

**NATIONAL BANK
OF THE REPUBLIC OF
KAZAKHSTAN**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2015

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the National Bank of the Republic of Kazakhstan (“the NBK”) and its subsidiaries (the NBK and its subsidiaries together – the “National Bank”) as at 31 December 2015, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Basis of Preparation described in the Note 2 to the consolidated financial statements (the “Basis of Preparation”).

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- following requirements of the Basis of Preparation; and
- preparing the consolidated financial statements on a going concern basis.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the National Bank;
- maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the National Bank and which enable them to ensure that the consolidated financial statements of the Bank comply with the requirements of the Basis of Preparation;
- maintaining statutory accounting records in compliance with legislation of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the National Bank; and
- preventing and detecting fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2015 were authorised for issuance by the National Bank’s Management Board on 18 March 2016.

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

18 March 2016
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

18 March 2016
Almaty, Kazakhstan



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050051 Almaty, 180 Dostyk Avenue,
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Independent Auditors' Report

To the Management Board of the National Bank of the Republic of Kazakhstan

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Basis of Preparation described in the Note 2 to the consolidated financial statements (the "Basis of Preparation"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

As disclosed in Note 21, the National Bank has measured unquoted equity securities stated at KZT 750,000,000 thousand as at 31 December 2015 at cost on the basis that it was unable to obtain a reliable measure of their fair value. A reliable measure of fair value could have been obtained, and therefore such investments should have been stated at fair value in accordance with the Basis of Preparation. The effects of this departure from the Basis of Preparation on available-for-sale financial assets, total comprehensive income, retained earnings and revaluation reserve for available-for-sale financial assets as at and for the year ended 31 December 2015, which would have resulted from using fair values, have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the National Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with the Basis of Preparation.

Other Matter


The consolidated financial statements of the National Bank as at and for the year ended 31 December 2014 were audited by other auditors whose report dated 17 March 2015 expressed an unmodified opinion on those statements.


Ravshan Irmatov
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
No. МФ-0000053 dated 6 January 2012



KPMG Audit LLC

State License to conduct audit No.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



18 March 2016

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 KZT'000	2014 KZT'000
Interest income	4	147,805,914	97,799,073
Interest expense	4	(15,699,507)	(4,415,774)
Net interest income		132,106,407	93,383,299
Fee and commission income	5	31,146,370	16,892,467
Fee and commission expense	6	(881,062)	(1,573,169)
Net fee and commission income		30,265,308	15,319,298
Net (loss)/gain on financial instruments at fair value through profit or loss	7	(24,226,098)	25,648,263
Net gain on available-for-sale financial assets	8	5,147,677	3,149,369
Share of gain / (loss) of associates		2,532	(275)
Other operating expenses, net	9	(152,445,975)	(5,595,661)
Operating (loss)/income		(9,150,149)	131,904,293
Charge for impairment losses	10	(6,746,770)	(135,454)
Banknotes and coins production expenses	11	(8,494,765)	(6,128,789)
Funding of third parties	12	(190,327)	(184,672)
Personnel expenses	13	(22,955,052)	(19,179,726)
Depreciation and amortisation		(3,779,843)	(3,405,325)
Other general and administrative expenses	14	(7,035,756)	(6,540,977)
(Loss)/profit before income tax		(58,352,662)	96,329,350
Income tax benefit/(expense)	15	9,793,268	(852,845)
(Loss)/profit for the year		(48,559,394)	95,476,505
(Loss)/profit attributable to:			
- Equity holders of the National Bank		(49,108,126)	95,091,593
- Non-controlling interest		548,732	384,912
(Loss)/profit for the year		(48,559,394)	95,476,505

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

18 March 2016
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

18 March 2016
Almaty, Kazakhstan

The notes on pages 14-85 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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

	2015 KZT'000	2014 KZT'000
(Loss)/profit for the year	(48,559,394)	95,476,505
Other comprehensive income, net of income tax		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Revaluation reserve for available-for-sale financial assets:		
- Net change in fair value	(45,223,583)	5,365,862
- Net change in fair value transferred to profit or loss	(2,037,233)	(3,149,369)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	<i>(47,260,816)</i>	<i>2,216,493</i>
<i>Items that will not be reclassified to profit or loss:</i>		
Net gain on foreign currency revaluation	362,204,278	327,168,944
Net gain on precious metals revaluation	976,047,771	136,601,524
Revaluation of property, plant and equipment	6,689,480	483,850
<i>Total items that will not be reclassified to profit or loss</i>	<i>1,344,941,529</i>	<i>464,254,318</i>
Other comprehensive income for the year, net of income tax	1,297,680,713	466,470,811
Total comprehensive income for the year	1,249,121,319	561,947,316
Total comprehensive income attributable to:		
- Equity holders of the National Bank	1,248,553,278	561,562,404
- Non-controlling interest	568,041	384,912
Total comprehensive income for the year	1,249,121,319	561,947,316

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

18 March 2016
 Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

18 March 2016
 Almaty, Kazakhstan

The notes on pages 14-85 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	2015 KZT'000	2014 KZT'000
ASSETS			
Cash on hand in foreign currency		211,082,236	27,872,157
Gold	17	2,576,195,433	1,348,550,016
Placements with banks and other financial institutions	18	5,331,626,307	3,211,551,064
Financial instruments at fair value through profit or loss	19	811,866,055	623,812,654
Reverse repurchase agreements	20	101,851,332	714,374,018
Available-for-sale financial assets	21	3,995,190,373	3,001,770,266
Held-to-maturity investments	22	98,113,672	58,791,034
Investments in associates		301,487	298,955
Property, equipment and intangible assets	23	61,573,716	54,385,842
Current tax asset		1,154,864	469,705
Deferred tax assets	15	31,412,330	73,196
Other assets	24	16,110,369	17,015,965
Total assets		13,236,478,174	9,058,964,872
LIABILITIES			
Currency in circulation	25	1,495,353,817	1,382,577,952
Deposits and balances from banks and other financial institutions	26	5,928,265,855	3,920,346,154
Financial instruments at fair value through profit or loss	19	2,326,043	822,371
Repurchase agreements	27	1,100,363	-
Current accounts of the National Fund of the Republic of Kazakhstan	28	1,251,089,506	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	29	883,702,465	522,688,328
Customer accounts	30	148,879,519	311,520,251
Debt securities issued	31	355,052,275	27,014,780
Reserves of guarantee fund	32	209,142,651	173,462,395
Current tax liability		677,884	10,980
Deferred tax liabilities	15	2,080,794	1,849,800
Other liabilities	33	13,542,696	38,327,456
Total liabilities		10,291,213,868	7,605,762,320
EQUITY			
Charter capital	34	20,000,000	20,000,000
Capital reserve	34	346,420,494	260,191,879
Other reserves		3,253,536	3,073,004
Revaluation reserve for property and equipment		20,699,162	16,097,528
Revaluation reserve for available-for-sale financial assets		(47,043,404)	236,721
Revaluation reserve for foreign currency and precious metals		2,336,737,887	998,485,838
(Accumulated losses)/retained earnings		(53,708,859)	151,829,992
Total equity attributable to equity holders of the National Bank		2,626,358,816	1,449,914,962
Non-controlling interest	34	318,905,490	3,287,590
Total equity		2,945,264,306	1,453,202,552
Total liabilities and equity		13,236,478,174	9,058,964,872

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

18 March 2016
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

18 March 2016
Almaty, Kazakhstan

The notes on pages 14-85 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 KZT'000	2014 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before income tax	(58,352,662)	96,329,350
<i>Adjustments for:</i>		
Depreciation and amortisation	5,694,106	4,861,502
Expenses on replenishment of reserve on deposits guarantee	10,500,000	8,500,000
Loss on compensation on deposits of individuals	77,642,305	-
Loss on non-market terms transactions	70,031,958	-
Charge for impairment losses on financial instruments	6,569,427	3,892
Charge for impairment losses on other assets and inventory	98,560	123,576
(Gain)/loss on operations with property and equipment	(1,311,659)	89,347
Amortisation of discount on debt securities issued	7,521,183	602,367
Amortisation of premium and discount on financial assets	1,963,556	10,981,416
Unrealised (gain)/loss on financial instruments at fair value through profit or loss	(936,734)	566,080
Share of (gain)/loss of associates	(2,532)	275
Cash flows from operating activities before changes in operating assets and liabilities	119,417,508	122,057,805
(Increase)/decrease in operating assets		
Gold	(251,597,646)	(356,709,192)
Placements with banks and other financial institutions	176,531,073	(2,061,293,203)
Financial instruments at fair value through profit or loss	298,497,775	(16,308,931)
Reverse repurchase agreements	612,522,686	(141,234,351)
Available-for-sale financial assets	331,953,561	(577,059,730)
Investments in associates	-	56,877
Other assets	2,274,673	(1,645,505)
Increase/(decrease) in operating liabilities		
Currency in circulation	112,775,865	(380,697,826)
Deposits and balances from banks and other financial institutions	(530,981,955)	2,687,872,845
Financial instruments at fair value through profit or loss	2,438,807	(8,155)
Repurchase agreements	1,100,363	-
Current accounts of the National Fund of the Republic of Kazakhstan	23,947,653	478,121,173
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	116,666,392	208,114,616
Customer accounts	(185,758,975)	221,567,385
Reserves of guarantee fund	25,180,257	31,304,307
Other liabilities	(28,533,829)	2,554,670
Net cash from operating activities before income tax paid	826,434,208	216,692,785
Income tax paid	(2,339,546)	(730,140)
Cash flows from operating activities	824,094,662	215,962,645
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of held-to-maturity investments	(39,318,747)	(814,717)
Purchases of property and equipment and intangible assets	(5,677,627)	(10,561,728)
Sales of property and equipment and intangible assets	796,786	4,678,245
Investment into charter capital of subsidiaries	-	161,793
Cash flows used in investing activities	(44,199,588)	(6,536,407)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 KZT'000	2014 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt securities issued	1,126,496,949	81,414,500
Repayment of debt securities issued	(805,980,638)	(58,600,000)
Investments of non-controlling interest	250,000,000	-
Cash flows from financing activities	570,516,311	22,814,500
Net increase in cash and cash equivalents	1,350,411,385	232,240,738
Effect of changes in exchange rates on cash and cash equivalents	1,126,296,034	130,986,807
Charge for impairment losses	(6,573,319)	-
Cash and cash equivalents at the beginning of the year	1,050,755,220	687,527,675
Cash and cash equivalents at the end of the year (Note 16)	3,520,889,320	1,050,755,220

Amounts of interest paid and received during the year ended 31 December 2015, are KZT 15,595,675 thousand and KZT 140,445,060 thousand, respectively, (31 December 2014: KZT 4,410,993 thousand and KZT 122,536,653 thousand, respectively).

Amounts of dividends paid and received during the year ended 31 December 2015, are KZT 28,234,846 thousand and KZT 50,425 thousand, respectively (31 December 2014: nil).

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

18 March 2016
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

18 March 2016
Almaty, Kazakhstan

The notes on pages 14-85 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to equity holders of the National Bank									
	Charter capital	Capital reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Retained earnings	Total	Non-controlling interest	Total equity
KZT'000										
Balance as at 1 January 2014	20,000,000	231,957,033	2,346,594	17,347,767	(1,979,772)	534,715,370	111,626,159	916,013,151	3,296,916	919,310,067
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	95,091,593	95,091,593	384,912	95,476,505
Other comprehensive income										
<i>Items that are or may be reclassified subsequently to profit or loss:</i>										
Net change in fair value of available-for-sale financial assets	-	-	-	-	5,365,862	-	-	5,365,862	-	5,365,862
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(3,149,369)	-	-	(3,149,369)	-	(3,149,369)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	-	2,216,493	-	-	2,216,493	-	2,216,493
<i>Items that will not be reclassified to profit or loss:</i>										
Net gain on foreign currency revaluation	-	-	-	-	-	327,168,944	-	327,168,944	-	327,168,944
Net gain on precious metals revaluation	-	-	-	-	-	136,601,524	-	136,601,524	-	136,601,524
Revaluation of property and equipment	-	-	-	483,850	-	-	-	483,850	-	483,850
<i>Total items that will not be reclassified to profit or loss</i>	-	-	-	483,850	-	463,770,468	-	464,254,318	-	464,254,318
Total other comprehensive income	-	-	-	483,850	2,216,493	463,770,468	-	466,470,811	-	466,470,811
Total comprehensive income for the year	-	-	-	483,850	2,216,493	463,770,468	95,091,593	561,562,404	384,912	561,947,316
Transfer of revaluation reserve resulting from depreciation and disposals	-	-	-	(1,734,089)	-	-	1,734,089	-	-	-
Transactions with owners recorded directly in equity:										
Addition to capital reserve and other reserves	-	28,234,846	726,410	-	-	-	(28,961,256)	-	-	-
Dividends (Note 34)	-	-	-	-	-	-	(28,234,846)	(28,234,846)	-	(28,234,846)
Acquisition of Academy "RFCA"	-	-	-	-	-	-	200,156	200,156	-	200,156
Changes in non-controlling interest share of net assets	-	-	-	-	-	-	374,097	374,097	(394,238)	(20,141)
Total transactions with owners	-	28,234,846	726,410	-	-	-	(56,621,849)	(27,660,593)	(394,238)	(28,054,831)
Balance as at 31 December 2014	20,000,000	260,191,879	3,073,004	16,097,528	236,721	998,485,838	151,829,992	1,449,914,962	3,287,590	1,453,202,552

