (198,598) |
| **Profit for the year** | | **6,034,082** | **1,744,829** |



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

| | Note | 2015 KZT'000 | 2014 KZT'000 |
|---|---|---|---|
| **Other comprehensive (loss)/income 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 | | (828,738) | 121,901 |
| - Net change in fair value transferred to profit or loss | | 65,027 | (65,086) |
| *Total items that are or may be reclassified subsequently to profit or loss* | | *(763,711)* | *56,815* |
| **Other comprehensive (loss)/income for the year, net of income tax** | | **(763,711)** | **56,815** |
| **Total comprehensive income for the year** | | **5,270,371** | **1,801,644** |
| | | | |
| **Earnings per share** | | | |
| Basic earnings per share (KZT) | 26 | 160 | 75 |
| Diluted earnings per share (KZT) | | 160 | 75 |

The separate financial statements as set out on pages 5 to 79 were approved by 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 separate statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the separate financial statements.

| | Note | 2015 KZT'000 | 2014 KZT'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 12 | 262,536,406 | 135,844,828 |
| Financial instruments at fair value through profit or loss | | | |
| - Held by the Bank | 13 | 26,759,782 | 451,143 |
| Available-for-sale financial assets | | | |
| - Held by the Bank | 14 | 97,635 | 26,246,446 |
| Held-to-maturity investments | | 15,471,825 | - |
| Loans and advances to banks | 15 | 11,366,546 | 9,775,782 |
| Loans to customers | 16 | 730,380,873 | 607,801,108 |
| Assets held for sale | 16 | 71,385,592 | - |
| Current tax asset | | 1,127,869 | 1,131,705 |
| Investments in subsidiaries | 17 | 2,539,621 | 2,871,895 |
| Property, plant and equipment and intangible assets | 18 | 16,600,297 | 16,605,289 |
| Deferred tax asset | 11 | 2,668,579 | 5,103,025 |
| UniCredit Bank Austria AG receivables under guarantee agreement | 19 | - | 115,753,133 |
| Other assets | 20 | 12,941,634 | 9,630,264 |
| **Total assets** | | **1,153,876,659** | **931,214,618** |
| | | | |
| **LIABILITIES** | | | |
| Financial instruments at fair value through profit or loss | 13 | - | 113 |
| Deposits and balances from banks and other financial institutions | 21 | 11,378,281 | 121,696,411 |
| Current accounts and deposits from customers | 22 | 817,558,127 | 658,811,488 |
| Other borrowed funds | 23 | 151,463,101 | 59,662,891 |
| Subordinated borrowings | 23 | 95,057,199 | 18,431,310 |
| Other liabilities | 24 | 2,673,637 | 2,136,462 |
| **Total liabilities** | | **1,078,130,345** | **860,738,675** |
| | | | |
| **EQUITY** | | | |
| Share capital | 25 | 167,878,470 | 167,878,470 |
| Additional paid-in capital | | 359,002 | 359,002 |
| General reserve | | 15,181,181 | 15,181,181 |
| Revaluation reserve for available-for-sale financial assets | | (706,896) | 56,815 |
| Accumulated losses | | (106,965,443) | (112,999,525) |
| **Total equity** | | **75,746,314** | **70,475,943** |
| **Total liabilities and equity** | | **1,153,876,659** | **931,214,618** |



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

| | 2015 KZT'000 | 2014 KZT'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Interest income | 53,502,031 | 50,486,814 |
| Interest expense | (45,701,973) | (39,450,901) |
| Fee and commission income | 10,577,074 | 11,505,798 |
| Fee and commission expense | (1,559,411) | (3,629,056) |
| Net receipts/(payments) from financial instruments at fair value through profit or loss | 4,733,341 | (3,822,117) |
| Net receipts from foreign exchange | 6,449,158 | 14,707,788 |
| Net other (expenses)/ income (payments)receipts | (50,446) | 1,223,047 |
| Personnel expenses (payments) | (6,915,136) | (7,195,347) |
| Other general administrative expenses (payments) | (7,236,555) | (6,434,000) |
| **Net change in operating assets** | | |
| Financial instruments at fair value through profit or loss | - | 2,420 |
| Loans and advances to banks | 2,462,500 | (4,608,623) |
| Loans to customers | 6,416,473 | (52,689,639) |
| Other assets | 1,438,920 | 16,732,279 |
| **Net change in operating liabilities** | | |
| Financial instruments at fair value through profit or loss | - | (21,363) |
| Deposits and balances from banks and other financial institutions | 1,683,054 | (293,225) |
| Current accounts and deposits from customers | (74,954,243) | 52,154,708 |
| Other liabilities | (307,329) | (1,999,064) |
| **Net cash (used in)/from operating activities before income tax paid** | **(49,462,542)** | **26,669,519** |
| Income tax paid | (170,828) | (140,722) |
| **Net cash flows (used in)/from operating activities** | **(49,633,370)** | **26,528,797** |



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

| | 2015 KZT'000 | 2014 KZT'000 |
|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Dividends received | 1,122,057 | 1,076,766 |
| Purchases of available-for-sale financial assets | (3,574) | (35,757,731) |
| Sales of available-for-sale financial assets | 9,795,785 | 10,000,656 |
| Repayment of held-to-maturity investments | - | 1,324 |
| Disposal of investments in subsidiaries | 354,429 | - |
| Purchases of property, plant and equipment and intangible assets | (1,933,593) | (1,047,871) |
| Sales of property and equipment and intangible assets | 269,873 | 894,144 |
| **Cash flows from/(used in) investing activities** | **9,604,977** | **(24,832,712)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Receipts of loans | 9,133,000 | 13,000,000 |
| Repayment of loans | (6,595,145) | (5,226,529) |
| Proceeds from subordinated borrowings | 58,143,763 | - |
| Repayment of subordinated borrowings | - | (15,319,280) |
| Proceeds from debt securities issued | 55,005,621 | 30,000 |
| Repayment of debt securities | - | (54,324,599) |
| **Cash flows from/(used in) financing activities** | **115,687,239** | **(61,840,408)** |
| **Net increase/(decrease) in cash and cash equivalents** | **75,658,846** | **(60,144,323)** |
| Effect of changes in exchange rates on cash and cash equivalents | 51,032,732 | 8,307,004 |
| Cash and cash equivalents as at the beginning of the year | 135,844,828 | 187,682,147 |
| **Cash and cash equivalents as at the end of year** (Note 12) | **262,536,406** | **135,844,828** |



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

| KZT'000 | Share capital | Additional paid-in capital | General reserve | Revaluation reserve for available-for-sale financial assets | Accumulated losses | Total equity |
|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | 167,878,470 | 359,002 | 15,181,181 | 56,815 | (112,999,525) | 70,475,943 |
| **Total comprehensive income** | | | | | | |
| Profit for the year | - | - | - | - | 6,034,082 | 6,034,082 |
| **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 | - | - | - | (763,711) | - | (763,711) |
| **Total other comprehensive loss** | **-** | **-** | **-** | **(763,711)** | **-** | **(763,711)** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **(763,711)** | **6,034,082** | **5,270,371** |
| **Balance at 31 December 2015** | **167,878,470** | **359,002** | **15,181,181** | **(706,896)** | **(106,965,443)** | **75,746,314** |
| Balance at 1 January 2014 | 167,878,470 | 359,002 | 15,181,181 | - | (114,744,354) | 68,674,299 |
| **Total comprehensive income** | | | | | | |
| Profit for the year | - | - | - | - | 1,744,829 | 1,744,829 |
| **Other comprehensive income** | | | | | | |
| Net change in fair value of available-for-sale financial assets | - | - | - | 56,815 | - | 56,815 |
| **Total other comprehensive income** | **-** | **-** | **-** | **56,815** | **-** | **56,815** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **56,815** | **1,744,829** | **1,801,644** |
| **Balance at 31 December 2014** | **167,878,470** | **359,002** | **15,181,181** | **56,815** | **(112,999,525)** | **70,475,943** |

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

# 1 Background

## (a) Organisation and operations

ATFBank JSC (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 supersedes all previously issued general banking and other licenses.

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

The registered legal address of the Bank 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 Bank issues its general purpose consolidated financial statements in accordance with IFRS. The consolidated financial statements is available from the Bank at the Bank's legal address.

## (b) Shareholders

As at 31 December 2015 and 31 December 2014, the following shareholders owned the outstanding ordinary shares:

| *Shareholders* | **31 December 2015 %** | **31 December 2014 %** |
|---|---|---|
| KNG Finance LLC | 99.78 | 99.78 |
| Other shareholders, each holding less than 5% | 0.22 | 0.22 |
| | **100.00** | **100.00** |

## (c) Kazakhstan business environment

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

# 2 Basis of preparation

### (a) Statement of compliance

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

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

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

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

### (d) Use of estimates and judgments

The preparation of separate 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 may differ from those estimates.

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

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

- 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 35.

# 3 Significant accounting policies

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

### (a) Accounting of investments in subsidiaries in separate financial statements

Subsidiaries are investees controlled by the Bank. The Bank controls a subsidiary when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are stated in these separate financial statements at cost less impairment losses.

### (b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest 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 translated to the functional currency at the exchange rate at the date that the fair value was determined.

# 3 Significant accounting policies, continued

## (b) Foreign currency, continued

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 due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

## (c) Cash and cash equivalents

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

## (d) Financial instruments

### *(i) Classification of financial instruments*

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- 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 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 Bank has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

- intends to sell immediately or in the near term;
- upon initial recognition, designated 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

## (d) Financial instruments, continued

### *(i) Classification of financial instruments, continued*

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

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

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

### *(ii) Recognition*

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

### *(iii) Measurement*

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

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

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments which 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;
- investments in subsidiaries 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.

# 3 Significant accounting policies, continued

## (d) Financial instruments, continued

### *(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 Bank has access at that date. The fair value of a liability reflects its performance risk.

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

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

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

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

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

The Bank recognises transfers between levels of the fair value hierarchy at 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.

# 3 Significant accounting policies, continued

## (d) Financial instruments, continued

### *(vii) Derecognition*

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

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

### *(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 separate 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 and advances 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 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, spot 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.

# 3 Significant accounting policies, continued

## (d) Financial instruments, continued

### *(ix) Derivative financial instruments, continued*

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

Although the Bank 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 separate statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously,

## (e) Property, plant 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. |

## (f) Intangible assets

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

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

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

## (g) 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.

## (h) Impairment

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

# 3 Significant accounting policies, continued

## (h) Impairment, continued

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 Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating 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.

### *(i) Financial assets carried at amortised cost*

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

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

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

In some cases the observable data required to estimate the amount of 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 Bank uses its experience and judgment to estimate the amount of any impairment loss.

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

# 3 Significant accounting policies, continued

## (h) Impairment, continued

### *(i) Financial assets carried at amortised cost, continued*

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 separate 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 similar financial assets.

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

### *(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.

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.

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

### *(iv) Other non-financial assets*

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. 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 if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is reversed only 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.

# 3 Significant accounting policies, continued

## (i) Provisions

A provision is recognised in the separate statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the amount of such liability is significant, 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 the risks specific to the liability.

## (j) 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 Bank's accounting policies at the lower of their carrying amount and fair value less cost to sell.

## (k) Credit related commitments

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

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

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 commitments are included in other liabilities.

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

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

## (l) 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.

# 3 Significant accounting policies, continued

## (l) Share capital, continued

### *(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 Bank to declare and pay dividends is subject to acting legislation of the Republic of Kazakhstan.

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

## (m) Taxation

Income tax amount includes current tax and deferred tax. Income tax is recognised in profit or loss in full, less the amounts, related to the operations, reflected in other comprehensive income or to the transactions with owners, reflected directly on the equity accounts, which are reflected in other comprehensive income or directly in equity, accordingly.

Current tax is calculated on the basis of estimated amount of the taxable income for the year, considering the income tax rates, acting as at the reporting date, and the amount of the liabilities, occurred as a result of the income tax adjustment for the previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and deferred tax liabilities are not recognised with respect to 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 Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Deferred tax assets are reflected to the extent there is a possibility that future taxable income, sufficient to cover temporary differences, not accepted tax expenses and unused tax preferences. The amount of deferred tax assets is decreased to the extent there is no possibility to receive taxable income, in relation to which it is possible to use deductible temporary differences.

## (n) Recognition of income and expenses in separate financial statements

Interest income and expense are reflected in profit or loss using effective interest rate.

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.

# 3 Significant accounting policies, continued

## (n) Recognition of income and expenses in separate financial statements, continued

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

Revenue in the form of dividends is reflected in profit or loss as at the date of the dividends declaration.

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.

## (o) Segment reporting

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

## (p) 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 have not been applied in preparing these separate financial statements. The Bank plans to adopt these pronouncements when they become effective.

The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

- 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 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 Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the separate financial statements. The Bank has not analysed the impact of these changes yet. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

# 4 Net interest income

| | 2015 KZT'000 | 2014 KZT'000 |
|---|---|---|
| **Interest income** | | |
| Loans to customers | 68,616,013 | 57,233,187 |
| Available-for-sale financial assets | 945,757 | 534,439 |
| Cash and cash equivalents | 545,503 | 230,324 |
| Loans and advances to banks | 125,082 | 212,827 |
| Financial instruments at fair value through profit or loss | 5,851 | 2,514 |
| | **70,238,206** | **58,213,291** |
| **Interest expense** | | |
| Current accounts and deposits from customers | (31,467,377) | (29,724,526) |
| Other borrowed funds | (8,108,741) | (5,069,218) |
| Subordinated borrowings | (4,947,601) | (2,314,839) |
| Deposits and balances from banks and other financial institutions | (3,044,226) | (3,361,517) |
| | **(47,567,945)** | **(40,470,100)** |
| | **22,670,261** | **17,743,191** |

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 10,463,906 thousand (for the year ended 31 December 2014: KZT 12,065,715 thousand) accrued mainly on impaired corporate and SME loans.

# 5 Fee and commission income

| | 2015 KZT'000 | 2014 KZT'000 |
|---|---|---|
| Bank transfers | 3,712,841 | 3,829,829 |
| Cash operations | 1,751,623 | 2,102,195 |
| Plastic cards | 1,615,196 | 2,344,439 |
| Guarantees and letters of credit | 1,329,995 | 1,800,280 |
| Foreign currency trading | 981,507 | 1,049,984 |
| Agency services on insurance agreements | 645,298 | - |
| Customer service | 84,060 | 57,480 |
| Custodian services | 71,612 | 67,289 |
| Project management | 2,231 | 10,347 |
| Other | 613,658 | 416,917 |
| | **10,808,021** | **11,678,760** |

In 2015 the Bank 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 Bank has received from its partners. The Bank 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 Bank provides agency services to the insurance company.

# 6 Fee and commission expense

| | 2015 KZT'000 | 2014 KZT'000 |
|---|---|---|
| Expenses on insurance of customer deposits | 1,634,266 | 1,497,844 |
| Guarantees (Note 19) | 797,066 | 2,299,681 |
| Plastic cards | 659,519 | 640,771 |
| Bank transfers | 240,879 | 215,906 |
| Custodian services | 35,522 | 14,049 |
| Securities operations | 12,035 | 39,193 |
| Foreign currency trading | 41 | - |
| Other | 20,435 | 22,362 |
| | **3,399,763** | **4,729,806** |

## 7 Net gain/(loss) on derivative financial instruments

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

## 8 Impairment loss

| | 2015 KZT'000 | 2014 KZT'000 |
|---|---|---|
| Loans to customers | (22,761,226) | (9,327,865) |
| Loans and advances to banks | (28,102) | - |
| Other assets | (7,638) | (368,860) |
| Credit related commitments | 58,301 | (156,940) |
| Investments in subsidiaries | (1,098) | (434,691) |
| | **(22,739,763)** | **(10,288,356)** |

## 9 General administrative expenses

| | 2015 KZT'000 | 2014 KZT'000 |
|---|---|---|
| *Personnel expenses* | | |
| Employee benefits | 6,669,592 | 6,747,564 |
| Payroll related taxes | 662,118 | 654,901 |
| | **7,331,710** | **7,402,465** |
| *Other general administrative expenses* | | |
| Depreciation and amortisation | 1,802,927 | 1,737,083 |
| Repairs and maintenance | 1,193,348 | 1,158,596 |
| Rent | 1,150,158 | 1,087,604 |
| Professional services | 739,126 | 274,467 |
| Security | 540,812 | 602,900 |
| Transportation and logistics | 475,883 | 546,439 |
| Communication and information services | 439,729 | 507,457 |
| Collectors | 286,049 | 923,350 |
| Insurance | 199,214 | 58,267 |
| Advertising and marketing | 190,405 | 239,666 |
| Stationery, publications, packaging | 166,038 | 296,198 |
| Lease of vehicles | 113,647 | 87,956 |
| Business travel | 95,476 | 124,869 |
| Fines and penalties | 86,407 | 42,121 |
| Representation | 7,055 | 8,403 |
| Other | 216,009 | 304,769 |
| | **15,033,993** | **15,402,610** |

## 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 550,311 thousand (for the year ended 31 December 2014: KZT 670,184 thousand) and property tax expenses of KZT 219,572 thousand (for the year ended 31 December 2014: KZT 272,469 thousand).

# 11 Income tax expense

| | 2015 KZT'000 | 2014 KZT'000 |
|---|---|---|
| **Current income tax expense** | | |
| Current year | 172,879 | 136,887 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | 2,434,446 | 61,711 |
| **Total income tax expense** | **2,607,325** | **198,598** |

The Bank is the subject to taxation in the Republic of Kazakhstan.

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

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** | **8,641,407** | **100** | **1,943,427** | **100** |
| Income tax charge at the applicable tax rate | 1,728,281 | 20 | 388,685 | 20 |
| Non-taxable income from dividends | (259,364) | (3) | (376,189) | (19) |
| Withholding tax on dividends | 172,879 | 2 | 136,887 | 7 |
| Non-deductible impairment losses | 557,618 | 6 | 321,236 | 17 |
| Non-deductible interest and commission expenses | 41,591 | - | 33,880 | 2 |
| Forgiven debt | 260,393 | 3 | 193,470 | 10 |
| Compensation for previous deductions on bad debt | 197,087 | 2 | - | - |
| Overprovided in prior periods | (251,941) | (2) | (591,858) | (30) |
| Other non-deductible expenses | 160,781 | 2 | 92,487 | 5 |
| | **2,607,325** | **30** | **198,598** | **10** |

### 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. These deferred tax assets are recorded in these separate 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 Bank's ability to claim deductions in future periods.

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

# 11 Income tax expense, continued

**Deferred tax assets and liabilities, continued**

| **2015**<br>**’000 KZT** | **Balance at 1 January 2015** | **Recognised in profit or loss** | **Balance at 31 December 2015** |
|---|---|---|---|
| Loans to customers | (3,148,857) | 3,148,857 | - |
| Property, equipment and intangible assets | (938,608) | (92,753) | (1,031,361) |
| 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 |
| | **5,103,025** | **(2,434,446)** | **2,668,579** |

| **2014**<br>**’000 KZT** | **Balance at 1 January 2014** | **Recognised in profit or loss** | **Balance at 31 December 2014** |
|---|---|---|---|
| Loans to customers | 943,732 | (4,092,589) | (3,148,857) |
| Property, equipment and intangible assets | (1,010,722) | 72,114 | (938,608) |
| Other assets | 331,926 | (145,825) | 186,101 |
| Tax loss carried forward | 4,899,800 | 4,104,589 | 9,004,389 |
| | **5,164,736** | **(61,711)** | **5,103,025** |

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

# 12 Cash and cash equivalents

| | **2015**<br>**’000 KZT** | **2014**<br>**’000 KZT** |
|---|---|---|
| Cash on hand | 24,470,648 | 36,061,480 |
| Nostro accounts with the NBRK | 148,999,655 | 55,749,253 |
| Nostro accounts with other banks | | |
| - rated AA- to AA+ | 15,743,239 | 11,497,979 |
| - rated A- to A+ | 7,823,034 | 18,335,860 |
| - rated BBB- to BBB+ | 24,086,381 | 3,978,701 |
| - rated BB- to BB+ | 280,898 | 5,479 |
| - rated below B+ | 13,415,318 | 36,056 |
| - not rated | 19,700,520 | 10,180,020 |
| Reverse repurchase agreements up to 90 days | 8,016,713 | - |
| **Total cash and cash equivalents** | **262,536,406** | **135,844,828** |

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 Bank 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' 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 were 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<br>'000 KZT | 2014<br>'000 KZT |
|---|---|---|
| **Held by the Bank** | | |
| **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 | - | 113 |
| | **-** | **113** |

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

### Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of the foreign currency 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 resulting unrealised gains and losses on these non-matured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

| | Notional amount | | Weighted average contractual exchange rate | |
|---|---|---|---|---|
| | 2015<br>'000 KZT | 2014<br>'000 KZT | 2015 | 2014 |
| **Buy USD sell KZT** | | | | |
| From 3 to 12 months | 27,312,000 | - | 182.08 | - |
| More than 12 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 |

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

**Foreign currency contracts, continued**

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 Bank 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 held-to-maturity investments

| Held by the Bank | 2015 ’000 KZT | 2014 ’000 KZT |
|---|---|---|
| Equity investments stated at cost | 97,635 | 94,061 |
| **Debt and other fixed-income instruments:** | | |
| 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** | **-** | **26,152,385** |
| **Total available-for-sale financial assets** | **97,635** | **26,246,446** |
| **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** | **-** |

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 evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

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 31 December 2014 no available-for-sale financial assets and held-to-maturity investments are past due or impaired.