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

KZT'000	Attributable to equity holders of the National Bank						Accumulated losses	Total	Non-controlling interest	Total equity
	Charter capital	Capital reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals				
Balance as at 1 January 2015	20,000,000	260,191,879	3,073,004	16,097,528	236,721	998,485,838	151,829,992	1,449,914,962	3,287,590	1,453,202,552
Total comprehensive income										
Loss for the year	-	-	-	-	-	-	(49,108,126)	(49,108,126)	548,732	(48,559,394)
Other comprehensive income										
<i>Items that are or may be reclassified subsequently to profit or loss:</i>										
Net change in fair value of available-for-sale financial assets	-	-	-	-	(45,242,892)	-	-	(45,242,892)	19,309	(45,223,583)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(2,037,233)	-	-	(2,037,233)	-	(2,037,233)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	-	(47,280,125)	-	-	(47,280,125)	19,309	(47,260,816)
<i>Items that will not be reclassified to profit or loss:</i>										
Net gain on foreign currency revaluation	-	-	-	-	-	362,204,278	-	362,204,278	-	362,204,278
Net gain on precious metals revaluation	-	-	-	-	-	976,047,771	-	976,047,771	-	976,047,771
Revaluation of property and equipment	-	-	-	6,689,480	-	-	-	6,689,480	-	6,689,480
<i>Total items that will not be reclassified to profit or loss</i>	-	-	-	6,689,480	-	1,338,252,049	-	1,344,941,529	-	1,344,941,529
Total other comprehensive income	-	-	-	6,689,480	(47,280,125)	1,338,252,049	-	1,297,661,404	19,309	1,297,680,713
Total comprehensive income for the year	-	-	-	6,689,480	(47,280,125)	1,338,252,049	(49,108,126)	1,248,553,278	568,041	1,249,121,319
Transfer of revaluation reserve resulting from depreciation and disposals	-	-	-	(2,087,846)	-	-	2,087,846	-	-	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

KZT'000	Attributable to equity holders of the National Bank							Total	Non-controlling interest	Total equity
	Charter capital	Capital reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses			
Transactions with owners recorded directly in equity:										
Addition to capital reserve and other reserves (Note 34)	-	86,228,615	188,664	-	-	-	(86,444,665)	(27,386)	27,386	-
Loss on transactions on non-market terms, net of tax of KZT 17,927,161 thousand (Note 1)	-	-	-	-	-	-	(71,708,642)	(71,708,642)	-	(71,708,642)
Non-controlling interest in "Fund of Problem Loans" JSC (Note 34)	-	-	-	-	-	-	-	-	314,946,333	314,946,333
Change in investments in subsidiaries	-	-	(8,132)	-	-	-	(365,264)	(373,396)	76,140	(297,256)
Total transactions with owners	-	86,228,615	180,532	-	-	-	(158,518,571)	(72,109,424)	315,049,859	242,940,435
Balance as at 31 December 2015	20,000,000	346,420,494	3,253,536	20,699,162	(47,043,404)	2,336,737,887	(53,708,859)	2,626,358,816	318,905,490	2,945,264,306

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Akishev D.T.
Governor

18 March 2016
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

18 March 2016
Almaty, Kazakhstan

The notes on pages 14-85 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. BACKGROUND

Principal activities

These consolidated financial statements include the consolidated financial statements of the National Bank of the Republic of Kazakhstan (“the NBK”) and its subsidiaries (together referred to as “the National Bank”).

The NBK was established in accordance with the Resolution of the Supreme Council of the Republic of Kazakhstan No. 2134-XII dated 13 April 1993. Pursuant to this Resolution the State Bank of Kazakh SSR was renamed as the National Bank of the Republic of Kazakhstan.

The primary role of the NBK is ensuring price stability in the Republic of Kazakhstan. The NBK has the following goals: development and implementation of the monetary policy of the state; ensuring functioning of payment systems; exchange regulation and exchange control; ensuring stability of the financial system, regulation; control and monitoring of the financial market and financial organizations and other parties within its competency; maintaining proper level of protection of the rights and legitimate interests of the consumers of financial services; accomplishment of statistical activities in the field of monetary statistics and external sector statistics; other tasks in accordance with the laws of the Republic of Kazakhstan and the acts of the President of the Republic of Kazakhstan.

According to its mission, the National Bank exercises the following main functions: developing and implementation of the monetary policy in the Republic of Kazakhstan; acts as the only issuer of banknotes and coins in the Republic of Kazakhstan and organizes currency circulation on the territory of the Republic of Kazakhstan; currency regulation and currency control in the Republic of Kazakhstan; performs management of the gold and currency reserves of the NBK; regulates the activity of the financial market and financial organizations and other entities within its competence; performs regulation, control and supervision of the financial market and financial organisations, as well as other entities in accordance with the Laws of the Republic of Kazakhstan; performs trust management of the National Fund the Republic of Kazakhstan based on the agreement between the Government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan; performs trust management of the pension assets of JSC “Unified National Pension Fund” (“UNPF”) based on the agreement between the National Bank and the unified pension fund; exercises other functions and authorities stated in the Law “On the National Bank of the Republic of Kazakhstan”, other laws of the Republic of Kazakhstan and Resolutions of the President of the Republic of Kazakhstan.

The address of the NBK’s registered office is 21, Micro District Koktem-3, Almaty 050040. As at 31 December 2015 the NBK has 17 branches and 15 subsidiaries located in the Republic of Kazakhstan and 1 representative office in Moscow, Russian Federation.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. BACKGROUND, CONTUNUED

Principal activities, continued

All the subsidiaries are registered in the Republic of Kazakhstan. The subsidiaries are as follows:

Name	Year of establishment	Principal activities	Ownership, %	
			2015	2014
“Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” RSE	1994	Coins manufacturing	100.00	100.00
“Kazakhstan Interbank Settlement Centre of the National Bank of Kazakhstan” RSE	1996	Electronic cash transfers	100.00	100.00
“Banking Service Bureau of the National Bank of the Republic of Kazakhstan” JSC	1996	Software maintenance and development	100.00	100.00
“Kazakhstan Deposit Insurance Fund” JSC	1999	Individual deposit guarantee	100.00	100.00
“Banknote Factory of National Bank of the Republic of Kazakhstan” RSE	2004	Banknote manufacturing	100.00	100.00
“Reserve Centre of the National Bank of the Republic of Kazakhstan “Q-BRO” JSC	2007	Ensuring the smooth functions of IT of the NBK	100.00	100.00
"The Academy of the Regional Financial Center of Almaty city" JSC	2007	Delivering professional training programmes of postgraduate education	100.00	100.00
“Activity Support Center of the National Bank of the Republic of Kazakhstan” JSC	2011	Transportation services, economic activity on property management	100.00	100.00
“Fund of Problem Loans” JSC	2011	Promotion of measures on quality improvement for credit portfolios of second-tier banks	100.00	100.00
“National Investment Corporation of the National Bank of Kazakhstan” JSC	2012	Management of assets of the National Fund of the Republic of Kazakhstan and gold and foreign currency assets of the NBK, management of pension assets	100.00	100.00
“State Credit Bureau” JSC	2012	Forming of credit histories and credit reports	100.00	100.00
“Integrated Securities Registrar” JSC	2012	Maintaining a registry system for securities holders	98.50	98.53
“Central Securities Depository” JSC	1996	Depository activity	72.40	72.84
"Rating Agency "Regional Financial Center of Almaty city" JSC	2007	Assigning and indexation of credit ratings	57.00	57.00
“Kazakhstan Stock Exchange” JSC	1993	Organization and maintenance of financial markets	50.21	51.49

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. BACKGROUND, CONTUNUED

Principal activities, continued

In 2015 in accordance with the laws of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” of 30 March 1995, "On Joint Stock Companies" of 13 May 2003, “On State Property” of 1 March 2011 and subclause 37 of clause 23 of the "Statute of the National Bank of the Republic of Kazakhstan" approved by the Decree of the President of the Republic of Kazakhstan of 31 December 2003, the Management Board of the NBK enacted to reorganise the republican state enterprise operating on the basis of the right of economic management RSE “Banking Service Bureau of the National Bank of the Republic of Kazakhstan” into joint stock company “Banking Service Bureau of the National Bank of the Republic of Kazakhstan” (the "Banking Service Bureau of the NBRK” JSC"). The sole founder and shareholder of "Banking Service Bureau of the NBRK” JSC is the NBK.

The financial statements of “Academy “Regional Financial Center of Almaty” JSC and “Rating Agency “Regional Financial Center of Almaty” JSC are not consolidated into the consolidated financial statements of the National Bank for the year ended 31 December 2014, as the effect on the consolidated financial statements is immaterial.

In 2014 in accordance with the Decree of the President of the Republic of Kazakhstan dated 3 June 2014 No. 857, for the purpose of banking sector recovery the special purpose funds for the total amount of KZT 250,000,000 thousand were transferred for capitalization of “Fund of Problem Loans” JSC.

In 2015, in accordance with the Law of the Republic of Kazakhstan dated 28 November 2014 “On the National Budget for 2015 – 2017”, the Government of the Republic of Kazakhstan, on the basis of its Decree dated 25 April 2015, No.325 “On approval of the Rules of utilisation of reserves of the Government of the Republic of Kazakhstan and local executive bodies and declaring invalid certain decisions of the Government of the Republic of Kazakhstan”, resolved to allocate KZT 64,946,332 thousand to the Ministry of Finance of the Republic of Kazakhstan from the reserve of the Government of the Republic of Kazakhstan budgeted in 2015 for the emergency needs, to increase the share capital of “Fund of Problem Loans” JSC with the purpose to support the lending of economy in tenge by the banks whose assets deteriorated under the new conditions. The allocated funds are utilised under direct control of the Ministry of Finance of the Republic of Kazakhstan.

In 2015, to maintain stability of the financial system and enhance quality of assets of the second-tier banks the Management Board of the National Bank resolved to approve an increase in charter capital of “Fund of Problem Loans” JSC by placement of 12,000 authorised preference shares (2014: 50,000 shares and one preference share) for the total amount of KZT 64,946,332 thousand (2014: KZT 250,000,000 thousand and with the nominal amount of KZT 1,000, respectively). The money was credited to the cash control account of “Fund of Problem Loans” JSC with the Treasury Department of the city of Almaty of the Treasury Committee of the Ministry of Finance of the Republic of Kazakhstan.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. BACKGROUND, CONTUNUED

Principal activities, continued

In 2015 KZT 250,000,000 thousand was allocated to a second-tier bank in the form of the tied financing to reduce the amount of loans with principal and/or accrued interest overdue for more than 90 calendar days, less provisions created against them; the funds bear the interest rate of 5.5.% and mature in 2025. The National Bank recognised a long-term deposit at fair value at the initial recognition measured using the market rate of 11.80% at the date of the closing the deposit placement. The difference between the nominal value and fair value at the initial recognition in amount of KZT 71,708,642 thousand (net of tax of KZT 17,927,161 thousand) was recognised within equity as the decision on distribution of the long-term deposit and its key parameters was made by the Government of the Republic of Kazakhstan.

Kazakhstan business environment

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

2. BASIS OF PREPARATION

Statement of compliance

In accordance with the Law of the Republic of Kazakhstan No. 2155 dated 30 March 1995 "On the National Bank of the Republic of Kazakhstan" the NBK determines its accounting policies for itself based on International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been designed to present fairly the financial position of the NBK and the results of its operations and have been prepared in accordance with the accounting policy of the NBK which was approved by the Board of Directors of the National Bank on 27 June 2013 and which the National Bank considers to be appropriate to the nature of central bank activity. The accounting policy of the National Bank is based on IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") with principal modifications as described below.

- Gold and gold deposits are revalued based on market value of gold; gains resulting from the mark to market of gold and foreign currency assets and liabilities are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2. BASIS OF PREPARATION, CONTINUED

Statement of compliance, continued

- Contributions received from the participating banks and expenses on replenishment of reserve on deposits guarantee in accordance with the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan” with amendments as at 24 November 2015 are recognised as reserves of guarantee fund within liabilities.
- Deals concluded for the purpose of executing monetary policy and ensuring stability of the financial system are recognized at either nominal or amortized cost, or at cost depending on their content and economic nature and/or goals and objectives of the National Bank. In these consolidated financial statements such deals include swap deals with second-tier banks and other financial institutions that represent derivatives but are presented as “placements with banks and other financial institutions” and “deposits and balances from banks and other financial institutions” (Notes 18 and 26).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that gold, financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value, and buildings, constructions, land plots and vehicles are stated at revalued amounts.

Functional and presentation currency for the purposes of consolidated financial statements

The functional currency of the National Bank and of its subsidiaries is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The KZT is also the presentation currency for the purposes of these consolidated financial statements.

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

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs 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:

- statement of compliance - Note 2;
- financial assets and liabilities: fair values and accounting classifications - Note 41.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

Subsidiaries

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

Funds management

The National Bank manages and administers assets held in investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the National Bank controls the entity.

Acquisitions and disposals of non-controlling interests

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

Associates

Associates are those entities in which the National Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the National Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the National Bank's share of losses exceeds the National Bank's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the National Bank has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the National Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investments in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Non-controlling interests

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

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

Gold

Gold comprises gold deposits with foreign banks and gold bullion in depositories. Gold is measured at market price at the reporting date. Market price is determined by reference to the London Bullion Market Association AM fixings. Gains on revaluation of gold are recorded directly in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of gold is not transferred to profit or loss.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the National Bank entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date of the transaction. Gain on foreign currency differences arising on retranslation are recognised in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of foreign currency is not transferred to profit or loss.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with 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 National Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments

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 National 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 National Bank has an intention and ability to hold them for the foreseeable future or until maturity.

Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

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

- the National Bank upon initial recognition designates as at fair value through profit or loss;
- the National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the National 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.

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

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

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.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

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 National Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the National 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 National 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 National 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 National Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price. Where the National Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the National Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the National Bank believes a third-party market participant would take them into account in pricing a transaction.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

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.

Derecognition

The National 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 National 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 National Bank is recognised as a separate asset or liability in the consolidated statement of financial position. The National Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

In transactions where the National 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. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised

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

The National Bank writes off assets deemed to be uncollectible.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability are recorded as repo agreements in the separate line of the consolidated statement of financial position. 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 reverse repurchase agreements in the separate line of the consolidated statement of financial position. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repo agreement using the effective interest method.

Derivatives

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.

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

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

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

Forward, futures, option and swap deals concluded for the purpose of the monetary policy execution are recognized at either nominal or amortized cost, or at cost depending on their content and economic nature.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Offsetting

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

Currency in circulation

Currency in circulation is recorded in the consolidated statement of financial position at nominal value.