# 15 Loans and advances to banks

| | 2015 '000 KZT | 2014 '000 KZT |
|---|---|---|
| **Loans and deposits** | | |
| National Bank of the Republic of Kazakhstan | 5,707,766 | 4,394,176 |
| Other banks | | |
| - rated from BBB- to BBB+ | 5,168,683 | 3,313,964 |
| - rated from BB- to BB+ | 429,759 | 150,180 |
| - not rated | 91,564 | 1,917,462 |
| | **11,397,772** | **9,775,782** |
| Impairment allowance | (31,226) | - |
| **Loans and advances to banks** | **11,366,546** | **9,775,782** |

None of the loans and advances to banks are overdue.

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 current 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") deposited on the special account with the NBRK in accordance with the loan agreement concluded with Damu and DBK. Funds in the current account 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 | 634,596,832 | 517,600,215 |
| Loans to small and medium size companies | 109,250,668 | 145,067,894 |
| **Total loans to corporate customers** | **743,847,500** | **662,668,109** |
| | | |
| **Loans to retail customers** | | |
| Mortgage loans | 50,232,723 | 51,789,591 |
| Consumer loans | 82,535,499 | 81,475,975 |
| Auto loans | 2,276,439 | 1,529,974 |
| **Total loans to retail customers** | **135,044,661** | **134,795,540** |
| | | |
| **Gross loans to customers** | **878,892,161** | **797,463,649** |
| Impairment allowance | (148,511,288) | (189,662,541) |
| **Net loans to customers** | **730,380,873** | **607,801,108** |

# 16 Loans to customers, continued

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 | 185,968,320 | 3,694,221 | 189,662,541 |
| Net charge for the year | 17,729,605 | 5,031,621 | 22,761,226 |
| Write-offs | (142,229,735) | (7,836,806) | (150,066,541) |
| Reversals | 14,001,385 | 2,887,781 | 16,889,166 |
| Effect of foreign currency translation | 67,344,918 | 1,919,978 | 69,264,896 |
| **Balance at the end of the year** | **142,814,493** | **5,696,795** | **148,511,288** |

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 | 264,274,403 | 18,830,290 | 283,104,693 |
| Net charge for the year | 8,512,002 | 815,863 | 9,327,865 |
| Write-offs | (122,651,397) | (18,998,358) | (141,649,755) |
| Reversals | 765,409 | 568,864 | 1,334,273 |
| Effect of foreign currency translation | 35,067,903 | 2,477,562 | 37,545,465 |
| **Balance at the end of the year** | **185,968,320** | **3,694,221** | **189,662,541** |

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 Bank has recovered the previously written off loans for the total amount of KZT 16,889,166 thousand. Recovery has been due to the Bank's work with the troubled borrowers and with regard to these loans the Bank 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 3,511,508 thousand and the Bank recognised the property for KZT 1,810,288 thousand in its statement of financial position.

# 16 Loans to customers, continued

## (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 | 407,448,159 | 253,503,763 |
| Impaired loans: | | |
| - not overdue | 74,653,722 | 78,257,013 |
| - overdue less than 90 days | 27,607,670 | 3,954,898 |
| - overdue more than 90 days and less than 1 year | 421,032 | 16,042,209 |
| - overdue more than 1 year | 124,466,249 | 165,842,332 |
| **Total loans to large corporates** | **634,596,832** | **517,600,215** |
| Impairment allowance on loans to large corporates | (136,546,028) | (179,815,067) |
| **Net loans to large corporates** | **498,050,804** | **337,785,148** |
| **Loans to small- and medium-sized companies** | | |
| Loans without individual signs of impairment | 57,740,979 | 80,385,159 |
| Impaired loans: | | |
| - not overdue | 8,664,798 | 4,073,399 |
| - overdue less than 90 days | 1,027,108 | 1,349,809 |
| - overdue more than 90 days and less than 1 year | 3,090,880 | 5,014,047 |
| - overdue more than 1 year | 38,726,903 | 54,245,480 |
| **Total loans to small- and medium-sized companies** | **109,250,668** | **145,067,894** |
| Impairment allowance on loans to small- and medium-sized companies | (6,268,465) | (6,153,253) |
| **Net loans to small and medium-sized companies** | **102,982,203** | **138,914,641** |
| **Total loans to corporate customers** | **743,847,500** | **662,668,109** |
| Impairment allowance on loans to corporate customers | (142,814,493) | (185,968,320) |
| **Net loans to corporate customers** | **601,033,007** | **476,699,789** |

# 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 | 31,237,249 | 33,434,667 |
| - overdue less than 30 days | 1,628,221 | 1,144,100 |
| - overdue 30-89 days | 939,044 | 691,099 |
| - overdue 90-179 days | 1,124,528 | 891,806 |
| - overdue 180-360 days | 922,296 | 1,686,804 |
| - overdue more than 360 days | 14,381,385 | 13,941,115 |
| **Total mortgage loans** | **50,232,723** | **51,789,591** |
| Impairment allowance on mortgage loans | (2,923,380) | (1,187,487) |
| **Net mortgage loans** | **47,309,343** | **50,602,104** |
| **Consumer loans** | | |
| - not overdue | 63,710,144 | 62,190,094 |
| - overdue less than 30 days | 3,272,687 | 3,401,006 |
| - overdue 30-89 days | 1,255,401 | 1,024,758 |
| - overdue 90-179 days | 1,640,695 | 1,346,822 |
| - overdue 180-360 days | 1,000,741 | 1,361,271 |
| - overdue more than 360 days | 11,655,831 | 12,152,024 |
| **Total consumer loans** | **82,535,499** | **81,475,975** |
| Impairment allowance on consumer loans | (2,679,845) | (2,478,388) |
| **Net consumer loans** | **79,855,654** | **78,997,587** |
| **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** | **135,044,661** | **134,795,540** |
| Impairment allowance on loans to retail customers | (5,696,795) | (3,694,221) |
| **Net loans to retail customers** | **129,347,866** | **131,101,319** |
| **Total loans to customers** | **878,892,161** | **797,463,649** |
| **Impairment allowance** | (148,511,288) | (189,662,541) |
| **Net loans** | **730,380,873** | **607,801,108** |

# 16 Loans to customers, continued

## (a) Credit quality of loans to customers, continued

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.

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 Bank 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 Bank has considered the effect of inflation in the value of the security collateralising the impaired or past due loans.

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

### *(i) Loans to corporate customers*

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for 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 6,010,330 thousand lower/higher (31 December 2014: KZT 4,766,998 thousand).

### *(ii) Loans to retail customers*

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

# 16 Loans to customers, continued

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

### *(ii) Loans to retail customers, continued*

- 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, and a discount to the originally appraised value if the property pledged is sold through court procedures.

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 3,880,436 thousand lower/higher (31 December 2014: KZT 3,933,040 thousand).

## (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 '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** |
|---|---|---|---|---|
| **Loans without individual signs of impairment** | | | | |
| Cash and deposits | 24,850,669 | 24,850,669 | - | - |
| Real estate | 155,642,193 | 115,865,705 | 39,776,488 | - |
| Motor vehicles | 35,158,772 | 35,139,249 | 19,523 | - |
| Equipment | 4,260,833 | 4,260,833 | - | - |
| Other collateral | 91,951,697 | 33,600,060 | 58,351,637 | - |
| 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) | 78,797,566 | - | - | 78,797,566 |
| **Total loans without individual signs of impairment** | **460,606,933** | **213,716,516** | **98,147,648** | **148,742,769** |
| | | | | |
| **Overdue or impaired loans** | | | | |
| Cash and deposits | 516,066 | 516,066 | - | - |
| Real estate | 135,787,760 | 131,160,642 | 4,627,118 | - |
| Motor vehicles | 414,241 | 414,241 | - | - |
| Equipment | 1,422,069 | 1,029,682 | 392,387 | - |
| Other collateral | 1,603,387 | 1,603,387 | - | - |
| 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** | **140,426,074** | **134,724,018** | **5,019,505** | **682,551** |
| **Total loans to corporate customers** | **601,033,007** | **348,440,534** | **103,167,153** | **149,425,320** |

# 16 Loans to customers, continued

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

### *(i) Loans to corporate 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 |
|---|---|---|---|---|
| **Loans without individual signs of impairment** | | | | |
| Cash and deposits | 7,885,902 | 7,885,902 | - | - |
| Real estate | 161,343,578 | 118,199,439 | 43,144,139 | - |
| Motor vehicles | 43,232,944 | 37,813,655 | 5,419,289 | - |
| Equipment | 7,816,680 | 3,312,891 | 4,503,789 | - |
| Other collateral | 44,134,291 | 22,939,547 | 21,194,744 | - |
| 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** | **330,934,048** | **190,151,434** | **74,261,961** | **66,520,653** |
| **Overdue or impaired loans** | | | | |
| Cash and deposits | 111,165 | 111,165 | - | - |
| Real estate | 139,510,049 | 138,308,618 | 1,201,431 | - |
| Motor vehicles | 888,685 | 888,685 | - | - |
| Equipment | 2,010,449 | 1,993,938 | 16,511 | - |
| Other collateral | 2,923,358 | 2,874,606 | 48,752 | - |
| 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** | **145,765,741** | **144,177,012** | **1,266,694** | **322,035** |
| **Total loans to corporate customers** | **476,699,789** | **334,328,446** | **75,528,655** | **66,842,688** |

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 Bank does not necessarily update the valuation of collateral as at each reporting date.

The Bank 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.

# 16 Loans to customers, continued

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

### *(i) Loans to corporate customers, continued*

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 Bank'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** **'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 | 30,854,961 | 14,494,282 | 7,494,767 | 8,865,912 |
| Overdue loans | 16,454,382 | 15,707,095 | 251,505 | 495,782 |
| **Total mortgage loans** | **47,309,343** | **30,201,377** | **7,746,272** | **9,361,694** |

| **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 | 33,370,441 | 22,593,256 | 5,903,692 | 4,873,493 |
| Overdue loans | 17,231,663 | 16,401,247 | 658,447 | 171,969 |
| **Total mortgage loans** | **50,602,104** | **38,994,503** | **6,562,139** | **5,045,462** |

The tables above are presented excluding overcollateralisation.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Bank 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 98.69% of the carrying amount of the loans as at 31 December 2015 (31 December 2014: 99%).

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

# 16 Loans to customers, continued

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

### *(ii) Loans to retail customers, continued*

For impaired or overdue auto loans management believes that the fair value of collateral is at least 94.35% of the carrying amount of the loans as at 31 December 2015 (31 December 2014: 98%).