Currency in circulation is recorded as a liability when cash is issued by the National Bank to commercial banks. Banknotes and coins in national currency held in the vaults and cash offices is not included in the currency in circulation.

Banknotes and coins production expense include expenses for security, transportation, insurance and other expenses. Banknotes and coins production expense are recognised upon delivery to the vaults and recorded as a separate item in the consolidated income statement.

Reserves of guarantee fund

According to the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan” (with amendments dated 24 November 2014) the subsidiary of the National Bank – “Kazakhstan Deposit Insurance Fund” JSC is due to compensate the participating banks’ depositors amounts up to a certain level in case of forced liquidation of a participating bank. The National Bank establishes a reserve of guarantee funds to accumulate contributions of the banks that participate in the deposit guarantee scheme. In accordance with the National Bank’s accounting policy reserves of guarantee funds are formed at the expense of the accumulated contributions received from the participating banks and expenses of the national Bank.

Fiduciary assets

The National Bank provides custody services that result in holding of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the National Bank. Commissions received from such business are shown within fee and commission income in profit or loss.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and equipment

Owned assets

Items of property and equipment are stated in the consolidated financial statements at cost less accumulated depreciation and impairment losses, except for buildings, constructions, land plots and vehicles, which are stated at revalued amounts as described below.

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.

Revaluation

Buildings, constructions, land plots and motor vehicles are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings, constructions, land plots and vehicles being revalued. A revaluation increase on buildings, constructions, land plots and vehicles is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss.

A revaluation decrease on buildings, constructions, land plots and vehicles is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of the equipment of RSE “Banknote Factory of National Bank of the Republic of Kazakhstan” and RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” used in production of the banknotes and coins is charged to profit and loss on a unit of production method over the expected output 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 and constructions	7 to 50 years
Furniture and equipment	3 to 10 years
Computer equipment	3 to 6 years
Motor vehicles	5 to 25 years

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 1 to 10 years.

Impairment

The National 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 National Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the 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 National Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of placements with banks and other financial institutions, reverse repurchase agreements, held-to-maturity investments and other financial assets (loans and receivables). The National Bank reviews its loans and receivables to assess impairment on a regular basis.

The National 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 National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Impairment, continued

Financial assets carried at amortised cost, continued

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 National Bank uses its experience and judgment to estimate the amount of any impairment loss.

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

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

Financial assets carried at cost

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

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

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Impairment, continued

Available-for-sale financial assets, continued

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

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

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

Provisions

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

Credit related commitments

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

Financial guarantees are contracts that require the National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Taxation

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax and value-added tax.

Subsidiaries and associate organisations of the NBK are subject to all taxes.

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

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

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

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

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

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

Income and expense recognition

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

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

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

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Segment reporting

An operating segment is a component of a National Bank that engages in the activities from which it may earn revenues and incur the expenses (including revenues and expenses relating to transactions with other components of the National 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.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Basis of Preparation. The National Bank plans to adopt these pronouncements when they become effective. The National Bank of Kazakhstan has not assessed the possible impact of these new standards on its consolidated financial statements.

IFRS 9 Financial instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The National Bank is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The National Bank is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. NET INTEREST INCOME

	2015	2014
	KZT'000	KZT'000
Interest income		
Placements with banks and other financial institutions	62,110,240	20,260,245
Available-for-sale financial assets	57,829,642	39,976,377
Reverse repurchase agreements	21,926,709	33,693,119
Held-to-maturity investments	5,908,559	3,834,146
Other	30,764	35,186
	147,805,914	97,799,073
Interest expense		
Debt securities issued	(7,521,183)	(602,367)
Deposits and balances from banks and other financial institutions	(6,132,507)	(2,839,955)
Repurchase agreements	(1,270,386)	(57,454)
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	(775,431)	(915,998)
	(15,699,507)	(4,415,774)
	132,106,407	93,383,299

5. FEE AND COMMISSION INCOME

	2015	2014
	KZT'000	KZT'000
Pension asset management fee	19,223,069	5,285,629
Asset management fee	9,921,658	9,360,630
Depository operations and servicing of financial markets and transfer operations	2,001,643	2,246,208
	31,146,370	16,892,467

Fee and commission income on asset management operations consists of income for asset management services provided to the National Fund of the Republic of Kazakhstan and JSC “State Social Insurance Fund”. The National Bank manages the assets of these organisations investing funds received in various financial instruments in accordance with customers’ instructions.

Fee and commission income on pension asset management was received from UNPF JSC and in 2015 includes a fee for exceeding the target rate of return in the amount of KZT 16,172,374 thousand.

Income on depository operations and servicing of financial markets consists of income from core activities of “Central Securities Depository” JSC, “Kazakhstan Stock Exchange” JSC.

Income on transfer operations consists of commission income from inter-banking, money transfers and clearing operations of “Kazakhstan Interbank Settlement Centre of the National Bank of Kazakhstan” RSE.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

6. FEE AND COMISSION EXPENSE

	2015 KZT'000	2014 KZT'000
Asset management services	655,134	1,054,317
Broker operations	184,814	410,218
Custodian services	31,226	101,620
Other	9,888	7,014
	881,062	1,573,169

7. NET (LOSS)/GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 KZT'000	2014 KZT'000
Net (loss)/gain on assets under external management	(26,205,267)	27,835,789
Net gain/(loss) on operations with other derivative financial instruments	1,979,169	(2,187,526)
	(24,226,098)	25,648,263

8. NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 KZT'000	2014 KZT'000
Dividends	3,110,444	-
Sale of debt instruments	2,037,233	3,227,247
Sale of equity investments	-	(77,878)
	5,147,677	3,149,369

9. OTHER OPERATING EXPENSES, NET

	2015 KZT'000	2014 KZT'000
Sale of printed products	3,188,528	1,294,879
Sale of coins for collection	2,184,729	1,821,779
Sale of medals, badges and jewellery	67,838	147,843
Rent of property and equipment	(1,167)	5,885
Replenishment of reserve on deposits guarantee	(10,500,000)	(8,500,000)
Loss on non-market terms transactions	(70,031,958)	-
Compensation on deposits of individuals (Note 26)	(77,642,305)	-
Other income/(expenses), net	288,360	(366,047)
	(152,445,975)	(5,595,661)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

9. OTHER OPERATING EXPENSES, NET, CONTINUED

To carry out activity for protection of the interests of the participating bank's depositors, in accordance with the Law "On obligatory guaranteeing of deposits placed with second-tier banks of the Republic of Kazakhstan", during 2015 "Kazakhstan Deposit Insurance Fund" JSC contributed KZT 10,500,000 thousand (2014: KZT 8,500,000 thousand) to a special reserve at the expense of its costs.

Pursuant to the Action Plan for implementation of the orders of the Head of the State given at the extended meeting of the Government of the Republic of Kazakhstan held on 11 February 2015, and given the measures of the "special period" policy approved by the Protocol of the meeting of the Government of the Republic of Kazakhstan dated 20 February 2015 No.10, and Program of refinancing of the mortgage housing loans dated 24 April 2015 No.69, the National Bank increased the charter capital of the "Fund of Problem Loans" JSC. "Fund of Problem Loans" JSC ensured the purposeful placement of the funds received with the second-tier banks, in accordance with the limits of primary placement of funds established for the second-tier banks. The National Bank recognised these long-term deposits at the fair value at initial recognition determined using the market rates of 8.71% to 10.44% at the date of settlement of the deposits. The difference between the nominal value and the fair value at the initial recognition in the amount of KZT 70,031,958 thousand was recognised within profit or loss as the decision on distribution of long-term deposit and its key parameters was made by the NBK.

10. CHARGE FOR IMPAIRMENT LOSSES

	2015 KZT'000	2014 KZT'000
Nostro accounts with foreign banks	(6,573,319)	-
Negative revaluation of property and equipment	(78,783)	(7,986)
Other assets	(77,695)	(112,285)
Inventories	(20,865)	(11,291)
Investments held-to-maturity	3,892	(3,892)
	(6,746,770)	(135,454)

11. BANKNOTES AND COINS PRODUCTION EXPENSES

	2015 KZT'000	2014 KZT'000
Banknotes production	6,904,890	4,075,049
Coins production	1,484,766	1,958,816
Other	105,109	94,924
	8,494,765	6,128,789

Banknotes and coins production expenses for 2015 include depreciation charge of equipment of KZT 1,722,630 thousand (2014: KZT 1,018,131 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

12. FUNDING OF THIRD PARTIES

	2015 KZT'000	2014 KZT'000
Funding of the Masters' Studies at Kazakh Economic University in the name of T. Ryskulov	190,327	184,672
	190,327	184,672

13. PERSONNEL EXPENSES

	2015 KZT'000	2014 KZT'000
Payroll	11,936,015	10,058,179
Bonuses	8,612,602	6,970,527
Social tax	1,498,812	1,414,391
Insurance	550,831	356,786
Training	164,698	201,380
Other	192,094	178,463
	22,955,052	19,179,726

14. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2015 KZT'000	2014 KZT'000
Information and other services	1,697,303	1,702,481
Taxes other than income tax	1,085,281	827,800
Communication	693,106	625,542
Business trip expenses	672,060	543,731
Repair and maintenance of property and equipment	596,830	613,745
Inventory	335,251	405,710
Rent	318,879	277,986
Security	286,333	266,741
Transportation	237,618	162,223
Representative expenses	212,927	190,800
Gratuitous assignment of property	199,653	216,318
Utilities	175,058	171,696
Advertising, announcements and presentations in mass media	57,257	119,682
Insurance of property and equipment	36,045	34,118
Other	432,155	382,404
	7,035,756	6,540,977

15. INCOME TAX BENEFIT/(EXPENSE)

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax. Subsidiaries and associate organisations of the NBK are subject to income tax.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

15. INCOME TAX BENEFIT/(EXPENSE), CONTINUED

	2015 KZT'000	2014 KZT'000
Current tax expense	(3,380,544)	(524,670)
Movement in deferred tax assets/liabilities due to origination and reversal of temporary differences	13,173,812	(328,175)
Total income tax benefit/(expense)	9,793,268	(852,845)

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

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

	2015 KZT'000	%	2014 KZT'000	%
Loss/(profit) before income tax	58,352,662	100.00	(96,329,350)	100.00
Income tax at the applicable tax rate	11,670,532	20.00	(19,265,870)	20.00
Effect of (non-deductible)/non-taxable operations of the NBK	(3,721,517)	(6.38)	17,205,678	(17.86)
Non-taxable income on securities	2,509,761	4.30	2,025,040	(2.10)
Non-deductible expense	(238,191)	(0.41)	(405,857)	0.42
Other non-deductible expenses	(427,317)	(0.73)	(411,836)	0.43
	9,793,268	16.78	(852,845)	0.89

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 as at 31 December 2015 and 2014. 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 National Bank's ability to claim deductions in future periods.

The deductible temporary differences do not expire under current tax legislation.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

15. INCOME TAX BENEFIT/(EXPENSE), CONTINUED

Deferred tax assets and liabilities, continued

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

KZT'000	Balance 1 January 2015	Recognised in profit or loss	Recognised directly in equity	Balance 31 December 2015
Placements with banks and other financial institutions	-	13,329,316	17,927,161	31,256,477
Property, equipment and intangible assets	(1,898,567)	(232,206)	242,101	(1,888,672)
Other assets	13,751	5,257	2	19,010
Other liabilities	90,985	75,737	(217,861)	(51,139)
Tax loss carry-forward	174,275	(131,104)	(21,691)	21,480
	(1,619,556)	13,047,000	17,929,712	29,357,156
Unrecognised deferred tax assets	(157,048)	126,812	4,616	(25,620)
Recognised deferred tax assets	(1,776,604)	13,173,812	17,934,328	29,331,536
Deferred tax assets	73,196	13,396,788	17,942,346	31,412,330
Deferred tax liabilities	(1,849,800)	(222,976)	(8,018)	(2,080,794)

KZT'000	Balance 1 January 2014	Recognised in profit or loss	Recognised directly in equity	Balance 31 December 2014
Property, equipment and intangible assets	(1,590,115)	(304,980)	(3,472)	(1,898,567)
Other assets	28,745	(19,007)	4,013	13,751
Other liabilities	51,388	(4,057)	43,654	90,985
Tax loss carry-forward	-	132,142	42,133	174,275
	(1,509,982)	(195,902)	86,328	(1,619,556)
Unrecognised deferred tax assets	-	(132,273)	(24,775)	(157,048)
Recognised deferred tax liabilities	(1,509,982)	(328,175)	61,553	(1,776,604)
Deferred tax assets	4,510	10,902	57,784	73,196
Deferred tax liabilities	(1,514,492)	(339,077)	3,769	(1,849,800)

As at 31 December 2015 deferred tax assets in the amount of KZT 31,262,391 thousand was recognised by the subsidiary of NBK, Fund of Problem Loans JSC. Management of the company assessed the recoverability of deferred tax assets and concluded that the company will have sufficient taxable income and it is appropriate to recognise deferred tax assets

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

16. CASH AND CASH EQUIVALENTS

	2015 KZT'000	2014 KZT'000
Deposits in foreign banks with the original maturity of less than three months	2,970,731,078	853,379,765
Nostro accounts in foreign banks	338,521,983	166,668,527
Cash on hand in foreign currency	211,082,236	27,872,157
Tenge denominated deposits with Kazakhstan banks with the original maturity of less than three months	4,038,277	-
Nostro accounts in Kazakhstan banks	2,193,962	2,355,099
Accounts with the Bank for International Settlements	895,103	479,672
Total cash and cash equivalents	3,527,462,639	1,050,755,220
Impairment allowance	(6,573,319)	-
Cash and cash equivalents less impairment allowance in the consolidated statement of cash flows	3,520,889,320	1,050,755,220

As at 31 December 2015 nostro accounts in foreign banks included restricted for use uninvested cash under management of “National Investment Corporation of the National Bank of Kazakhstan” JSC (the “NIC NBK” JSC) and NICK Master Fund Ltd in amount of KZT 3,527,676 thousand (31 December 2014: nil) that was not included in cash equivalents.