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

| **31 December 2015**<br>**’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 | 27,276,321 | 13,513,761 | 13,762,560 | - |
| Other collateral (equipment, motor vehicles, movables) | 7,647,727 | 16,835 | 7,630,892 | - |
| No collateral or other credit enhancement (at carrying amount) | 28,149,017 | - | - | 28,149,017 |
| **Total not overdue loans** | **63,073,065** | **13,530,596** | **21,393,452** | **28,149,017** |
| **Overdue or impaired loans** | | | | |
| Real estate | 13,418,900 | 13,263,445 | 155,455 | - |
| Other collateral (equipment, motor vehicles) | 46,828 | 14,095 | 32,733 | - |
| No collateral or other credit enhancement (at carrying amount) | 3,316,861 | - | - | 3,316,861 |
| **Total overdue or impaired loans** | **16,782,589** | **13,277,540** | **188,188** | 3,316,861 |
| **Total consumer loans** | **79,855,654** | **26,808,136** | **21,581,640** | **31,465,878** |

# 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 | 19,421,404 | 15,855,794 | 3,565,610 | - |
| Other collateral (equipment, motor vehicles, movables) | 6,981,716 | 74,602 | 6,907,114 | - |
| No collateral or other credit enhancement (at carrying amount) | 35,340,431 | - | - | 35,340,431 |
| **Total not overdue loans** | **61,743,551** | **15,930,396** | **10,472,724** | **35,340,431** |
| **Overdue or impaired loans** | | | | |
| Real estate | 14,490,969 | 13,849,725 | 641,244 | - |
| Other collateral (equipment, motor vehicles) | 29,537 | 12,774 | 16,763 | - |
| No collateral or other credit enhancement (at carrying amount) | 2,733,530 | - | - | 2,733,530 |
| **Total overdue or impaired loans** | **17,254,036** | **13,862,499** | **658,007** | **2,733,530** |
| **Total consumer loans** | **78,997,587** | **29,792,895** | **11,130,731** | **38,073,961** |

### *(iii) Repossessed collateral*

During the year ended 31 December 2015, the Bank 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 2,390,414 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 | 16,514 | 17,490 |
| **Total repossessed collateral** | **9,125,266** | **5,802,995** |

The Bank'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 | 135,044,661 | 134,795,540 |
| Construction | 102,110,025 | 94,991,635 |
| Transport | 88,841,463 | 75,432,941 |
| Food | 76,480,431 | 82,143,441 |
| Real estate | 65,392,978 | 37,176,540 |
| Retail trade | 14,696,689 | 19,801,249 |
| Agriculture | 8,740,008 | 11,665,501 |
| Chemical | 8,488,333 | 11,731,729 |
| Mining | 8,262,730 | 6,424,266 |
| Entertainment | 4,151,220 | 6,282,913 |
| Hotel services | 3,379,751 | 28,821,517 |
| Metallurgy | 3,639,162 | 4,171,778 |
| Oil and gas | 2,985,787 | 2,384,392 |
| Textile | 2,087,633 | 2,489,335 |
| Communication | 677,502 | 2,022,009 |
| Other | 159,904,613 | 150,929,139 |
| | **878,892,161** | **797,463,649** |
| Impairment allowance | (148,511,288) | (189,662,541) |
| | **730,380,873** | **607,801,108** |

## (e) Significant credit exposures

As at 31 December 2015 the Bank 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 29, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than the term based on contractual terms.

## (g) Transfers of financial assets

In July 2013, the Bank 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.

# 16 Loans to customers, continued

### (g) Transfers of financial assets, continued

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

The Bank'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 21), while the fair value of guarantee of KZT 167,000 thousand is recognised in other liabilities.

### (h) Assets held for sale

As at 31 December 2015, included in assets held for sale was a portion of bad loan portfolio of total 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 Bank 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 Investments in subsidiaries

The Bank has investments in following subsidiaries:

| | | | Ownership, % | | '000 KZT | |
|---|---|---|---|---|---|---|
| **Name of the company** | **Country of incorporation** | **Principal activities** | **2015** | **2014** | **2015** | **2014** |
| Optima Bank OJSC (formerly "UniCreditBank" OJSC) | Kyrgyzstan | Banking | 97.1 | 97.1 | 2,218,349 | 2,218,349 |
| Tobet Group LLP (former ATF Inkassatsiya LLP) | Kazakhstan | Cash collection | 100.0 | 100.0 | 321,272 | 295,251 |
| ATF Finance JSC | Kazakhstan | Investments | - | 100.0 | - | 355,527 |
| ATF Capital B.V. | The Netherlands | Special purpose vehicle | - | 100.0 | - | 2,768 |
| | | | | | **2,539,621** | **2,871,895** |

In December 2014, the Board of Directors of the Bank 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 Bank made decision to liquidate ATF Finance JSC due to the lack of volume in the primary activity of the company. On 20 November 2015, shares of ATF Finance JSC were cancelled.

# 18 Property, equipment and intangible assets

| '000 KZT | Land and buildings | Vehicles | Computer equipment and fixtures and fitting | Construction in progress | Software | Total |
|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | |
| Balance as at 1 January 2015 | 17,473,207 | 268,349 | 7,818,926 | 234,827 | 3,095,745 | 28,891,054 |
| Additions | 120,181 | 7 | 1,579,320 | 4,326 | 308,995 | 2,012,829 |
| Disposals | (222,387) | (148,073) | (458,460) | - | - | (828,920) |
| Transfers | 142,344 | - | - | (149,264) | 6,920 | - |
| Transfer to other assets | - | - | - | (2,927) | - | (2,927) |
| **Balance as at 31 December 2015** | **17,513,345** | **120,283** | **8,939,786** | **86,962** | **3,411,660** | **30,072,036** |
| ***Depreciation and amortisation*** | | | | | | |
| Balance as at 1 January 2015 | (4,535,419) | (239,805) | (5,472,700) | - | (2,037,841) | (12,285,765) |
| Depreciation and amortisation for the year | (617,780) | (4,773) | (747,515) | - | (432,859) | (1,802,927) |
| Disposals | 70,840 | 147,543 | 398,570 | - | - | 616,953 |
| **Balance as at 31 December 2015** | **(5,082,359)** | **(97,035)** | **(5,821,645)** | **-** | **(2,470,700)** | **(13,471,739)** |
| ***Carrying amount*** | | | | | | |
| **At 31 December 2015** | **12,430,986** | **23,248** | **3,118,141** | **86,962** | **940,960** | **16,600,297** |
| ***Cost*** | | | | | | |
| Balance as at 1 January 2014 | 18,383,958 | 347,565 | 7,547,132 | 232,233 | 2,919,001 | 29,429,889 |
| Additions | 380,683 | 25,942 | 460,932 | 2,594 | 177,719 | 1,047,870 |
| Disposals | (1,291,434) | (105,158) | (189,138) | - | (975) | (1,586,705) |
| **Balance as at 31 December 2014** | **17,473,207** | **268,349** | **7,818,926** | **234,827** | **3,095,745** | **28,891,054** |
| ***Depreciation and amortisation*** | | | | | | |
| Balance as at 1 January 2014 | (4,211,003) | (331,454) | (4,949,139) | - | (1,662,972) | (11,154,568) |
| Depreciation and amortisation for the year | (653,553) | (10,753) | (696,933) | - | (375,844) | (1,737,083) |
| Disposals | 329,137 | 102,402 | 173,372 | - | 975 | 605,886 |
| **Balance as at 31 December 2014** | **(4,535,419)** | **(239,805)** | **(5,472,700)** | **-** | **(2,037,841)** | **(12,285,765)** |
| ***Carrying amount*** | | | | | | |
| **At 31 December 2014** | **12,937,788** | **28,544** | **2,346,226** | **234,827** | **1,057,904** | **16,605,289** |

# 19 Receivable from UniCredit Bank Austria AG under guarantee agreement

On 25 December 2009, the Bank 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 Bank 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 Bank 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 Bank.

On 29 April 2013, the UniCredit and the Bank signed an amendment to this guarantee agreement where a maximum liability was set at USD 630,639 thousand, and to be paid until 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 Bank.

# 20 Other assets

| | 2015<br>'000 KZT | 2014<br>'000 KZT |
|---|---|---|
| Dividends receivable | 1,944,205 | 1,265,138 |
| Accrued commission income | 687,284 | 456,337 |
| Other financial assets | 66,604 | 135,207 |
| **Total other financial assets** | **2,698,093** | **1,856,682** |
| Foreclosed property | 11,684,262 | 8,830,141 |
| Advances paid for administrative activities | 642,051 | 1,076,479 |
| Advances paid for acquisition of property, equipment and intangible assets | 553,993 | 519,401 |
| Taxes prepaid other than income tax | 172,692 | 91,287 |
| Inventories | 150,860 | 189,014 |
| Precious metals | 6,826 | 4,062 |
| Settlements with employees | 3,409 | 3,379 |
| Other assets | 483,437 | 259,277 |
| **Total other non-financial assets** | **13,697,530** | **10,973,040** |
| Impairment allowance | (3,453,989) | (3,199,458) |
| **Total other assets** | **12,941,634** | **9,630,264** |

As at 31 December 2015 and 31 December 2014 no financial assets were past due.

During the year ended 31 December 2015, the Bank 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 2,390,414 thousand) (Note 16(c)). In 2015 the Bank 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.

# 20 Other assets, continued

### (a) 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 | 3,199,458 | 3,317,372 |
| Net charge for the year | 7,638 | 368,860 |
| Net reversals /(write-offs) for the year | 244,920 | (484,557) |
| Effect of foreign currency translation | 1,973 | (2,217) |
| **Balance at the end of the year** | **3,453,989** | **3,199,458** |

# 21 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 | 3,334,441 | 96,459 |
| Vostro accounts | 393,838 | 1,509,324 |
| Other | 545,017 | - |
| Deposit from UniCredit Bank Austria AG | - | 112,985,643 |
| | **11,378,281** | **121,696,411** |

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

# 22 Current accounts and deposits from customers

| | 2015 ’000 KZT | 2014 ’000 KZT |
|---|---|---|
| Current accounts and demand deposits | | |
| - Corporate | 194,226,776 | 146,148,344 |
| - Retail | 23,694,052 | 25,065,284 |
| Term deposits | | |
| - Corporate | 255,538,817 | 132,032,244 |
| - Retail | 344,098,482 | 355,565,616 |
| | **817,558,127** | **658,811,488** |

As at 31 December 2015, the Bank maintained customer deposit balances of KZT 41,593,083 thousand (31 December 2014: KZT 25,334,469 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Bank.

As at 31 December 2015, the Bank 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).

# 23 Subordinated borrowings and other borrowed funds

| | 2015<br>'000 KZT | 2014<br>'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 | 23,975,661 | 21,495,388 |
| | **23,975,661** | **21,495,388** |
| **Bonds issued** | | |
| - USD Eurobonds | 68,968,525 | 36,857,871 |
| - KZT notes | 58,518,915 | 1,309,632 |
| | **127,487,440** | **38,167,503** |
| **Total other borrowed funds** | **151,463,101** | **59,662,891** |

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

### Financial covenants

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

# 24 Other liabilities

| | 2015<br>'000 KZT | 2014<br>'000 KZT |
|---|---|---|
| Accrued expenses on deposit guarantee fund | 384,597 | - |
| Accrued commission income | 249,553 | 76,004 |
| Capital commitments | 3,845 | 3,079 |
| **Total other financial liabilities** | **637,995** | **79,083** |
| Provision for guarantees and letters of credit issued | 555,810 | 596,356 |
| Other taxes payable | 397,206 | 185,206 |
| Deferred income | 351,377 | 288,020 |
| Accrued administrative expenses | 337,508 | 335,199 |
| Vacation reserve | 279,459 | 315,647 |
| Prepayments and other creditors | 73,293 | 86,606 |
| Amounts payable to employees | 40,989 | 250,345 |
| **Total other non-financial liabilities** | **2,035,642** | **2,057,379** |
| | **2,673,637** | **2,136,462** |

# 25 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 Bank held 29,190 of its own shares (31 December 2014: 29,190).

## (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.

## (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).

# 26 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 shares in accordance with the Group's consolidated financial statements, which include ATFBank JSC and its subsidiaries, of KZT 7,230,142 thousand (31 December 2014: net earnings of KZT 3,381,237 thousand) and a weighted average number of outstanding ordinary shares - 45,265,543 (31 December 2014: 45,265,543).

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.

# 27 Book value per share

Under the listing rules of the Kazakh Stock Exchange the Bank should present book value per share in its 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 74,805,354 thousand (31 December 2013: KZT 69,418,039 thousand) and is calculated as follows:

| | **31 December 2015 '000 KZT** | **31 December 2014 '000 KZT** |
|---|---|---|
| Total assets | 1,153,876,659 | 931,214,618 |
| Intangible assets | (940,960) | (1,057,904) |
| Total liabilities | (1,078,130,345) | (860,738,675) |
| **Net assets** | **74,805,354** | **69,418,039** |

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 | 74,805,354 | 69,418,039 |
| Outstanding ordinary shares at the end of the year | 45,265,543 | 45,265,543 |
| **Book value per share (in KZT)** | **1,653** | **1,534** |

# 28 Analysis by segments

The Bank 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 of the Bank 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 | 138,914,641 |
| Retail banking | 135,218,392 | 140,644,570 |
| Other segments | 422,937,246 | 205,174,770 |
| **Total assets** | **1,153,876,659** | **931,214,618** |
| **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 | 304,445,296 | 230,113,646 |
| **Total liabilities** | **1,078,130,345** | **860,738,675** |

## 28 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 | 985,553 | 22,670,261 |
| Net fee and commission income | 1,118,975 | 3,556,093 | 3,300,360 | (567,170) | 7,408,258 |
| Net trading income | 678,491 | 745,974 | 731,701 | 14,519,075 | 16,675,241 |
| Other operating income | (1,729) | 3,292 | (304,125) | 836,247 | 533,685 |
| **Revenue** | **16,010,700** | **5,406,402** | **10,096,638** | **15,773,705** | **47,287,445** |
| Other general administrative expenses, including taxes, other than income tax | (3,179,429) | (4,756,454) | (7,599,719) | 1,432,254 | (14,103,348) |
| Depreciation and amortisation | (8,400) | (3,883) | (266,473) | (1,524,171) | (1,802,927) |
| **Operating expenses** | **(3,187,829)** | **(4,760,337)** | **(7,866,192)** | **(91,917)** | **(15,906,275)** |
| **Segment result before impairment losses** | **12,822,871** | **646,065** | **2,230,446** | **15,681,788** | **31,381,170** |
| Impairment losses | (12,886,586) | (1,676,774) | (6,702,660) | (1,473,743) | (22,739,763) |
| **(Loss)/profit of the reporting segment before taxation** | **(63,715)** | **(1,030,709)** | **(4,472,214)** | **14,208,045** | **8,641,407** |
| Income tax expense | - | - | - | (2,607,325) | (2,607,325) |
| **Profit for the year** | **(63,715)** | **(1,030,709)** | **(4,472,214)** | **11,600,720** | **6,034,082** |
| | | | | | |
| Capital expenditure | - | - | - | 2,012,829 | 2,012,829 |
| Deferred tax assets | - | - | - | 2,668,579 | 2,668,579 |

# 28 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 | 3,734,515 | 4,573,468 | 17,743,191 |
| Net fee and commission income | 452,694 | 4,161,468 | 2,862,882 | (528,090) | 6,948,954 |
| Net trading income | (627,454) | 755,770 | 1,052,002 | (427,810) | 752,508 |
| Other operating income | 1,079,887 | - | 9,599 | 2,142,754 | 3,232,240 |
| **Revenue** | **9,680,058** | **5,577,515** | **7,658,998** | **5,760,322** | **28,676,893** |
| Other general administrative expenses, including taxes, other than income tax | (3,732,087) | (4,275,312) | (8,203,456) | 1,502,828 | (14,708,027) |
| Depreciation and amortisation | (156) | - | (187,215) | (1,549,712) | (1,737,083) |
| **Operating expenses** | **(3,732,243)** | **(4,275,312)** | **(8,390,671)** | **(46,884)** | **(16,445,110)** |
| **Segment result before impairment losses** | **5,947,815** | **1,302,203** | **(731,673)** | **5,713,438** | **12,231,783** |
| Impairment losses | (10,376,529) | 1,864,465 | (815,801) | (960,491) | (10,288,356) |
| **(Loss)/income of the reporting segment before taxation** | **(4,428,714)** | **3,166,668** | **(1,547,474)** | **4,752,947** | **1,943,427** |
| Income tax expense | - | - | - | (198,598) | (198,598) |
| **Net profit for the year** | **(4,428,714)** | **3,166,668** | **(1,547,474)** | **4,554,349** | **1,744,829** |
| | | | | | |
| Capital expenditure | - | - | - | 1,047,870 | 1,047,870 |
| Deferred tax assets | - | - | - | 5,103,025 | 5,103,025 |

# 29 Risk management

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

## (a) Risk management policies and procedures

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

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The 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 Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Bank 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 Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

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

# 29 Risk management, continued

## (b) Market risk, continued

### *(i) Interest rate risk, continued*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Such fluctuations may increase the level of interest margin and may decrease it, or, in case of unexpected change of interest rate to result in losses.

***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 | - | - | - | - | 97,635 | 97,635 |
| 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 | - | - | 11,366,546 |
| Loans to customers | 121,590,991 | 132,432,880 | 309,652,934 | 166,704,068 | - | 730,380,873 |
| Assets held for sale | - | 71,385,592 | - | - | - | 71,385,592 |
| | **124,446,627** | **212,125,431** | **325,329,286** | **166,795,482** | **97,635** | **828,794,461** |
| **LIABILITIES** | | | | | | |
| Deposits and balances from banks and other financial institutions | 3,377,102 | 500,941 | 7,106,400 | - | 393,838 | 11,378,281 |
| Current accounts and deposits from customers | 189,273,067 | 240,531,509 | 224,747,816 | 53,200,189 | 109,805,546 | 817,558,127 |
| Other borrowed funds | 2,980,188 | 69,022,337 | 3,789,822 | 75,670,754 | - | 151,463,101 |
| Subordinated borrowings | 2,402,353 | 481,681 | 34,001,000 | 58,172,165 | - | 95,057,199 |
| | **198,032,710** | **310,536,468** | **269,645,038** | **187,043,108** | **110,199,384** | **1,075,456,708** |
| | **(73,586,083)** | **(98,411,037)** | **55,684,248** | **(20,247,626)** | **(110,101,749)** | **(246,662,247)** |

# 29 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 | 9,569,077 | 220,833 | 12,223,299 | 4,139,176 | 94,061 | 26,246,446 |
| Loans and advances to banks | 1,911,994 | 5,934,428 | 1,929,360 | - | - | 9,775,782 |
| Loans to customers | 77,656,058 | 209,017,257 | 161,104,148 | 160,023,645 | - | 607,801,108 |
| | **89,137,129** | **215,172,518** | **175,256,807** | **164,260,817** | **94,061** | **643,921,332** |
| **LIABILITIES** | | | | | | |
| Deposits and balances from banks and other financial institutions | 94,322 | 112,986,475 | 7,106,481 | - | 1,509,133 | 121,696,411 |
| Current accounts and deposits from customers | 113,173,321 | 152,001,199 | 120,510,324 | 155,973,531 | 117,153,113 | 658,811,488 |
| Other borrowed funds | 23,995 | 3,521,181 | 40,873,007 | 15,244,708 | - | 59,662,891 |
| Subordinated borrowings | - | 258,667 | 18,172,643 | - | - | 18,431,310 |
| | **113,291,638** | **268,767,522** | **186,662,455** | **171,218,239** | **118,662,246** | **858,602,100** |
| | **(24,154,509)** | **(53,595,004)** | **(11,405,648)** | **(6,957,422)** | **(118,568,185)** | **(214,680,768)** |

# 29 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 | - |
| Including REPO | 36.4 | - | - | - | - | - |
| Financial instruments at fair value through profit or loss | 6.1 | - | - | 5.9 | - | - |
| Available-for-sale financial assets | - | - | - | 4.9 | - | - |
| Held-to-maturity investments | 5.7 | - | - | - | - | - |
| Loans and advances to banks | 5.4 | 3.3 | - | 5.4 | 0.9 | - |
| Loans to customers | 11.8 | 8.5 | 21.6 | 11.0 | 8.0 | 9.0 |
| **Interest liabilities** | | | | | | |
| Deposits and balances from banks and other financial institutions | 6.1 | 2.9 | - | - | 2 | - |
| Including REPO | 17.1 | - | - | - | - | - |
| Current accounts and deposits from customers | 6.3 | 3.5 | 2.1 | 5.1 | 3.9 | - |
| Subordinated borrowings | 10.9 | 10.1 | - | 8.2 | 9.9 | - |
| Other borrowed funds | | | | | | |
| - Loans | 3.3 | 0.1 | - | 4.1 | - | - |
| - Bonds issued | 10.1 | 9.4 | - | 8.6 | 9.7 | - |

# 29 Risk management, continued

## (b) Market risk, continued

### *(i) Interest rate risk, continued*

***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) | (6,341) | (7,357) | (554,528) |
| 100 bp parallel fall | 6,962 | 6,962 | 8,148 | 580,778 |