Cash and cash equivalents were not past due as at 31 December 2015 and 31 December 2014.

17. GOLD

	2015 KZT'000	2014 KZT'000
Gold deposits with foreign banks:		
- rated from AA- to AA	443,862,308	172,069,919
- rated from A to A+	403,099,606	339,781,502
	846,961,914	511,851,421
Gold bullion in NBK depository	1,403,575,261	639,520,275
Gold bullion in foreign bank depositories		
- rated AAA	325,658,258	197,178,320
	2,576,195,433	1,348,550,016

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

18. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015 KZT'000	2014 KZT'000
Placements with foreign banks and other financial institutions		
Nostro accounts		
- rated A- to AAA	258,130,291	156,662,276
- rated BBB- to BBB+	79,536,513	-
- rated BB- to BB+	465,318	5,428,868
- rated B- to B+	64,594	43,195
- not rated	3,852,943	4,534,188
Total nostro accounts	342,049,659	166,668,527
Impairment allowance	(6,573,319)	-
Nostro accounts less impairment allowance	335,476,340	166,668,527
Deposits in bank rated AA+	2,970,731,078	853,379,765
Placements with other financial institutions		
- rated A+ to AAA	84,249,484	30,227,500
- not rated	-	12,675,562
Total placements with other financial institutions	84,249,484	42,903,062
Other accounts and deposits		
Non-invested cash under external management (Note 19)		
- rated AA-	83,340	-
- rated A- to A+	4,131,957	8,559,189
- rated BBB+	9,892,024	9,477,024
- not rated	-	1,923,415
	14,107,321	19,959,628
Accounts with International Monetary Fund	201,733,368	96,588,684
Receivables on foreign currencies transactions	3,707,332	155,082,106
Accounts with Bank of International Settlements	895,103	479,672
Total other accounts and deposits	220,443,124	272,110,090
Total accounts and deposits in foreign banks and other financial institutions	3,610,900,026	1,335,061,444
Accounts, bank deposits and receivables from Kazakhstan banks and other financial institutions		
Nostro accounts of subsidiaries with second tier banks		
- rated BBB-	104,359	-
- rated BB- to BB+	1,639,244	1,898,905
- rated B- to B+	432,870	440,092
- rated CCC	-	2,371
- not rated	17,489	13,731
Total nostro accounts	2,193,962	2,355,099
Deposits in banks*		
- rated BBB- to BBB	60,781,794	-
- rated BB- to BB+	490,962,589	693,064,433
- rated B- to B+	1,078,419,223	1,140,590,568
- rated CCC	-	27,748,651
- not rated	2,345,376	6,576,213
Total deposits in banks	1,632,508,982	1,867,979,865
Funds of "Fund of Problem Loans" JSC held with Ministry of Finance of the Republic of Kazakhstan (Note 1)	64,946,332	-
Receivables from "UAPF" JSC	16,469,539	3,192,028
Receivables from Ministry of Finance of the Republic of Kazakhstan	4,607,466	2,962,628
Total accounts, bank deposits and receivables from Kazakhstan banks and other financial institutions	1,720,726,281	1,876,489,620
	5,331,626,307	3,211,551,064

* include the asset part of the swap deals in the amount of KZT 1,450,736,514 thousand (31 December 2014: KZT 1,870,458,083 thousand) that is accounted for not as derivatives, but as deposits in banks and is measured at nominal in accordance with the Basis of Preparation (Note 2)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

18. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

As at 31 December 2015 the National Bank has placements and deposits in one bank-counterparty (31 December 2014: one), in the amount exceeding 10% of equity. The total amount of that balance is KZT 2,970,731,078 thousand (31 December 2014: KZT 853,379,765 thousand).

As at 31 December 2015 the “nostro” accounts opened in local banks in the amounts of KZT 2,193,962 thousand (31 December 2014: KZT 2,355,099 thousand), belong to subsidiary companies of the National Bank.

19. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss consisted of the following at 31 December 2015 and 31 December 2014:

	2015	2014
	KZT'000	KZT'000
Assets		
Assets under external management		
Corporate bonds	431,438,090	291,932,149
Government bonds	365,547,146	202,281,410
Agency bonds	13,391,063	-
Forwards	696,808	403,558
Futures	12,853	20,509
Corporate shares	17,615	129,084,671
Option	-	90,357
Assets under own management		
Swap	731,090	-
Futures	15,939	-
Forwards	15,451	-
Total financial instruments at fair value through profit or loss	811,866,055	623,812,654
Liabilities		
Liabilities under external management		
Futures	(28,238)	(73,977)
Forwards	(10,106)	(182,314)
Liabilities under own management		
Swaps	(2,285,996)	(566,080)
Forwards	(1,703)	-
Total financial instruments at fair value through profit or loss	(2,326,043)	(822,371)

As at December 2015 a portion of financial instruments at fair value through profit and loss was under the management of five (31 December 2014: nine) foreign asset management organisations. Depending on the mandate the managers invest into fixed income and equity instruments and are also allowed to use derivative instruments.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

19. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

The portfolios under external management pursue the following investment strategies:

<u>External manager</u>	<u>2015 KZT'000</u>	<u>2014 KZT'000</u>	<u>Strategy</u>	<u>Index</u>
Nomura Asset Management U.K. Limited	393,105,409	146,923,650	Global corporate bonds	ML Global Broad Market Corporate Index, 1-10 Yrs(G5BC)
Aviva Investors Global Services Limited	215,624,698	79,925,242	Global developing markets	ML Emerging Customised Index
Deutsche Asset Management International GmbH	202,317,509	76,445,197	Global developing markets	ML Emerging Customised Index
SSB	16,614	-	Transit management	Not available
Amundi	1,001	92,818,280	Global shares	MSCI World Index (MXWO)
JP Morgan Asset Management (UK) Limited	-	34,140,053	Global active shares	MSCI World Index (MXWO)
Lombard Odier Asset Management (Europe) Limited	-	43,526,812	Global convertible bonds	Reuters Convertible Global Investment Grade USD Index (UICBGIGU)
Bank Julius Baer & Co. AG.	-	66,739,773	Global corporate bonds	ML Global Broad Market Corporate Index, 1-10 Yrs(G5BC)
BBVA Asset Management S.A., S.G.I.I.C.	-	63,663,898	Global developing markets	ML USD Latin America (BR,CL, PE,CO,MX)- Q610 Reuters Convertible Global Investment Grade USD Index (UICBGIGU)
BNP Paribas Asset Management	-	19,373,458	Global convertible bonds	Reuters Convertible Global Investment Grade USD Index (UICBGIGU)
Total net assets under external management	<u>811,065,231</u>	<u>623,556,363</u>		

As at 31 December 2015 uninvested balances equivalent to KZT 14,107,321 thousand (31 December 2014: KZT 19,959,628 thousand), related to portfolios under external management are presented within "placements with banks and other financial institutions" (Note 18).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

19. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

The schedule below summarises credit quality of these portfolio's underlying fixed income assets:

	2015 KZT'000	2014 KZT'000
Corporate bonds		
- rated A- to AAA	201,018,826	125,117,444
- rated BBB- to BBB+	206,054,775	156,234,610
- rated BB- to BB+	23,229,888	8,546,085
- rated B- to B+	617,026	-
- Not rated	517,575	2,034,010
	431,438,090	291,932,149
Government bonds		
- rated A- to AAA	73,315,940	57,851,283
- rated BBB- to BBB+	198,565,399	101,403,903
- rated BB- to BB+	93,665,807	42,447,182
- rated B- to B+	-	579,042
	365,547,146	202,281,410
Agency bonds		
- rated A- to AAA	7,199,698	-
- rated BBB- to BBB+	1,973,843	-
- rated BB- to BB+	4,217,522	-
	13,391,063	-
Total debt instruments under external management	810,376,299	494,213,559

The tables below summarises, by major currencies, the contractual amounts of the National Bank's outstanding balances from derivative transactions, excluding portfolios under external management, as at 31 December 2015 and 31 December 2014 with details of the contracted weighted average exchange rates and remaining periods to maturity.

	Contract/ notional amount KZT'000		Weighted-average contracted futures prices/exchange rates	
	2015	2014	2015	2014
Swap				
For the period less than 3 months				
Buy KZT to USD	66,641,960	-	343.74	-
For the period more than 1 year				
Buy KZT to USD	3,740,110	2,005,850	164.59	164.59
Forwards				
For the period less than 3 months				
Buy EUR sell AUD	3,489,830	-	1.49	-
Buy CAD sell USD	1,698,279	-	1.39	-
Buy GBP sell USD	850,229	-	1.48	-
Buy EUR sell USD	784,772	-	1.09	-
Buy EUR sell JPY	425,267	-	131.02	-
Futures				
For the period more than 3 months				
Sell US treasury bonds	(22,158,558)	-	73,861,861.70	-
	55,471,889	2,005,850		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

20. REVERSE REPURCHASE AGREEMENTS

	2015	2014
	KZT'000	KZT'000
International financial institutions and Kazakhstan banks:		
- rated AAA	85,799,326	37,067,968
- rated B	-	95,470,150
- rated B-	-	581,122,119
- not rated	16,052,006	713,781
	101,851,332	714,374,018

As at 31 December 2015 the fair value of the financial assets accepted as collateral under reverse repurchase agreements is KZT 109,864,338 thousand (31 December 2014: KZT 713,222,802 thousand).

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015	2014
	KZT'000	KZT'000
Debt instruments		
Investments in foreign securities		
Government bonds		
US Government Treasury bills	1,380,424,845	1,435,182,167
British Government Treasury bills	108,936,732	59,002,850
Japanese Government Treasury bills	95,972,359	73,411,810
French Government bonds	91,898,934	78,958,385
Australian Government Treasury bills	69,808,685	34,573,112
Korean Government Treasury bills	62,095,137	34,096,140
German Government Treasury bills	51,690,133	57,791,287
Canadian Government Treasury bills	50,294,283	29,132,040
China Government bonds	33,768,114	9,017,167
Finnish Government Treasury bills	16,974,880	-
Austrian Government Treasury bills	14,121,706	15,915,431
Netherlands Government Treasury bills	13,564,055	24,162,452
Denmark Government Treasury bills	8,497,679	17,893,330
Hong Kong Government Treasury bills	-	23,596,168
Singapore Government bonds	-	15,253,757
Swedish Government bonds	-	15,120,232
Total government bonds	1,998,047,542	1,923,106,328
Debt securities of international governmental and nongovernmental financial institutions		
- rated AAA	160,253,554	71,231,023
- rated AA+	17,015,109	66,024,413
- rated AA	64,389,545	2,367,280
- rated AA-	22,246,805	8,140,094
- rated A+	10,248,067	1,783,037
- rated A	3,413,381	-
- not rated	27,015,917	8,979,300
Total investments in debt securities of international governmental and nongovernmental financial institutions	304,582,378	158,525,147
Corporate bonds of international companies		
- rated A- to AAA	174,100,397	103,726,572
- rated BBB+	1,724,135	944,999
- rated BB+	530,350	276,720
- rated B	-	8,539,332
- rated B-	8,797,265	-
- not rated	18,922,269	29,474,550
Total investments in corporate bonds of international companies	204,074,416	142,962,173

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CONTINUED

	2015 KZT'000	2014 KZT'000
Investments in hedge fund	48,600,689	-
Total investments in foreign securities	2,555,305,025	2,224,593,648
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	683,962,958	775,099,170
Debt securities of financial organisations	1,778,843	2,073,423
Total Kazakhstan investments	685,741,801	777,172,593
Impairment allowance	(75,829)	(75,829)
Total Kazakhstan investments net of impairment allowance	685,665,972	777,096,764
Total investments in debt instruments	3,240,970,997	3,001,690,412
Equity investments		
Shares of "NC "KazMunaiGaz" JSC	753,110,444	-
Investments in private equity fund	1,029,078	-
Corporate shares	79,854	79,854
Total equity investments	754,219,376	79,854
Total available-for-sale financial assets under own management	3,995,190,373	3,001,770,266

Analysis of movements in the impairment allowance

Movements in the impairment allowance on available-for-sale financial assets for the 2015 and 2014 are as follows:

	2015 KZT'000	2014 KZT'000
Balance at the beginning of the year	75,829	498,460
Write-offs	-	(422,631)
Balance at the end of the year	75,829	75,829

In accordance with GFCA Investment Strategy and Investment Strategy for Management of Portfolio of Alternative Investments of GFCA of the National Bank approved by the Resolution of the Management Board of the National Bank dated 25 February 2013, No.66, and in accordance with the terms and conditions of the Trust Investment Management Agreement No. 122NB/10 dated 29 March 2013 which was concluded between the National Bank and "NIC NBK" JSC, "NIC NBK" JSC invests a part of the gold and foreign currency assets of the National Bank in the alternative classes of assets through a special purpose vehicle - NICK Master Fund Ltd established on 18 June 2015. Limited liability company Singularity Ltd. was opened with the purpose of investing in hedge funds. Limited liability partnership Tarragon LP was opened with the purpose of investing in private equity funds.

Unquoted equity instruments

Available for sale financial assets stated at cost comprise unquoted ordinary shares of "NC "KazMunaiGaz" JSC for KZT 753,110,444 thousand, the fair value of which cannot be reliably determined. There is no market for this equity instrument and there have not been any recent transactions that provide evidence of the current fair value.

22. HELD-TO-MATURITY INVESTMENTS

	2015 KZT'000	2014 KZT'000
Bonds of JSC Sovereign Wealth Fund "Samruk-Kazyna" - rated BBB (2014: BBB+)	57,974,628	56,990,764
Bonds of the Ministry of Finance of Republic of Kazakhstan - rated BBB (2014: BBB+)	40,116,992	1,755,913
Securities of second-tier banks and other organizations	22,052	44,357
Total held-to-maturity investments	98,113,672	58,791,034

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

23. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

KZT'000	Land, buildings and construction	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment not yet installed	Intangible assets	Total
<i>Historical/revalued cost</i>							
Balance at 1 January 2015	33,885,802	27,182,306	3,041,351	1,313,169	719,581	3,814,615	69,956,824
Additions	1,846,414	3,360,735	443,620	50,808	736,355	551,355	6,989,287
Disposals	(216,194)	(1,273,750)	(37,979)	(13,312)	(620,021)	(190,716)	(2,351,972)
Write-offs	(3,414,105)	-	-	-	-	-	(3,414,105)
Revaluation	6,689,480	-	-	-	-	-	6,689,480
Impairment loss	(78,783)	-	-	-	-	-	(78,783)
Balance at 31 December 2015	<u>38,712,614</u>	<u>29,269,291</u>	<u>3,446,992</u>	<u>1,350,665</u>	<u>835,915</u>	<u>4,175,254</u>	<u>77,790,731</u>
Depreciation and amortisation and impairment losses							
Balance at 1 January 2015	2,797,579	7,512,823	2,848,021	147,498	-	2,265,061	15,570,982
Depreciation and amortisation for the year	2,534,527	2,195,638	280,198	225,639	-	458,104	5,694,106
Disposals	(161,177)	(1,249,722)	(34,317)	(12,873)	-	(175,879)	(1,633,968)
Write-offs	(3,414,105)	-	-	-	-	-	(3,414,105)
Balance at 31 December 2015	<u>1,756,824</u>	<u>8,458,739</u>	<u>3,093,902</u>	<u>360,264</u>	<u>-</u>	<u>2,547,286</u>	<u>16,217,015</u>
Carrying amount							
As at 31 December 2015	<u>36,955,790</u>	<u>20,810,552</u>	<u>353,090</u>	<u>990,401</u>	<u>835,915</u>	<u>1,627,968</u>	<u>61,573,716</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

23. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, CONTINUED

KZT'000	Land, buildings and construction	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/equip ment not yet installed	Intangible assets	Total
Historical/revalued cost							
Balance at 1 January 2014	33,905,420	22,771,539	2,889,016	1,547,069	1,081,593	3,462,674	65,657,311
Additions	371,657	4,382,524	201,494	23,652	4,646,750	451,801	10,077,878
Disposals	(445,679)	(239,168)	(52,492)	(740,895)	(4,609,235)	(166,760)	(6,254,229)
Revaluation	(7,479)	-	-	491,329	-	-	483,850
Impairment loss	-	-	-	(7,986)	-	-	(7,986)
Transfers	61,883	267,411	3,333	-	(399,527)	66,900	-
Balance at 31 December 2014	33,885,802	27,182,306	3,041,351	1,313,169	719,581	3,814,615	69,956,824
Depreciation and amortisation and impairment losses							
Balance at 1 January 2014	883,182	6,078,923	2,544,288	730,345	-	1,967,364	12,204,102
Depreciation and amortisation for the year	2,236,692	1,681,621	352,942	143,141	-	447,106	4,861,502
Disposals	(365,426)	(204,789)	(49,010)	(725,988)	-	(149,409)	(1,494,622)
Transfers	43,131	(42,932)	(199)	-	-	-	-
Balance at 31 December 2014	2,797,579	7,512,823	2,848,021	147,498	-	2,265,061	15,570,982
Carrying amount							
As at 31 December 2014	31,088,223	19,669,483	193,330	1,165,671	719,581	1,549,554	54,385,842

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

23. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, CONTINUED

Revalued assets

The fair values of the National Bank's land, buildings, and vehicles are categorised into Level 2 of the fair value hierarchy.

At 31 December 2015 property and equipment owned by the National Bank were recorded at revalued amount. The revaluation procedures were performed by independent appraisers: "Otsenka i Expertiza" LLC, "Nezavisimiy otsenочно-yuridicheskiy tsentr" LLC and "MARKET-Consulting" LLC.

The income approach with the method of realisation as income capitalisation and the comparative approach with application of market information were used to identify the fair value of buildings and construction in terms of an active market for items that were subject to revaluation. The cost approach was used when there was no active market for items that were subject to revaluation.

As at 31 December 2015 the carrying amount of land, buildings, and vehicles would have amounted to KZT 17,283,013 thousand, if it had not been revalued.

24. OTHER ASSETS

	2015 KZT'000	2014 KZT'000
Other receivables	8,314,679	6,109,000
Impairment allowance	(158,733)	(114,225)
Total other financial assets	8,155,946	5,994,775
Inventories	4,939,173	9,858,595
Investments in IFCA Administration JSC	1,745,000	-
Refined and non-refined precious metals and stones	636,795	268,199
Prepayments for property and equipment	329,624	358,827
Other	303,831	535,569
Total other non-financial assets	7,954,423	11,021,190
Total other assets	16,110,369	17,015,965

Analysis of movements in the impairment allowance

Movements in the impairment allowance on other financial assets for 2015 and 2014 are as follows:

	2015 KZT'000	2014 KZT'000
Balance at the beginning of the year	114,225	16,052
Net charge	77,695	112,285
Write-offs	(33,187)	(14,112)
Balance at the end of the year	158,733	114,225

As at 31 December 2015, included in other assets are overdue receivables of KZT 2,142,195 thousand (31 December 2014: KZT 180,871 thousand), of which KZT 1,798,869 thousand (31 December 2014: KZT 1,782 thousand) are overdue for more than 30 days, but less than 90 days, KZT 3,152 thousand (31 December 2014: KZT 4,253 thousand) are overdue for more than 90 days, but less than 180 days and KZT 340,174 thousand (31 December 2014: KZT 174,836 thousand) are overdue for more than 180 days.

25. CURRENCY IN CIRCULATION

	2015 KZT'000	2014 KZT'000
Banknotes and coins in circulation	1,496,560,585	1,383,516,794
Less banknotes and coins on hand and in vaults	(1,206,768)	(938,842)
	1,495,353,817	1,382,577,952

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

26. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015 KZT'000	2014 KZT'000
Deposits and balances from foreign banks and other financial institutions		
Current accounts of international financial organisations	194,419,240	96,595,622
OECD based banks	4,208,797	158,289,149
Other foreign banks	336,331	180,377
Total deposits and balances from foreign banks and other financial institutions	198,964,368	255,065,148
Deposits and balances from Kazakhstan banks and other financial institutions		
Loro accounts		
Largest 10 Kazakhstan banks*	1,807,416,945	777,853,375
Other Kazakhstan banks	1,187,747,930	924,047,040
Deposits**		
Largest 10 Kazakhstan banks*	2,072,687,360	1,497,253,968
Other Kazakhstan banks	583,806,947	466,126,623
Total deposits and balances from banks and other financial institutions	5,651,659,182	3,665,281,006
Compensation on deposits of individuals	77,642,305	-
	5,928,265,855	3,920,346,154

* based on total assets as at 31 December 2015

** include the liability part of the swap deals in the amount of KZT 2,522,081,310 thousand (31 December 2014: KZT 1,907,391,064 thousand) that is accounted for not as derivatives, but as deposits from banks and is measured at nominal in accordance with the Basis of Preparation (Note 2)

As at 31 December 2015 the National Bank has six counterparties (31 December 2014: six counterparties), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 is KZT 3,215,432,204 thousand (31 December 2014: KZT 1,916,092,187 thousand).

As at 31 December 2015 current accounts of international financial organisations include the membership quota of the Republic of Kazakhstan in the International Monetary Fund (the “IMF”) in the amount of KZT 194,412,399 thousand (31 December 2014: KZT 96,588,684 thousand). A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The NBK issued promissory notes to the IMF in the amount of the quota (SDR 365,700 thousand).

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, with a view to fulfil an order concerning development and implementation of the mechanism of compensation of the tenge denominated term deposits of the individual, due to change of the foreign exchange rate, and to pay compensation to the individuals holding tenge-denominated deposits, in conformity with the Procedure of paying compensation on the individuals’ deposits opened in the national currency (tenge), due to transition to the freely floating foreign exchange rate, which was approved by the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan dated 9 September 2015, No.157, the Management Board of the National Bank of the Republic of Kazakhstan resolved to approve paying the compensation on the individuals deposits opened in second-tier banks in tenge and that are in compliance with stated requirements, due to transition to the freely floating foreign exchange rate, at the expense of the funds used for the monetary operations of the National Bank. The assurance of payment of compensation and procedure and terms of payment were published in the mass media and communicated to the second-tier banks, which accepted the applications for compensation from their depositors before 1 December 2015. In view of the above, and based on the data provided by the second-tier banks concerning the balances on special accounts of individuals as at 31 December 2015, a constructive liability of KZT 77,642,305 thousand has been recognised.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

27. REPURCHASE AGREEMENTS

In December 2015, the National Bank concluded repurchase agreements in the auto repo market of “Kazakhstan Stock Exchange” JSC in the amount of KZT 1,100,363 thousand.

As at 31 December 2015, the fair value of financial assets collateralising repurchase agreements is KZT 1,177,936 thousand.

28. CURRENT ACCOUNTS OF THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

Current accounts of the National Fund of the Republic of Kazakhstan (“the National Fund”) amounted to KZT 1,251,089,506 thousand as at 31 December 2015 (31 December 2014: KZT 1,227,141,853 thousand).

During 2015 and 2014 the National Bank conducted trust management activities over the assets of the National Fund. Assets and liabilities of the National Fund are not included in these consolidated financial statements, except for deposits of the National Fund in NBK.

29. CURRENT ACCOUNTS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF KAZAKHSTAN

	2015 KZT'000	2014 KZT'000
In national currency	543,124,564	518,025,478
In foreign currency	340,577,901	4,662,850
	883,702,465	522,688,328

30. CUSTOMER ACCOUNTS

	2015 KZT'000	2014 KZT'000
In national currency	148,779,507	309,721,161
In foreign currency	100,012	1,799,090
	148,879,519	311,520,251

During 2015 and 2014 the National Bank maintained customer accounts in foreign and national currencies. NBK customers’ industry is state management, and NBK’s subsidiaries’ customers’ industries are financial agency services, insurance and liquidation of banks.

As at 31 December 2015 customer accounts included accounts of one customer (31 December 2014: two customers) with a balance exceeding 3% (31 December 2014: 8%) of NBK’s equity. These balances as at 31 December 2015 are KZT 111,217,732 thousand (31 December 2014: KZT 255,518,301 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

31. DEBT SECURITIES ISSUED

As at 31 December 2015 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KD285396	60,413,361	11/12/2015	08/01/2016	10.26
KZW1KD285412	70,321,425	18/12/2015	15/01/2016	10.97
KZW1KD285438	124,284,691	25/12/2015	22/01/2016	11.24
KZW1KD285453	100,032,798	31/12/2015	28/01/2016	11.38
	355,052,275			

As at 31 December 2014 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KD914748	4,996,483	10/10/2014	09/01/2015	3.27
KZW1KD914755	10,067,352	17/10/2014	16/01/2015	3.27
KZW1KD914797	5,977,319	14/11/2014	13/02/2015	3.27
KZW1KD914805	5,973,626	21/11/2014	20/02/2015	3.27
	27,014,780			

32. RESERVES OF GUARANTEE FUND

As at 31 December 2015 reserves of guarantee fund for deposits of individuals were KZT 209,142,651 thousand (31 December 2014: KZT 173,462,395 thousand).

33. OTHER LIABILITIES

	2015 KZT'000	2014 KZT'000
Other creditors on non-banking activity	3,439,587	3,504,442
Other creditors on banking activity	1,746,649	1,074,947
General and administrative expenses payable	135,430	115,783
Dividends payable	-	28,234,846
Other	-	18
Total other financial liabilities	5,321,666	32,930,036
Salaries payable	5,704,688	3,614,483
Other prepayments received	1,591,050	1,254,095
Tax payable (except for corporate income tax)	831,252	513,414
Payables on purchase of property and equipment	94,040	15,428
Total other non-financial liabilities	8,221,030	5,397,420
Total other liabilities	13,542,696	38,327,456

34. CHARTER CAPITAL

Charter capital

The charter capital of the National Bank is regulated by the Decree of the President of the Republic of Kazakhstan dated 30 March 1995 with subsequent amendments and alterations. The share capital of the NBK is owned by the state and comprises not less than KZT 20,000,000 thousand formed by appropriations of the net income.

As at 31 December 2015 and 31 December 2014 the charter capital of the National Bank amounted to KZT 20,000,000 thousand.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

34. CHARTER CAPITAL, CONTINUED

Dividends and reserve capital

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” the Management of the NBK decided (Resolution № 245 of 19 December 2015) to transfer 100% of the retained earnings for 2014 in the amount of KZT 86,228,615 thousand to replenish the capital reserve of NBK.

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” the Management of the NBK decided (Resolution №161 dated 27 August 2014) to transfer 50% of the retained earnings for 2013 year in the amount of KZT 28,234,846 thousand to replenish the capital reserve of NBK and transfer the other 50% in the amount of KZT 28,234,846 thousand to the State Budget with a deferral of one year.

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the NBK should establish a capital reserve in the amount of not less than its share capital. Reserve capital is increased by the retained earnings and assigned exclusively for compensation and reimbursement of losses on conducted operations in accordance with the requirements set by the Management Board of the National Bank of Kazakhstan. As at 31 December 2015, the capital reserve amounted to KZT 346,420,494 thousand (31 December 2014: KZT 260,191,879 thousand).

Non-controlling interest

As at 31 December 2015 the non-controlling interest in amount of KZT 318,905,490 thousand (31 December 2014: KZT 3,287,590 thousand) refers to the shareholders of the preference shares issued by “Fund of Problem Loans” JSC in amount of KZT 314,946,333 thousand (31 December 2014: nil) (Note 1).

Capital management

Retained earnings are transferred to the share and/or reserve capital in the amount determined by the Management Board. After the approval of the annual report of the National Bank by the President of the Republic of Kazakhstan the remaining part of the retained earnings is transferred to the State budget with a deferral of one year.

In case if reserve capital amount is less than the share capital amount, the entire retained earnings remain at the National Bank’s disposal and is transferred to the reserve capital until the later reaches the level of the share capital. If the reserve capital is not sufficient to cover losses of a financial year the deficiency is compensated by the State budget with a deferral of one year.