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 | (1,383,904) | (1,383,904) | (514,806) | (514,806) |
| 100 bp parallel fall | 1,383,904 | 1,383,904 | 514,806 | 514,806 |

### *(ii) Currency risk*

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

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

# 29 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 2015:

| | KZT '000 KZT | USD '000 KZT | EUR '000 KZT | RUB '000 KZT | Other currencies '000 KZT | Total '000 KZT |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 31,794,393 | 207,528,618 | 21,406,591 | 1,193,885 | 612,919 | 262,536,406 |
| Financial instruments at fair value through profit or loss | 91,990 | - | - | - | - | 91,990 |
| Available-for-sale financial assets | 97,635 | - | - | - | - | 97,635 |
| Held-to-maturity investments | 15,471,825 | - | - | - | - | 15,471,825 |
| Loans and advances to banks | 5,824,688 | 4,493,505 | 1,005,016 | 43,337 | - | 11,366,546 |
| Loans to customers | 376,693,986 | 351,108,793 | 2,574,588 | 3,506 | - | 730,380,873 |
| Assets held for sale | 36,860,968 | 33,564,981 | 959,643 | - | - | 71,385,592 |
| Other financial assets | 527,491 | 190,956 | 34,453 | 981 | 1,944,212 | 2,698,093 |
| **Total assets** | **467,362,976** | **596,886,853** | **25,980,291** | **1,241,709** | **2,557,131** | **1,094,028,960** |
| **LIABILITIES** | | | | | | |
| Deposits and balances from banks and other financial institutions | 10,989,088 | 376,586 | 12,507 | 100 | - | 11,378,281 |
| Current accounts and deposits from customers | 281,830,039 | 508,125,969 | 25,701,147 | 1,515,786 | 385,186 | 817,558,127 |
| Other borrowed funds | 82,494,576 | 68,968,525 | - | - | - | 151,463,101 |
| Subordinated borrowings | 60,619,216 | 34,437,983 | - | - | - | 95,057,199 |
| Other financial liabilities | 623,648 | 6,602 | 7,284 | 7 | 454 | 637,995 |
| **Total liabilities** | **436,556,567** | **611,915,665** | **25,720,938** | **1,515,893** | **385,640** | **1,076,094,703** |
| The effect of derivatives held for risk management | 13,933,150 | 12,734,642 | - | - | - | 26,667,792 |
| **Net position** | **44,739,559** | **(2,294,170)** | **259,353** | **(274,184)** | **2,171,491** | **44,602,049** |

# 29 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 | Other currencies '000 KZT | Total '000 KZT |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 27,957,148 | 89,577,597 | 16,572,504 | 1,425,917 | 311,662 | 135,844,828 |
| Financial instruments at fair value through profit or loss | 97,996 | - | - | - | - | 97,996 |
| Available-for-sale financial assets | 26,246,446 | - | - | - | - | 26,246,446 |
| Loans and advances to banks | 4,544,356 | 4,516,461 | 686,274 | 28,691 | - | 9,775,782 |
| Loans to customers | 382,727,290 | 221,315,031 | 3,730,510 | 2,653 | 25,624 | 607,801,108 |
| Receivable from UniCredit Bank Austria AG under guarantee agreement | - | 115,753,133 | - | - | - | 115,753,133 |
| Other financial assets | 441,159 | 235,666 | 32,050 | 1,017 | 1,146,790 | 1,856,682 |
| **Total assets** | **442,014,395** | **431,397,888** | **21,021,338** | **1,458,278** | **1,484,076** | **897,375,975** |
| **LIABILITIES** | | | | | | |
| Deposits and balances from banks and other financial institutions | 7,305,309 | 114,388,231 | 2,828 | 43 | - | 121,696,411 |
| Current accounts and deposits from customers | 329,721,866 | 305,493,619 | 21,758,973 | 1,535,740 | 301,290 | 658,811,488 |
| Other borrowed funds | 22,664,820 | 36,857,871 | 140,200 | - | - | 59,662,891 |
| Subordinated borrowings | - | 18,431,310 | - | - | - | 18,431,310 |
| Other financial liabilities | 72,905 | 3,457 | 2,410 | 3 | 308 | 79,083 |
| **Total liabilities** | **359,764,900** | **475,174,488** | **21,904,411** | **1,535,786** | **301,598** | **858,681,183** |
| The effect of derivatives held for risk management | (27,312,000) | 27,443,444 | 221,590 | - | - | 353,034 |
| **Net position** | **54,937,495** | **(16,333,156)** | **(661,483)** | **(77,508)** | **1,182,478** | **39,047,826** |

# 29 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 Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

| | 2015 ’000 KZT | 2014 ’000 KZT |
|---|---|---|
| 25% appreciation of USD against KZT | (458,834) | (3,290,308) |
| 25% appreciation of EUR against KZT | 51,871 | (132,297) |
| 25% appreciation of RUB against KZT | (54,837) | (15,502) |
| 25% appreciation of other foreign currencies against KZT | 434,298 | 7,145 |

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 Bank 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 Bank 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
- 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 Bank 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.

# 29 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 | (1,683,174) | (120,799) |
| | **(1,683,174)** | **(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 Bank takes a long or short position in financial instrument.

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

## (c) Credit risk

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

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 Bank 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 Bank. 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 Bank with regard to credit concentration and market risks.

# 29 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 separate 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<br>'000 KZT | 2014<br>'000 KZT |
|---|---|---|
| **ASSETS** | | |
| Cash equivalents | 238,065,758 | 99,783,348 |
| Financial instruments at fair value through profit or loss | 26,759,782 | 451,143 |
| Available-for-sale financial assets | - | 26,152,385 |
| Held-to-maturity investments | 15,471,825 | - |
| Loans and advances to banks | 11,366,546 | 9,775,782 |
| Loans to customers | 730,380,873 | 607,801,108 |
| Assets held for sale | 71,385,592 | - |
| Receivable from UniCredit Bank Austria AG under guarantee agreement | - | 115,753,133 |
| Other financial assets | 2,698,093 | 1,856,682 |
| **Total maximum exposure** | **1,096,128,469** | **861,573,581** |

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 31.

As at 31 December 2015, the Bank 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 Bank's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the separate 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.

# 29 Risk management, continued

## (c) Credit risk, continued

The Bank 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 | | | | Related amounts not offset in the separate statement of financial position | | |
|---|---|---|---|---|---|---|
| **Types of financial assets/liabilities** | **Gross amounts of recognised financial asset/liability** | **Gross amount of recognised financial liability/asset offset in the separate statement of financial position** | **Net amount of financial assets/ liabilities presented in the statement of financial position** | **Financial instruments** | **Cash collateral received** | **Net amount** |
| Loans to customers | 74,513,854 | - | 74,513,854 | - | (39,748,314) | 34,765,540 |
| Accounts receivable under reverse repurchase agreements | 8,016,713 | - | 8,016,713 | (8,016,713) | | - |
| **Total financial assets** | **82,530,567** | **-** | **82,530,567** | **(8,016,713)** | **(39,748,314)** | **34,765,540** |
| Current accounts and deposits of customers | (39,748,314) | - | (39,748,314) | 39,748,314 | - | - |
| **Total financial liabilities** | **(39,748,314)** | **-** | **(39,748,314)** | **39,748,314** | **-** | **-** |

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 | | | | Related amounts not offset in the separate statement of financial position | | |
|---|---|---|---|---|---|---|
| **Types of financial assets/liabilities** | **Gross amounts of recognised financial asset/liability** | **Gross amount of recognised financial liability/asset offset in the separate statement of financial position** | **Net amount of financial assets/liabilities presented in the separate statement of financial position** | **Financial instruments** | **Cash collateral received** | **Net amount** |
| Loans to customers | 38,700,680 | - | 38,700,680 | - | (23,490,633) | 15,210,047 |
| **Total financial assets** | **38,700,680** | **-** | **38,700,680** | **-** | **(23,490,633)** | **15,210,047** |
| Current accounts and deposits of customers | (23,490,633) | - | (23,490,633) | 23,490,633 | - | - |
| **Total financial liabilities** | **(23,490,633)** | **-** | **(23,490,633)** | **23,490,633** | **-** | **-** |

# 29 Risk management, continued

## (c) Credit risk, continued

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

## (d) Liquidity risk

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

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

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

The liquidity management policy of the Bank 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 Bank as a whole.

# 29 Risk management, continued

## (d) Liquidity risk, continued

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.

# 29 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 | 250,889,371 | 11,765,852 | - | - | 262,655,223 | 262,536,406 |
| Financial instruments at fair value through profit or loss | - | - | 5,600 | 153,955 | 159,555 | 91,990 |
| Available-for-sale financial assets | 97,635 | - | - | - | 97,635 | 97,635 |
| 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 | 429,410 | 11,366,546 | 11,366,546 |
| Loans to customers | 30,160,502 | 52,768,349 | 134,166,457 | 780,468,492 | 997,563,800 | 730,380,873 |
| Assets held for sale | - | - | 71,385,592 | - | 71,385,592 | 71,385,592 |
| Other financial assets | 621,578 | 1,947,604 | 102,713 | 26,198 | 2,698,093 | 2,698,093 |
| **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** | **282,500,799** | **69,098,211** | **239,746,264** | **799,348,495** | **1,390,693,769** | **1,120,696,752** |
| **Non-derivative liabilities** | | | | | | |
| Deposits and balances from banks and other financial institutions | (470,504) | (3,361,462) | (500,941) | (7,106,400) | (11,439,307) | (11,378,281) |
| Current accounts and deposits from customers | (260,345,697) | (39,049,970) | (261,291,135) | (317,480,577) | (878,167,379) | (817,558,127) |
| Other borrowings | (47,464) | (3,554,897) | (74,913,553) | (130,069,032) | (208,584,946) | (151,463,101) |
| Subordinated borrowings | - | (3,088,740) | (6,970,521) | (154,474,568) | (164,533,829) | (95,057,199) |
| Other financial liabilities | (637,995) | - | - | - | (637,995) | (637,995) |
| **Total liabilities** | **(261,501,660)** | **(49,055,069)** | **(343,676,150)** | **(609,130,577)** | **(1,263,363,456)** | **(1,076,094,703)** |
| **Net liquidity gap on recognised financial assets and liabilities** | **20,999,139** | **20,043,142** | **(103,929,886)** | **190,217,918** | **127,330,313** | **44,602,049** |
| **Credit related commitments** | **223,715,284** | **-** | **-** | **-** | **223,715,284** | **223,715,284** |

# 29 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 | 135,844,828 | - | - | - | 135,844,828 | 135,844,828 |
| Financial instruments at fair value through profit or loss | - | - | - | 162,674 | 162,674 | 97,996 |
| Available-for-sale financial assets | 9,672,349 | - | 230,335 | 20,030,784 | 29,933,468 | 26,246,446 |
| Loans and advances to banks | 335,351 | 1,576,643 | 5,934,428 | 2,120,474 | 9,966,896 | 9,775,782 |
| Loans to customers | 16,830,318 | 68,255,041 | 161,224,292 | 491,687,360 | 737,997,011 | 607,801,108 |
| Receivable from UniCredit Bank Austria AG under guarantee agreement | - | - | 114,996,988 | - | 114,996,988 | 115,753,133 |
| Other financial assets | 358,888 | 1,296,128 | 170,746 | 30,920 | 1,856,682 | 1,856,682 |
| **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** | **163,041,734** | **71,127,812** | **282,424,429** | **514,032,212** | **1,030,626,187** | **897,729,122** |
| **Non-derivative liabilities** | | | | | | |
| Deposits and balances from banks and other financial institutions | (1,523,935) | (278) | (117,015,780) | (7,185,724) | (125,725,717) | (121,696,411) |
| Current accounts and deposits from customers | (201,428,190) | (29,341,579) | (157,008,269) | (417,151,071) | (804,929,109) | (658,811,488) |
| Other borrowed funds | (29,115) | - | (3,620,740) | (72,952,776) | (76,602,631) | (59,662,891) |
| Subordinated borrowings | - | - | (258,667) | (21,569,849) | (21,828,516) | (18,431,310) |
| Other financial liabilities | (79,083) | - | - | - | (79,083) | (79,083) |
| **Derivative liabilities** | | | | | | |
| Net settled derivatives | (113) | - | - | - | (113) | (113) |
| *Gross settled derivatives* | | | | | | |
| - Inflow | 221,590 | - | - | - | 221,590 | 221,590 |
| - Outflow | (221,703) | - | - | - | (221,703) | (221,703) |
| **Total liabilities** | **(203,060,436)** | **(29,341,857)** | **(277,903,456)** | **(518,859,420)** | **(1,029,165,169)** | **(858,681,296)** |
| **Net liquidity gap on recognised financial assets and liabilities** | **(40,018,702)** | **41,785,955** | **4,520,973** | **(4,827,208)** | **1,461,018** | **39,047,826** |
| **Credit related commitments** | **215,860,358** | **-** | **-** | **-** | **215,860,358** | **215,860,358** |

# 29 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 | 250,885,785 | 11,650,621 | - | - | - | - | - | 262,536,406 |
| Financial instruments at fair value through profit or loss | 443,950 | - | 26,224,418 | - | 91,414 | - | - | 26,759,782 |
| Available-for-sale financial assets | - | - | - | - | - | 97,635 | - | 97,635 |
| 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 | - | - | - | 11,366,546 |
| Loans to customers | 25,183,673 | 22,428,067 | 102,061,618 | 319,770,842 | 174,179,177 | - | 86,757,496 | 730,380,873 |
| Assets held for sale | - | - | 71,385,592 | - | - | - | - | 71,385,592 |
| Current tax asset | - | - | - | - | - | 1,127,869 | - | 1,127,869 |
| Investments in subsidiaries | - | - | - | - | - | 2,539,621 | | 2,539,621 |
| Property, plant and equipment and intangible assets | - | - | - | - | - | 16,600,297 | - | 16,600,297 |
| Deferred tax asset | - | - | - | 2,668,579 | - | - | - | 2,668,579 |
| Other assets | 1,714,093 | 1,952,646 | 122,058 | 9,145,335 | 7,502 | - | - | 12,941,634 |
| **Total assets** | **278,515,264** | **38,599,207** | **208,100,069** | **347,261,108** | **174,278,093** | **20,365,422** | **86,757,496** | **1,153,876,659** |
| | | | | | | | | |
| Deposits and balances from banks and other financial institutions | (466,269) | (3,304,671) | (500,941) | (7,106,400) | - | - | - | (11,378,281) |
| Current accounts and deposits from customers | (260,316,994) | (38,761,619) | (240,531,509) | (224,747,816) | (53,200,189) | - | - | (817,558,127) |
| Other borrowed funds | (45,091) | (2,935,097) | (69,022,337) | (3,789,822) | (75,670,754) | - | - | (151,463,101) |
| Subordinated borrowings | - | (2,402,353) | (481,681) | (34,001,000) | (58,172,165) | - | - | (95,057,199) |
| Other liabilities | (2,271,857) | (117,056) | (124,355) | (157,795) | (2,574) | - | - | (2,673,637) |
| **Total liabilities** | **(263,100,211)** | **(47,520,796)** | **(310,660,823)** | **(269,802,833)** | **(187,045,682)** | **-** | **-** | **(1,078,130,345)** |
| **Net position** | **15,415,053** | **(8,921,589)** | **(102,560,754)** | **77,458,275** | **(12,767,589)** | **20,365,422** | **86,757,496** | **75,746,314** |

# 29 Risk management, continued

## (d) Liquidity risk, continued

The table below show 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 | 135,844,828 | - | - | - | - | - | - | 135,844,828 |
| Financial instruments at fair value through profit or loss | - | - | 353,147 | - | 97,996 | - | - | 451,143 |
| Available-for-sale financial assets | 9,569,077 | - | 220,833 | 12,223,299 | 4,139,176 | 94,061 | - | 26,246,446 |
| Loans and advances to banks | 335,351 | 1,576,643 | 5,934,428 | 1,929,360 | - | - | - | 9,775,782 |
| Loans to customers | 9,869,447 | 26,035,925 | 119,141,660 | 191,039,967 | 164,809,667 | - | 96,904,442 | 607,801,108 |
| Current tax asset | - | - | - | - | - | 1,131,705 | - | 1,131,705 |
| Investments in subsidiaries | - | - | - | - | - | 2,871,895 | - | 2,871,895 |
| Property, plant and equipment and intangible assets | - | - | - | - | - | 16,605,289 | - | 16,605,289 |
| 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 | 3,580,043 | 36,537 | 178,560 | 5,824,984 | 10,140 | - | - | 9,630,264 |
| **Total assets** | **159,198,746** | **27,649,105** | **241,581,761** | **216,120,635** | **169,056,979** | **20,702,950** | **96,904,442** | **931,214,618** |
| Financial instruments at fair value through profit or loss | (113) | - | - | - | - | - | - | (113) |
| Deposits and balances from banks and other financial institutions | (1,603,178) | (277) | (112,986,475) | (7,106,481) | - | - | - | (121,696,411) |
| Current accounts and deposits from customers | (201,259,465) | (29,066,969) | (152,001,199) | (120,510,324) | (155,973,531) | - | - | (658,811,488) |
| Other borrowed funds | - | (23,995) | (3,521,181) | (40,873,007) | (15,244,708) | - | - | (59,662,891) |
| Subordinated borrowings | - | - | (258,667) | (18,172,643) | - | - | - | (18,431,310) |
| Other liabilities | (1,641,421) | (167,437) | (261,288) | (61,657) | (4,659) | - | - | (2,136,462) |
| **Total liabilities** | **(204,504,177)** | **(29,258,678)** | **(269,028,810)** | **(186,724,112)** | **(171,222,898)** | **-** | **-** | **(860,738,675)** |
| **Net position** | **(45,305,431)** | **(1,609,573)** | **(27,447,049)** | **29,396,523** | **(2,165,919)** | **20,702,950** | **96,904,442** | **70,475,943** |

# 29 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 42,396,166 thousand (31 December 2014: KZT 30,045,837 thousand);
- from 1 to 3 months: KZT 38,761,619 thousand (31 December 2014: KZT 29,066,969 thousand);
- from 3 to 12 months: KZT 240,531,509 thousand (31 December 2014: KZT 152,001,199 thousand);
- from 1 to 5 years: KZT 224,747,816 thousand (31 December 2014: KZT 120,510,324 thousand).
- more than 5 years: KZT 53,200,189 thousand (31 December 2014: KZT 155,973,531 thousand).

# 30 Capital management

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

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. 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 ratios, 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 statutory capital 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 Bank 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.

# 30 Risk 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 | 359,002 | 359,002 |
| Disclosed reserves | (91,784,262) | (97,818,344) |
| **Total tier 1 capital** | **76,453,210** | **70,419,128** |
| | | |
| **Tier 2 capital** | | |
| Hybrid capital instruments | 34,001,000 | 18,235,000 |
| Asset revaluation reserve | (706,896) | 56,815 |
| Subordinated debt (unamortised portion) | 38,226,605 | - |
| Equity investments stated at cost | (97,635) | (94,061) |
| **Total tier 2 capital** | **71,423,074** | **18,197,754** |
| **Total equity** | **147,876,284** | **88,616,882** |
| | | |
| **Risk-weighted assets** | | |
| Banking book | 1,051,441,775 | 665,462,438 |
| Trading book | 8,284,260 | 49,881,535 |
| **Total risk-weighted assets** | **1,059,726,035** | **715,343,973** |
| | | |
| **Total capital expressed as a percentage of risk-weighted assets (total capital ratio)** | **13.95** | **12.39** |
| **Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)** | **7.21** | **9.84** |

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

# 31 Commitments

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

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

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

The contractual amounts of commitments 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<br>'000 KZT | 2014<br>'000 KZT |
|---|---|---|
| **Contracted amount** | | |
| Loan and credit line commitments | 172,322,369 | 142,968,421 |
| Guarantees | 46,894,191 | 69,326,734 |
| Letters of credit | 4,498,724 | 3,565,203 |
| | **223,715,284** | **215,860,358** |
| Less provisions | (555,810) | (596,356) |
| Less cash collateral | (1,844,769) | (1,843,836) |
| | **221,314,705** | **213,420,166** |

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 Bank.

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 years ended 31 December 2015 and 2014 are as follows:

| | 2015<br>'000 KZT | 2014<br>'000 KZT |
|---|---|---|
| Balance at the beginning of the year | 596,356 | 441,216 |
| Net (reversal)/charge for the year | (58,301) | 156,940 |
| Effect of foreign currency translation | 17,755 | (1,800) |
| **Balance at the end of the year** | **555,810** | **596,356** |

# 32 Operating leases

**Leases as lessee**

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

| | 2015 '000 KZT | 2014 '000 KZT |
|---|---|---|
| Less than 1 year | - | 143,790 |
| Between 1 and 5 years | - | - |
| More than 5 years | - | - |
| | **-** | **143,790** |

The Bank leases a number of premises under operating leases.

During the year ended 31 December 2015 KZT 1,150,158 thousand is recognised as an expense in profit or loss in respect of operating leases (31 December 2014: KZT 1,087,604 thousand).

# 33 Contingencies

## (a) Insurance

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

## (b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial 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 Bank 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 Bank and are not recognised in the separate statement of financial position.

# 34 Related party transactions

## (a) Control relationships

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

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

The Bank'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 years 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.