35. ANALYSIS BY SEGMENT

The National Bank’s operations comprise a single operating segment for the purposes of these consolidated financial statements. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the National Bank, these activities do not constitute separate operating segments for the purposes of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT

Risk management policies and procedures

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

The National Bank's risk management policies aim to identify, analyse and manage the risks faced by the National Bank during its operations, 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 management 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, Board of Directors, committees, commissions and related working groups review regularly matters related to the monetary, investment and currency policies of the National Bank and set up limits on the scope of management over its assets and customers' assets, as well as requirements for the assessment of the NBK's counterparties.

In accordance with Investment Strategy on gold and foreign currency assets management of the NBK approved by the decision of the Board on 17 June 2015 № 112 (the "GFCIA Investment Strategy"), the main goals of risk management are maintenance of liquidity and safety of the NBK's assets, and profitability growth in the medium and long-term perspective.

In accordance with these goals, gold and foreign currency assets of the NBK are separated into the following portfolios: liquidity portfolio, investment portfolio, strategic portfolio, gold portfolio, developing market portfolio and portfolio of alternative investments.

In accordance with GFCIA Investment Strategy "NIC NBK" JSC manages the portfolio of alternative instruments.

In accordance with GFCIA Investment Strategy and Investment Strategy for Management of Portfolio of Alternative Investments of GFCIA of the National Bank approved by the Resolution of the Management Board of the National Bank dated 25 February 2013 No.66, and in accordance with the terms and conditions of the Trust Investment Management Agreement No. 122NB/10 dated 29 March 2013 which was concluded between the National Bank and "NIC NBK" JSC, "NIC NBK" JSC invests a part of the gold and foreign currency assets of the National Bank in the alternative classes of assets through a special purpose vehicle - NICK Master Fund Ltd established on 18 June 2015.

The operations of the NBK's subsidiaries are also exposed to a number of risks, the most significant are those related to market risks. Risk management procedures of the subsidiaries are regulated by their internal instructions and their execution is monitored by various bodies, including the subsidiaries' boards of directors and internal control departments.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

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 and foreign currency exchange rates.

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

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

The National Bank utilises Tracking Error methodology. Tracking Error indicator reflects how actual performance of current portfolio differs from the performance of the benchmark portfolio. The estimated tracking error of the investment portfolio of gold and foreign currency assets including derivatives does not exceed 2 (two) percent per annum as at the last working day of each month.

Tracking Error can be used only when the investor manages a portfolio against the benchmark portfolio on comparative basis.

As at 31 December 2015 the benchmark portfolio for the investment portfolio of gold and foreign currency assets was a composite index of:

- 45 % - ML US Treasuries, 0-3 Yrs (G1QA);
- 20 % - ML 0-3 Year All Euro Government Index, DE, FR, NL, AT, LU, FI (EBDF);
- 10 % - ML UK Gilts, 0-3 Yrs (GBL0);
- 10 % - ML Japanese Governments, 0-3 Yrs (G1YA);
- 5 % - ML Australian Government Index, 0-3 Yrs (GJBT);
- 5 % - ML Canadian Government Index, 0-3 Yrs (GBCJ);
- 5 % - ML South Korean Government Index, 0-3 Yrs (GBSK).

As at 31 December 2014 the benchmark portfolio for the investment portfolio of gold and foreign currency assets was a composite index of:

- 30% - Merrill Lynch United States Treasuries, 0-3 Yrs (G1QA),
- 26% - Merrill Lynch All Euro Government Index, DE, FR, NL, AT, LU, FI (EBDF), 0-3 Yrs
- 10% - Merrill Lynch United Kingdom Gilts, 0-3 Yrs (GBL0),
- 10% - Merrill Lynch Japanese Governments, 0-3 Yrs (G1YA),
- 5% - Merrill Lynch Australian Government Index, 0-3 Yrs (GJBT),
- 5% - Merrill Lynch Canadian Government Index, 0-3 Yrs (GBCJ),
- 5% - Merrill Lynch South Korean Government Index, 0-3 Yrs (GBSK),
- 3% - Merrill Lynch Hong Kong Government Index, 0-3 Yrs (GBHK),
- 2% - Merrill Lynch Singapore Government Index, 0-3 Yrs (GBSP),
- 2% - Merrill Lynch Danish Governments, 1-3 Yrs (G1M0),
- 2% - Merrill Lynch Swedish Governments, 1-3 Yrs (G1W0).

Interest rate risk

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate gap analysis

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

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2015							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	211,082,236	211,082,236
Gold	846,961,914	-	-	-	-	1,729,233,519	2,576,195,433
Placements with banks and other financial institutions	3,430,237,947	150,023,427	376,421,160	597,156,609	225,797,265	551,989,899	5,331,626,307
Financial instruments at fair value through profit or loss	9,644,366	10,517,254	19,897,657	486,225,568	284,091,454	1,489,756	811,866,055
Reverse repurchase agreements	101,851,332	-	-	-	-	-	101,851,332
Available-for-sale financial assets	620,494,787	621,601,528	366,249,936	1,323,088,917	309,535,829	754,219,376	3,995,190,373
Held-to-maturity investments	-	56,437	136,279	970,058	96,950,898	-	98,113,672
Investments in associates	-	-	-	-	-	301,487	301,487
Other financial assets	57	240	1,157	74,949	974,730	7,104,813	8,155,946
	5,009,190,403	782,198,886	762,706,189	2,407,516,101	917,350,176	3,255,421,086	13,134,382,841
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,495,353,817	1,495,353,817
Deposits and balances from banks and other financial institutions	716,836,743	191,651,290	663,112,320	1,084,880,570	-	3,271,784,932	5,928,265,855
Financial instruments at fair value through profit or loss	-	-	-	-	-	2,326,043	2,326,043
Repurchase agreements	1,100,363	-	-	-	-	-	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	1,251,089,506	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	883,702,465	883,702,465
Customer accounts	-	-	-	-	-	148,879,519	148,879,519
Debt securities issued	355,052,275	-	-	-	-	-	355,052,275
Reserves of guarantee fund	-	-	-	-	-	209,142,651	209,142,651
Other financial liabilities	-	-	-	-	-	5,321,666	5,321,666
	1,072,989,381	191,651,290	663,112,320	1,084,880,570	-	7,267,600,599	10,280,234,160
	3,936,201,022	590,547,596	99,593,869	1,322,635,531	917,350,176	(4,012,179,513)	2,854,148,681

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	27,872,157	27,872,157
Gold	511,851,421	-	-	-	-	836,698,595	1,348,550,016
Placements with banks and other financial institutions	1,400,229,428	3,662,560	334,806,029	1,036,402,537	3,708,401	432,742,109	3,211,551,064
Financial instruments at fair value through profit or loss	4,453,052	7,639,468	14,014,263	212,455,591	255,651,185	129,599,095	623,812,654
Reverse repurchase agreements	714,374,018	-	-	-	-	-	714,374,018
Available-for-sale financial assets	915,790,203	146,300,424	363,500,757	1,256,246,788	319,852,240	79,854	3,001,770,266
Held-to-maturity investments	26,195	119,335	153,633	847,576	57,644,295	-	58,791,034
Investments in associates	-	-	-	-	-	298,955	298,955
Other financial assets	-	-	-	-	-	5,994,775	5,994,775
	3,546,724,317	157,721,787	712,474,682	2,505,952,492	636,856,121	1,433,285,540	8,993,014,939
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,382,577,952	1,382,577,952
Deposits and balances from banks and other financial institutions	556,327,127	-	331,111,130	1,028,897,137	3,707,783	2,000,302,977	3,920,346,154
Financial instruments at fair value through profit or loss	-	-	-	-	-	822,371	822,371
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	1,227,141,853	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	522,688,328	522,688,328
Customer accounts	-	-	-	-	-	311,520,251	311,520,251
Debt securities issued	27,014,780	-	-	-	-	-	27,014,780
Reserves of guarantee fund	-	-	-	-	-	173,462,395	173,462,395
Other financial liabilities	-	-	-	-	-	32,930,036	32,930,036
	583,341,907	-	331,111,130	1,028,897,137	3,707,783	5,651,446,163	7,598,504,120
	2,963,382,410	157,721,787	381,363,552	1,477,055,355	633,148,338	(4,218,160,623)	1,394,510,819

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Average interest rates

The table below summarises the National Bank's average interest rates on interest bearing assets and liabilities as at 31 December 2015 and 31 December 2014. These interest rates are an approximation of the yields to maturity of appropriate assets and liabilities.

	2015 KZT'000 Book value	Weighted average effective interest rate, %	2014 KZT'000 Book value	Weighted average effective interest rate, %
Interest bearing assets				
Gold				
<i>Gold deposits with foreign banks</i>	846,961,914	0.27	511,851,421	0.27
Placements with banks and other financial institutions				
<i>Nostro accounts</i>				
- JPY	40,315,116	0.05	4,295,835	0.07
- EUR	36,076,433	0.45	1	-
- RUB	13,147,087	0.15	4,990,485	0.15
- USD	1,869,820	0.21	674,650	0.03
- GBP	212,846	0.18	4,323,436	0.50
- KZT	117,861	2.44	-	-
- KRW	16,111	0.13	105,059	1.41
- Other currency	391,590	0.77	154,884	0.72
<i>Deposits in banks</i>				
- USD	2,970,731,078	0.36	853,379,765	0.09
- KZT	1,716,758,466	3.42	1,898,010,981	6.22
Financial instruments at fair value through profit or loss				
- USD	673,271,164	5.76	373,424,510	4.81
- EUR	91,660,190	2.82	89,794,307	2.77
- GBP	21,924,716	4.69	14,588,353	5.61
- CAD	17,020,891	3.68	9,599,777	3.74
- AUD	5,357,045	5.09	2,925,049	5.32
- JPY	1,142,293	0.69	773,987	0.91
- SEK	-	-	867,784	-
- CHF	-	-	809,115	-
- HKD	-	-	728,050	0.26
- SGD	-	-	702,627	1.98
Reverse repurchase agreements				
- KZT	101,851,332	16.47	714,374,018	5.51

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Average interest rates, continued

	2015 KZT'000 Book value	Weighted average effective interest rate , %	2014 KZT'000 Book value	Weighted average effective interest rate , %
Available-for-sale financial assets				
- USD	1,829,977,148	0.52	1,675,029,508	0.31
- KZT	685,213,169	5.92	776,896,608	5.88
- EUR	244,178,875	2.16	202,451,189	2.32
- GBP	136,745,558	1.61	77,546,292	1.77
- JPY	99,935,154	0.40	73,411,810	0.69
- AUD	72,528,868	4.85	37,677,945	5.36
- KRW	70,934,785	3.19	39,248,795	3.39
- CAD	67,689,326	1.08	38,818,310	1.51
- CNY	33,768,114	2.72	9,017,167	2.22
- HKD	-	-	23,596,168	0.76
- DKK	-	-	17,622,631	3.02
- SGD	-	-	15,253,757	2.21
- SEK	-	-	15,120,232	3.54
Held-to-maturity investments				
- KZT	98,113,672	5.59	58,791,034	4.03
Other assets				
- KZT	1,051,133	2.71	-	-
Interest liabilities				
Due to banks and other financial institutions				
<i>Term deposits</i>				
- USD	2,498,929,506	-	1,862,625,650	-
- KZT	134,399,613	9.64	57,417,527	1.81
- CNY	23,151,804	-	-	-
Repurchase agreements				
- KZT	1,100,363	12.00	-	-
Debt securities issued				
- KZT	355,052,275	11.06	27,014,780	3.27

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 300 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 31 December 2014 is as follows:

	2015		2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
300 bp parallel rise	115,144,998	115,144,998	83,606,298	83,606,298
300 bp parallel fall	(115,144,998)	(115,144,998)	(83,606,298)	(83,606,298)

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 through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2015 and 31 December 2014 and a simplified scenario of a 50 bp symmetrical fall or rise in all yield curves is as follows.

	2015		2014	
	Net profit or loss KZT'000	Equity KZT'000	Net profit or loss KZT'000	Equity KZT'000
50 bp parallel fall	16,142,165	39,746,439	12,303,465	38,233,418
50 bp parallel rise	(15,758,951)	(42,270,022)	(13,191,200)	(41,376,635)

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Currency risk

The National 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 market interest rates. The National Bank does not hedge its exposure to currency risk.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2015 is presented in the table below:

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	209,284,635	1,760,751	7,140	-	3,357	26,353	211,082,236
Gold	-	2,576,195,433	-	-	-	-	-	-	2,576,195,433
Placements with banks and other financial institutions	1,798,271,810	-	3,023,541,981	118,466,422	77,696,941	202,159,635	42,959,336	68,530,182	5,331,626,307
Financial instruments at fair value through profit or loss	731,090	-	673,284,883	91,824,965	1,479,307	-	22,116,300	22,429,510	811,866,055
Reverse repurchase agreements	101,851,332	-	-	-	-	-	-	-	101,851,332
Available-for-sale financial assets	1,438,401,212	-	1,831,006,227	244,178,875	99,935,154	-	136,745,558	244,923,347	3,995,190,373
Held-to-maturity investments	98,113,672	-	-	-	-	-	-	-	98,113,672
Investments in associates	301,487	-	-	-	-	-	-	-	301,487
Other financial assets	8,155,946	-	-	-	-	-	-	-	8,155,946
Total assets	3,445,826,549	2,576,195,433	5,737,117,726	456,231,013	179,118,542	202,159,635	201,824,551	335,909,392	13,134,382,841

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	1,495,353,817	-	-	-	-	-	-	-	1,495,353,817
Deposits and balances from banks and other financial institutions	489,799,760	-	5,131,420,281	56,230,515	3,963,687	194,412,399	12,702,597	39,736,616	5,928,265,855
Financial instruments at fair value through profit or loss	2,285,996	-	38,344	-	-	-	-	1,703	2,326,043
Repurchase agreements	1,100,363	-	-	-	-	-	-	-	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	1,251,089,506	-	-	-	-	-	-	-	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	543,124,564	-	340,039,221	-	-	-	-	538,680	883,702,465
Customer accounts	148,779,507	-	99,603	409	-	-	-	-	148,879,519
Debt securities issued	355,052,275	-	-	-	-	-	-	-	355,052,275
Reserves of guarantee fund	209,142,651	-	-	-	-	-	-	-	209,142,651
Other financial liabilities	3,611,488	-	1,710,178	-	-	-	-	-	5,321,666
Total liabilities	4,499,339,927	-	5,473,307,627	56,230,924	3,963,687	194,412,399	12,702,597	40,276,999	10,280,234,160
Net position	(1,053,513,378)	2,576,195,433	263,810,099	400,000,089	175,154,855	7,747,236	189,121,954	295,632,393	2,854,148,681
The effect of derivatives held for risk management	69,362,620	-	(73,714,168)	4,699,868	(424,500)	-	850,229	(1,781,421)	(1,007,372)
Net position after derivatives held for risk management purposes	(984,150,758)	2,576,195,433	190,095,931	404,699,957	174,730,355	7,747,236	189,972,183	293,850,972	2,853,141,309

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

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

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	26,834,559	1,015,163	4,427	-	1,817	16,191	27,872,157
Gold	-	1,348,550,016	-	-	-	-	-	-	1,348,550,016
Placements with banks and other financial institutions	1,918,969,998	-	1,049,332,658	78,884,296	26,493,460	96,826,759	5,583,375	35,460,518	3,211,551,064
Financial instruments at fair value through profit or loss	-	-	448,085,150	106,081,811	11,610,017	-	26,903,312	31,132,364	623,812,654
Reverse repurchase agreements	714,374,018	-	-	-	-	-	-	-	714,374,018
Available-for-sale financial assets	776,974,208	-	1,675,029,508	202,451,189	73,411,810	-	77,546,292	196,357,259	3,001,770,266
Held-to-maturity investments	58,791,034	-	-	-	-	-	-	-	58,791,034
Investments in associates	298,955	-	-	-	-	-	-	-	298,955
Other financial assets	5,994,775	-	-	-	-	-	-	-	5,994,775
Total assets	3,475,402,988	1,348,550,016	3,199,281,875	388,432,459	111,519,714	96,826,759	110,034,796	262,966,332	8,993,014,939

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	1,382,577,952	-	-	-	-	-	-	-	1,382,577,952
Deposits and balances from banks and other financial institutions	553,708,896	-	3,208,498,368	49,599,541	3,858,543	96,588,684	-	8,092,122	3,920,346,154
Financial instruments at fair value through profit or loss	-	-	595,590	91,845	33,781	-	23,358	77,797	822,371
Current accounts of the National Fund of the Republic of Kazakhstan	1,227,141,853	-	-	-	-	-	-	-	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	518,025,478	-	4,181,369	-	-	-	-	481,481	522,688,328
Customer accounts	309,721,161	-	1,799,090	-	-	-	-	-	311,520,251
Debt securities issued	27,014,780	-	-	-	-	-	-	-	27,014,780
Reserves of guarantee fund	173,462,395	-	-	-	-	-	-	-	173,462,395
Other financial liabilities	31,855,071	-	1,074,965	-	-	-	-	-	32,930,036
Total liabilities	4,223,507,586	-	3,216,149,382	49,691,386	3,892,324	96,588,684	23,358	8,651,400	7,598,504,120
Net position	(748,104,598)	1,348,550,016	(16,867,507)	338,741,073	107,627,390	238,075	110,011,438	254,314,932	1,394,510,819
The effect of derivatives held for risk management	1,989,570	-	(2,005,850)	-	-	-	-	-	(16,280)
Net position after derivatives held for risk management purposes	(746,115,028)	1,348,550,016	(18,873,357)	338,741,073	107,627,390	238,075	110,011,438	254,314,932	1,394,494,539

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

The Government and National Bank made decision to move, effective from 20 August 2015, to the freely floating tenge exchange rate. Formation of the market exchange rate will provide the necessary conditions to support the sustainable economic growth and absorb external shocks. Transition to the freely floating tenge exchange rate is provided for in the Monetary Policy of the Republic of Kazakhstan up to the year 2020 approved by the decision of the Management Board of the National Bank of the Republic of Kazakhstan in April 2015, as one of the preconditions to implement the inflation targeting.

A new exchange rate regime increases the influence of the interest rates established by the national Bank on the short-term interest rates of the money market. The money market rates, in their turn, will influence the cost of credit resources and investments in the economy, business activity and inflation rate.

The key instrument to influence the nominal interest rates will be the base rate of the National Bank. Interest rates on other instruments of the monetary policy will be tied up to the base rate.

Management of the National Bank believes that, as at 31 December 2015 given the current economic conditions in Kazakhstan, increase and decrease of exchange rate by 20% is a realistic movement in KZT exchange rates against US Dollar. This is the sensitivity rate used in the National Bank when reporting foreign currency risk internally to key management personnel of the National Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only amounts in foreign currency as at 31 December 2015 and adjusts their translation for appreciation and depreciation in currency rates as at 31 December 2015.

A weakening of the KZT, as indicated below, against the following currencies as at 31 December 2015 and 31 December 2014, would have increased (decreases) equity by the amounts shown below. The analysis is based on foreign currency exchange rate variances that the National Bank considered to be reasonably possible at the end of the reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis assumes that all other variables, in particular, interest rates, remain constant.

	Equity, KZT'000	Equity, KZT'000
	2015	2014
	(+20%)	(+3.10%)
	-20%)	-6.77%)
Appreciation of USD against KZT	38,019,186	(585,074)
Depreciation of USD against KZT	(38,019,186)	1,277,726
Appreciation of EUR against KZT	80,939,991	10,500,973
Depreciation of EUR against KZT	(80,939,991)	(22,932,771)
Appreciation of Troy ounce of gold against KZT	515,239,087	41,805,050
Depreciation of Troy ounce of gold against KZT	(515,239,087)	(91,296,836)
Appreciation of Japanese yen against KZT	34,946,071	3,336,449
Depreciation of Japanese yen against KZT	(34,946,071)	(7,286,374)
Appreciation of GBP against KZT	37,994,437	3,410,355
Depreciation of GBP against KZT	(37,994,437)	(7,447,774)
Appreciation of SDR against KZT	1,549,447	7,380
Depreciation of SDR against KZT	(1,549,447)	(16,118)
Appreciation of other currencies against KZT	58,770,194	7,883,763
Depreciation of other currencies against KZT	(58,770,194)	(17,217,121)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations of the sensitivity analysis include application of hypothetical movements in the market with the purpose of disclosure of the potential risks, which represent only expectations of the National Bank of the future changes in the market which cannot be predicted with sufficient level of assurance. A further limitation is the assumption that all interest rates change identically.

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 National Bank takes a long or short position in a financial instrument.

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

	2015		2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	1,762	75,423,700	12,908,467	12,916,452
10% decrease in securities prices	(1,762)	(75,423,700)	(12,908,467)	(12,916,452)

Credit risk

Credit risk the risk of financial loss to the National Bank if a borrower or counterparty fails to meet its contractual obligations. The National 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 an Investment Committee, a Risk Committee, which actively monitor credit risk. The credit risk management policy is reviewed and approved by the Board.

The National Bank's credit risk management policy establishes:

- Methodology for credit assessment calculation and determination of maximum limit on the National Bank's counterparties;
- Procedures for ongoing monitoring and review of the risk limit of the National Bank's counterparties.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Credit risk, continued

The Monetary Operations Division, based on a financial performance and financial position ratios analysis with use of international rating agencies' data, prepares information about new counterparties proposed to be included in the list of approved counterparties of the National Bank. The Investment Committee approves a new counterparty on the basis of this report.

The Department of Monetary Operations of the National Bank conduct daily monitoring of compliance with limits imposed on each individual counterparty. In addition to individual counterparty analysis, the Department of Monetary Operations monitors compliance of the credit ratings of financial instruments with the established limits.

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

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

	2015	2014
	KZT'000	KZT'000
ASSETS		
Gold	846,961,914	511,851,421
Placements with banks and other financial institutions	5,331,626,307	3,211,551,064
Financial instruments at fair value through profit or loss	811,848,440	494,727,983
Reverse repurchase agreements	101,851,332	714,374,018
Available-for-sale financial assets	3,240,970,997	3,001,690,412
Held-to-maturity investments	98,113,672	58,791,034
Other financial assets	8,155,946	5,994,775
Total maximum exposure	10,439,528,608	7,998,980,707

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 37.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

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

The National Bank's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The National Bank's sale and repurchase, reverse sale and repurchase transactions, and securities borrowings and lendings are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the National Bank or the counterparties. In addition, the National Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The National Bank receives and accepts collateral in the form of marketable securities in respect of the sales and repurchase agreements, reverse sale and repurchase agreements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

KZT'000

Types of financial assets/financial liabilities	Full amounts of recognized financial assets/financial liabilities	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Placements with banks and other financial institutions	1,450,736,514	-	1,450,736,514	(1,450,736,514)	-	-
Reverse repurchase agreements	101,851,332	-	101,851,332	(101,851,332)	-	-
Available-for-sale financial assets	1,177,936	-	1,177,936	(1,100,363)	-	77,573
Total financial assets	1,553,765,782	-	1,553,765,782	(1,553,688,209)	-	77,573
Deposits and balances from banks and other financial institutions	(2,522,081,310)	-	(2,522,081,310)	1,450,736,514	-	(1,071,344,796)
Repurchase agreements	(1,100,363)	-	(1,100,363)	1,100,363	-	-
Total financial liabilities	(2,523,181,673)	-	(2,523,181,673)	1,451,836,877	-	(1,071,344,796)

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

KZT'000

Types of financial assets/financial liabilities	Full amounts of recognized financial assets/financial liabilities	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Placements with banks and other financial institutions	1,870,458,083	-	1,870,458,083	(1,870,458,083)	-	-
Reverse repurchase agreements	714,374,018	-	714,374,018	(713,222,802)	-	1,151,216
Total financial assets	2,584,832,101	-	2,584,832,101	(2,583,680,885)	-	1,151,216
Deposits and balances from banks and other financial institutions	(1,907,391,064)	-	(1,907,391,064)	1,870,458,083	-	(36,932,981)
Total financial liabilities	(1,907,391,064)	-	(1,907,391,064)	1,870,458,083	-	(36,932,981)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2015.

KZT'000

Types of financial assets/financial liabilities	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Placements with banks and other financial institutions	1,450,736,514	Placements with banks and other financial institutions	5,331,626,307	3,880,889,793	18
Reverse repurchase agreements	101,851,332	Reverse repurchase agreements	101,851,332	-	20
Available-for-sale financial assets	1,177,936	Available-for-sale financial assets	3,995,190,373	3,994,012,437	21
Deposits and balances from banks and other financial institutions	(2,522,081,310)	Deposits and balances from banks and other financial institutions	(5,928,265,855)	(3,406,184,545)	26
Repurchase agreements	(1,100,363)	Repurchase agreements	(1,100,363)	-	27

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2014.

KZT'000

Types of financial assets/financial liabilities	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Placements with banks and other financial institutions	1,870,458,083	Placements with banks and other financial institutions	3,211,551,064	1,341,092,981	18
Reverse repurchase agreements	714,374,018	Reverse repurchase agreements	714,374,018	-	20
Deposits and balances from banks and other financial institutions	(1,907,391,064)	Deposits and balances from banks and other financial institutions	(3,920,346,154)	(2,012,955,090)	26

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Liquidity risk

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

The National Bank seeks to actively support a diversified and stable funding base comprising 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.

Since the National Bank carries out the issue of national currency, the default risk on fulfilment its obligations in national currency is minimal, and the liquidity risk is more applicable for obligations denominated in foreign currency.

The National Bank's liquidity management policy requires:

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

The Department of Monetary Operations based on information of the asset and liability liquidity performs analysis of the liquidity position. Afterwards, the Department of Monetary Operations maintains the liquidity level by purchasing highly liquid assets. To meet liquidity management goals the liquidity portfolio is invested to assets that can be sold as soon as it possible if required.

According to the Investment Strategy of Gold and Foreign Exchange Reserves of the National Bank the liquidity portfolio has to comply with the following parameters:

- duration of the liquidity portfolio should not exceed 1 year;
- base currency of the liquidity portfolio is USD;

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

- volume of liquidity portfolio should not fall below USD 1 billion inclusive of current liabilities with maturities of less than 5 (five) working days;
- volume of liquidity portfolio should not be less than the volume of payments on state external debt service for the next 6 months. This limitation is checked once in a calendar quarter (on the tenth working day of each quarter).

If the market value of the liquidity portfolio does not comply with the given parameters, it is replenished within fifteen working days after the observance of non-compliance.

The assets of the liquidity portfolio can be invested in cash currency, state (sovereign) debt securities of countries with credit rating not lower than A- (Standard & Poor's) and/or A3 Moody's, agency debt securities, debt securities of international financial institutions with credit rating not less than AAA (Standard & Poor's) and/or Aaa (Moody's), certificates of deposit (CD), commercial paper (CP) with short-term credit rating not lower than A1 - Standard & Poor's or P1 – Moody's. The maximum term for the deposit should not exceed one month.