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

| | 2015 '000 KZT | Average interest rate, % | 2014 '000 KZT | Average interest rate, % |
|---|---|---|---|---|
| **Separate 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 for the years 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, subsidiaries and other related parties

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

# 34 Related party transactions, continued

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

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 years ended 31 December 2015 and 2014 with other related parties are as follows:

| | 31 December 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Parent company | | Subsidiaries of the Bank | | Other subsidiaries of the Parent Company | | |
| | ’000 KZT | Average interest rate, % | ‘000 KZT | Average interest rate, % | ’000 KZT | Average interest rate, % | Total KZT’000 |
| **Statement of Financial Position** | | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | | | | | | | |
| - in other currency | - | - | 2,494 | - | - | - | 2,494 |
| Loans to customers | | | | | | | |
| - In KZT | - | - | - | - | 2,041,636 | 12.0 | 2,041,636 |
| Investments in subsidiaries | | | | | | | |
| - in KZT | - | - | 2,539,621 | - | - | - | 2,539,621 |
| Dividends receivable | - | - | 1,944,205 | - | - | - | 1,944,205 |
| Other assets | - | - | 150 | - | 53,422 | - | 53,572 |
| **LIABILITIES** | | | | | | | |
| Accounts and bank deposits | | | | | | | |
| - in KZT | - | - | 16,417 | - | - | - | 16,417 |
| - in USD | - | - | 344,656 | - | - | - | 344,656 |
| - in other currency | - | - | 11,018 | - | - | - | 11,018 |
| Current accounts and deposits from customers | | | | | | | |
| - in KZT | 4,058 | - | 939 | - | 205,432 | 0.12 | 210,429 |
| - in USD | 4,747,366 | 1.96 | 17,750 | - | 46,065 | 1.0 | 4,811,181 |
| - in other currency | 211 | - | - | - | 5,150 | - | 5,361 |
| Other liabilities | - | - | 30,633 | - | 142 | - | 30,775 |
| **Statement of comprehensive income** | | | | | | | |
| Interest income | - | - | 125,082 | - | 173,468 | - | 298,550 |
| Interest expense | (128,089) | - | - | - | (280) | - | (128,369) |
| Fee and commission income | 1,367 | - | 65,781 | - | 646,397 | - | 713,545 |
| Dividend income | - | - | 1,272,730 | - | - | - | 1,272,730 |
| Other operating income | - | - | 17,424 | - | - | - | 17,424 |
| Other general and administrative expenses | - | - | (375,703) | - | (72,237) | - | (447,940) |

# 34 Related party transactions, continued

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

| | 31 December 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Parent company | | Subsidiaries of the Bank | | Other subsidiaries of the Parent Company | | |
| | ’000 KZT | Average interest rate, % | ‘000 KZT | Average interest rate, % | ’000 KZT | Average interest rate, % | Total KZT’000 |
| **Statement of Financial Position** | | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | | | | | | | |
| - in other currency | - | - | 303 | - | - | - | 303 |
| Loans and advances to banks | | | | | | | |
| - in USD | - | - | 1,876,179 | 6.5 | - | - | 1,876,179 |
| Loans to customers | | | | | | | |
| - in USD | - | - | - | - | 2,204,303 | 5.0 | 2,204,303 |
| Investments in subsidiaries | | | | | | | |
| - in KZT | - | - | 3,306,586 | - | - | - | 3,306,586 |
| Dividends receivable | - | - | 1,265,138 | - | - | - | 1,265,138 |
| Other assets | - | - | 80 | - | 909 | - | 989 |
| **LIABILITIES** | | | | | | | |
| Accounts and bank deposits | | | | | | | |
| - in KZT | - | - | 5,865 | - | - | - | 5,865 |
| - in USD | - | - | 1,384,650 | - | - | - | 1,384,650 |
| - in other currency | - | - | 1,923 | - | - | - | 1,923 |
| Current accounts and deposits from customers | | | | | | | |
| - in KZT | 94,872 | 6.92 | 437,864 | - | 117,584 | - | 650,320 |
| - in USD | 5,404,915 | 1.62 | - | - | 524,419 | - | 5,929,334 |
| - in other currency | 1,546 | - | - | - | 55,328 | - | 56,874 |
| Other liabilities | - | - | 34,173 | - | - | - | 34,173 |
| **Statement of comprehensive income** | | | | | | | |
| Interest income | - | - | 212,827 | - | 98,067 | - | 310,894 |
| Interest expense | (160,005) | - | (75,328) | - | - | - | (235,333) |
| Fee and commission income | 3,395 | - | 55,289 | - | 42,549 | - | 101,233 |
| Dividend income | - | - | 1,863,698 | - | - | - | 1,863,698 |
| Other operating income | - | - | 24,193 | - | - | - | 24,193 |
| Other general and administrative expenses | - | - | (465,728) | - | (8,718) | - | (474,446) |

# 35 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 and receivables | Other at amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Cash equivalents | - | - | 238,065,758 | - | 238,065,758 | 238,065,758 |
| Financial instruments at fair value through profit or loss | 26,759,782 | - | - | - | 26,759,782 | 26,759,782 |
| Held-to-maturity investments | - | 15,471,825 | - | - | 15,471,825 | 15,471,825 |
| Loans and advances to banks | - | - | 11,366,546 | - | 11,366,546 | 11,366,546 |
| Loans to customers: | | | | | | |
| Loans to corporate customers | - | - | 601,033,007 | - | 601,033,007 | 595,368,702 |
| Loans to retail customers | - | - | 129,347,866 | - | 129,347,866 | 130,452,195 |
| Assets held for sale | - | | 71,385,592 | - | 71,385,592 | 71,776,640 |
| Other financial assets | - | - | 2,698,093 | - | 2,698,093 | 2,698,093 |
| | **26,759,782** | **15,471,825** | **1,053,896,862** | **-** | **1,096,128,469** | **1,091,959,541** |
| Deposits and balances from banks and other financial institutions | - | - | - | 11,378,281 | 11,378,281 | 11,378,281 |
| Current accounts and deposits from customers | - | - | - | 817,558,127 | 817,558,127 | 824,140,939 |
| Other borrowed funds | - | - | - | 151,463,101 | 151,463,101 | 154,176,575 |
| Subordinated borrowings | - | - | - | 95,057,199 | 95,057,199 | 91,230,547 |
| Other financial liabilities | - | - | - | 637,995 | 637,995 | 637,995 |
| | **-** | **-** | **-** | **1,076,094,703** | **1,076,094,703** | **1,081,564,337** |

# 35 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 and receivables | Available-for-sale | Other at amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Cash equivalents | - | 99,783,348 | - | - | 99,783,348 | 99,783,348 |
| Financial instruments at fair value through profit or loss | 451,143 | - | - | - | 451,143 | 451,143 |
| Available-for-sale financial assets | - | - | 26,152,385 | - | 26,152,385 | 26,152,385 |
| Loans and advances to banks | - | 9,775,782 | | - | 9,775,782 | 9,775,782 |
| Loans to customers: | | | | | | |
| Loans to corporate customers | - | 476,699,789 | - | - | 476,699,789 | 469,672,330 |
| Loans to retail customers | - | 131,101,319 | - | - | 131,101,319 | 126,511,564 |
| Receivable from UniCredit Bank Austria AG under guarantee agreement | - | 115,753,133 | - | - | 115,753,133 | 115,753,133 |
| Other financial assets | - | 1,856,682 | - | - | 1,856,682 | 1,856,682 |
| | **451,143** | **834,970,053** | **26,152,385** | **-** | **861,573,581** | **849,956,367** |
| Financial instruments at fair value through profit or loss | 113 | - | - | - | 113 | 113 |
| Deposits and balances from banks and other financial institutions | - | - | - | 121,696,411 | 121,696,411 | 121,696,411 |
| Current accounts and deposits from customers | - | - | - | 658,811,488 | 658,811,488 | 666,003,590 |
| Other borrowed funds | - | - | - | 59,662,891 | 59,662,891 | 58,515,433 |
| Subordinated borrowings | - | - | - | 18,431,310 | 18,431,310 | 12,606,585 |
| Other financial liabilities | - | - | - | 79,083 | 79,083 | 79,083 |
| | **113** | **-** | **-** | **858,681,183** | **858,681,296** | **858,901,215** |

# 35 Financial assets and liabilities: fair values and accounting classifications, continued

## (a) Accounting classifications and fair values, continued

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

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

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

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates, 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 Bank uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

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

As disclosed, in Note 14 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 (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.

# 35 Financial assets and liabilities: fair values and accounting classifications, continued

## (b) Fair value hierarchy

The Bank 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.
- 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 |
| | **535,940** | **26,223,842** | **26,759,782** |

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 | (113) | - | (113) |
| Available-for-sale financial assets | | | |
| - Debt and other fixed income instruments | 26,152,385 | - | 26,152,385 |
| | **26,250,268** | **353,147** | **26,603,415** |

# 35 Financial assets and liabilities: fair values and accounting classifications, continued

## (b) Fair value hierarchy, continued

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 Bank 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 Bank 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 Bank 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).

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<br>'000 KZT | 2014<br>'000 KZT |
| Balance as 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 as at 31 December** | **26,223,842** | **353,147** |

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. 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<br>'000 KZT | | 2014<br>'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 Bank'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%).

# 35 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 equivalents | 238,065,758 | - | 238,065,758 | 238,065,758 |
| Held-to-maturity investments | 15,471,825 | - | 15,471,825 | 15,471,825 |
| Loans and advances to banks | 11,366,546 | - | 11,366,546 | 11,366,546 |
| Loans to customers | 556,409,075 | 169,411,822 | 725,820,897 | 730,380,873 |
| Assets held for sale | - | 71,776,640 | 71,776,640 | 71,385,592 |
| **Liabilities** | | | | |
| Deposits and balances from banks and other financial institutions | 11,378,281 | - | 11,378,281 | 11,378,281 |
| Current accounts and deposits from customers | 824,140,939 | - | 824,140,939 | 817,558,127 |
| Other borrowed funds | 154,176,575 | - | 154,176,575 | 151,463,101 |
| 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 equivalents | 99,783,348 | - | 99,783,348 | 99,783,348 |
| Loans and advances to banks | 9,775,782 | - | 9,775,782 | 9,775,782 |
| Loans to customers | 421,115,278 | 175,068,616 | 596,183,894 | 607,801,108 |
| 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 | 121,696,411 | - | 121,696,411 | 121,696,411 |
| Current accounts and deposits from customers | 666,003,590 | - | 666,003,590 | 658,811,488 |
| Other borrowed funds | 58,515,433 | - | 58,515,433 | 59,662,891 |
| Subordinated borrowings | 12,606,585 | - | 12,606,585 | 18,431,310 |