The following tables show the undiscounted cash flows on financial liabilities 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 liabilities.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Without maturity	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	3,254,994,369	461,393,570	191,651,290	740,754,625	1,084,880,570	194,748,730	5,928,423,154	5,928,265,855
Repurchase agreements	1,101,810	-	-	-	-	-	1,101,810	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	1,251,089,506	-	-	-	-	-	1,251,089,506	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	883,702,465	-	-	-	-	-	883,702,465	883,702,465
Customer accounts	148,879,519	-	-	-	-	-	148,879,519	148,879,519
Debt securities issued	357,251,084	-	-	-	-	-	357,251,084	355,052,275
Reserves of guarantee fund	209,142,651	-	-	-	-	-	209,142,651	209,142,651
Other financial liabilities	5,321,666	-	-	-	-	-	5,321,666	5,321,666
Derivative liabilities								
- Inflow	(1,945,545)	-	-	-	(3,740,110)	-	(5,685,655)	-
- Outflow	1,957,422	28,238	-	-	1,989,570	-	3,975,230	2,326,043
Total liabilities	6,111,494,947	461,421,808	191,651,290	740,754,625	1,083,130,030	194,748,730	8,783,201,430	8,784,880,343
Credit related commitments	214,883,000	-	-	-	-	-	214,883,000	214,883,000

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 6 to 12 months	More than 1 year	Without maturity	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	2,415,110,904	-	331,111,130	1,032,604,920	96,769,061	3,875,596,015*	3,920,346,154
Current accounts of the National Fund of the Republic of Kazakhstan	1,227,141,853	-	-	-	-	1,227,141,853	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	522,688,328	-	-	-	-	522,688,328	522,688,328
Customer accounts	311,520,251	-	-	-	-	311,520,251	311,520,251
Debt securities issued	27,080,645	-	-	-	-	27,080,645	27,014,780
Reserves of guarantee fund	173,462,395	-	-	-	-	173,462,395	173,462,395
Other financial liabilities	32,930,036	-	-	-	-	32,930,036	32,930,036
Derivative liabilities							
- Inflow	(2,611,727)	(2,591,005)	-	(2,005,850)	-	(7,208,582)	-
- Outflow	2,725,582	2,733,442	-	1,989,570	-	7,448,594	822,371
Total liabilities	4,710,048,267	142,437	331,111,130	1,032,588,640	96,769,061	6,170,659,535	6,215,926,168
Credit related commitments	579,282	-	-	-	-	579,282	579,282

* gross amount outflow does not include the prepayment in amount of KZT 44,765,414 thousand

Management expects that the cash flows from certain financial liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

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 derivative liabilities that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position as at 31 December 2015:

KZT'000	<u>Demand and less than 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 12 months</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>No maturity</u>	<u>Total</u>
ASSETS							
Cash on hand in foreign currency	211,082,236	-	-	-	-	-	211,082,236
Gold	546,258,737	300,703,177	-	-	-	1,729,233,519	2,576,195,433
Placements with banks and other financial institutions	3,695,139,266	287,088,581	526,444,586	597,156,609	225,797,265	-	5,331,626,307
Financial instruments at fair value through profit or loss	1,960,924	3,751,317	17,700,616	486,225,568	294,371,931	7,855,699	811,866,055
Reverse repurchase agreements	48,535,882	53,315,450	-	-	-	-	101,851,332
Available-for-sale financial assets	124,437,086	301,173,027	1,096,259,353	1,409,567,957	260,935,140	802,817,810	3,995,190,373
Held-to-maturity investments	-	-	121,673	1,006,717	39,010,655	57,974,627	98,113,672
Investments in associates	-	-	-	-	-	301,487	301,487
Other financial assets	7,104,813	57	1,397	74,949	974,730	-	8,155,946
Total assets	<u>4,634,518,944</u>	<u>946,031,609</u>	<u>1,640,527,625</u>	<u>2,494,031,800</u>	<u>821,089,721</u>	<u>2,598,183,142</u>	<u>13,134,382,841</u>
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,495,353,817	1,495,353,817
Deposits and balances from banks and other financial institutions	3,322,839,071	393,391,570	932,351,209	1,084,935,275	-	194,748,730	5,928,265,855
Financial instruments at fair value through profit or loss	11,809	28,238	-	2,285,996	-	-	2,326,043
Repurchase agreements	1,100,363	-	-	-	-	-	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	1,251,089,506	-	-	-	-	-	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	883,702,465	-	-	-	-	-	883,702,465
Customer accounts	148,879,519	-	-	-	-	-	148,879,519
Debt securities issued	355,052,275	-	-	-	-	-	355,052,275
Reserves of guarantee fund	209,142,651	-	-	-	-	-	209,142,651
Other financial liabilities	5,321,666	-	-	-	-	-	5,321,666
Total liabilities	<u>6,177,139,325</u>	<u>393,419,808</u>	<u>932,351,209</u>	<u>1,087,221,271</u>	<u>-</u>	<u>1,690,102,547</u>	<u>10,280,234,160</u>
Net position	<u>(1,542,620,381)</u>	<u>552,611,801</u>	<u>708,176,416</u>	<u>1,406,810,529</u>	<u>821,089,721</u>	<u>908,080,595</u>	<u>2,854,148,681</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position as at 31 December 2014:

KZT'000	<u>Demand and less than 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 12 months</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>No maturity</u>	<u>Total</u>
ASSETS							
Cash on hand in foreign currency	27,872,157	-	-	-	-	-	27,872,157
Gold	198,100,712	313,750,709	-	-	-	836,698,595	1,348,550,016
Placements with banks and other financial institutions	1,701,847,704	32,171,617	338,468,589	1,036,402,537	3,708,401	98,952,216	3,211,551,064
Financial instruments at fair value through profit or loss	347,778	566,765	10,328,981	212,341,833	271,142,626	129,084,671	623,812,654
Reverse repurchase agreements	688,883,841	25,490,177	-	-	-	-	714,374,018
Available-for-sale financial assets	340,727,956	457,835,257	516,166,104	1,367,108,856	319,852,240	79,853	3,001,770,266
Held-to-maturity investments	-	26,195	254,807	847,576	57,662,456	-	58,791,034
Investments in associates	-	-	-	-	-	298,955	298,955
Other financial assets	5,994,775	-	-	-	-	-	5,994,775
Total assets	<u>2,963,774,923</u>	<u>829,840,720</u>	<u>865,218,481</u>	<u>2,616,700,802</u>	<u>652,365,723</u>	<u>1,065,114,290</u>	<u>8,993,014,939</u>
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,382,577,952	1,382,577,952
Deposits and balances from banks and other financial institutions	2,459,861,043	-	331,111,130	1,032,604,920	-	96,769,061	3,920,346,154
Financial instruments at fair value through profit or loss	113,855	142,437	-	566,079	-	-	822,371
Current accounts of the National Fund of the Republic of Kazakhstan	1,227,141,853	-	-	-	-	-	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	522,688,328	-	-	-	-	-	522,688,328
Customer accounts	311,520,251	-	-	-	-	-	311,520,251
Debt securities issued	27,014,780	-	-	-	-	-	27,014,780
Reserves of guarantee fund	173,462,395	-	-	-	-	-	173,462,395
Other financial liabilities	32,930,036	-	-	-	-	-	32,930,036
Total liabilities	<u>4,754,732,541</u>	<u>142,437</u>	<u>331,111,130</u>	<u>1,033,170,999</u>	<u>-</u>	<u>1,479,347,013</u>	<u>7,598,504,120</u>
Net position	<u>(1,790,957,618)</u>	<u>829,698,283</u>	<u>534,107,351</u>	<u>1,583,529,803</u>	<u>652,365,723</u>	<u>(414,232,723)</u>	<u>1,394,510,819</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

37. CREDIT RELATED COMMITMENTS

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

The National 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 contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related 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	2014
	KZT'000	KZT'000
Contracted amount		
Loan and credit line commitments	181,396,607	96,607
Investment commitments	33,052,423	-
Guarantees and letters of credit	433,970	482,675
	214,883,000	579,282

“NIC NBK” JSC implements the program of investments in alternative classes of assets through a special purpose vehicle NICK Master Fund Ltd. As at 31 December 2015, NICK Master Fund Ltd. has payment liabilities of KZT 33,052,423 thousand to its partner Tarragon LP. Investments are made in sub-funds selected by NICK Master Fund Ltd. These confirmed liabilities can be changed.

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

38. CONTINGENCIES

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 National 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 National Bank’s operations. Until the National Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the National Bank’s operations and financial position.

Litigation

Management is unaware of any significant actual, pending or threatened claims against the National Bank.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

38. CONTINGENCIES, CONTINUED

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 Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

39. FUNDS MANAGEMENT, TRUST AND CUSTODY ACTIVITIES

Funds management and trust services

The National Bank provides trust and asset management services to trust companies, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The National Bank receives fee income for providing these services. Trust assets are not assets of the National Bank and are not recognised in the consolidated statement of financial position. The National Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2015, the total amount of assets that National Bank holds and manages for outside organisations is KZT 896,318,489 thousand (31 December 2014: KZT 741,903,887 thousand).

As at 31 December 2015, the total amount of assets that National Bank holds and manages for the National Fund is KZT 23,589,921,384 thousand (31 December 2014: KZT 14,936,007,836 thousand). A portion of these funds is managed by external managers in accordance with the investment policies set by the NBK.

Custody activities

During 2015 and 2014 the National Bank provided custody services to UNPF JSC. As at 31 December 2015, the total amount of assets of “Unified National Pension Fund” JSC (UNPF) under the custodial service of the National Bank equals KZT 5,831,460,254 thousand (31 December 2014: KZT 4,515,682,249 thousand).

Assets of depositors

On 26 November 2012 the NBK acquired shares of “Central Securities Depository” JSC (the “Central Depository”), which performs the accounting of financial instruments and money of their clients. Accounting for financial instruments and money of the Central Depository’s clients is performed separately from its own financial instruments and money on off balance sheet accounts.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

39. FUNDS MANAGEMENT, TRUST AND CUSTODY ACTIVITIES, CONTINUED

Assets of depositors, continued

As at 31 December 2015, the total amount of financial instruments and money in nominal holding and bank accounts of depositors in the Central Depository is KZT 21,332,839,377 thousand (31 December 2014: KZT 16,223,876,759 thousand).

40. RELATED PARTY TRANSACTIONS

Transactions with the members of the Board of Directors and the Management Board

The remuneration to the members of the National Bank's Management Board and the Board of Directors for the year ended 31 December 2015, comprised KZT 561,204 thousand (2014: KZT 637,461 thousand). The remuneration consists of salary and other payments.

Transactions with other related parties

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

	State companies and organisations			
	31 December 2015		31 December 2014	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Placements with banks and other financial institutions	157,452,917	1.44	6,154,656	-
Available-for-sale financial assets	1,438,323,613	2.84	777,100,725	5.71
Held-to-maturity investments	98,091,620	4.82	58,749,419	4.02
Current tax asset	1,154,864	-	469,705	-
Deferred tax assets	31,412,330	-	73,196	-
Other assets	3,436,686	-	3,128,790	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

40. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties, continued

	State companies and organisations			
	31 December 2015		31 December 2014	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
LIABILITIES				
Deposits and balances from banks and other financial institutions	403,370,386	2.92	163,226,328	1.56
Current accounts of the National Fund of the Republic of Kazakhstan	1,251,089,506	-	1,227,141,853	-
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	883,702,465	-	522,688,328	-
Customer accounts	148,830,700	-	311,462,675	-
Current tax liability	677,884	-	10,980	-
Deferred tax liabilities	2,080,794	-	1,849,800	-
Other liabilities	466,980	-	28,737,562	-
Consolidated Statement of Profit or Loss				
Interest income	28,203,215	-	16,102,751	-
Interest expense	(991,326)	-	(4,423,903)	-
Fee and commission income	25,904,571	-	13,775,821	-
Fee and commission expense	(442)	-	(267,647)	-
Net gain on available-for-sale financial assets	2,904,386	-	17,002,384	-
Other operating income, net	4,148,098	-	1,953,554	-
Banknotes and coins production expenses	(40,387)	-	(39,662)	-
Funding of third parties	(190,327)	-	(184,672)	-
Personnel expenses	(1,666,112)	-	(295,224)	-
Other general and administrative expenses	(1,113,181)	-	(1,190,055)	-
Income tax benefit/(expense)	9,793,268	-	(852,845)	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair values

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

KZT'000	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for- sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	211,082,236	-	-	211,082,236	211,082,236
Gold	2,576,195,433	-	-	-	-	2,576,195,433	2,576,195,433
Placements with banks and other financial institutions	-	-	5,331,626,307	-	-	5,331,626,307	5,331,626,307
Financial instruments at fair value through profit or loss	811,866,055	-	-	-	-	811,866,055	811,866,055
Reverse repurchase agreements	-	-	101,851,332	-	-	101,851,332	109,864,338
Available-for-sale financial assets	-	-	-	3,995,190,373	-	3,995,190,373	3,242,079,929
Held-to-maturity investments	-	98,113,672	-	-	-	98,113,672	86,069,920
Other financial assets	-	-	8,155,946	-	-	8,155,946	8,155,946
	3,388,061,488	98,113,672	5,652,715,821	3,995,190,373	-	13,134,081,354	12,376,940,164
Currency in circulation	-	-	-	-	1,495,353,817	1,495,353,817	1,495,353,817
Deposits and balances from banks and other financial institutions	-	-	-	-	5,928,265,855	5,928,265,855	5,928,265,855
Financial instruments at fair value through profit or loss	2,326,043	-	-	-	-	2,326,043	2,326,043
Repurchase agreements	-	-	-	-	1,100,363	1,100,363	1,177,936
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	1,251,089,506	1,251,089,506	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	883,702,465	883,702,465	883,702,465
Customer accounts	-	-	-	-	148,879,519	148,879,519	148,879,519
Debt securities issued	-	-	-	-	355,052,275	355,052,275	355,052,275
Reserves of guarantee fund	-	-	-	-	209,142,651	209,142,651	209,142,651
Other financial liabilities	-	-	-	-	5,321,666	5,321,666	5,321,666
	2,326,043	-	-	-	10,277,908,117	10,280,234,160	10,280,311,733

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Accounting classifications and fair values, continued

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

KZT'000	Designated at fair value	Held-to- maturity	Loans and receivables	Available-for- sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	27,872,157	-	-	27,872,157	27,872,157
Gold	1,348,550,016	-	-	-	-	1,348,550,016	1,348,550,016
Placements with banks and other financial institutions	-	-	3,211,551,064	-	-	3,211,551,064	3,211,551,064
Financial instruments at fair value through profit or loss	623,812,654	-	-	-	-	623,812,654	623,812,654
Reverse repurchase agreements	-	-	714,374,018	-	-	714,374,018	713,222,802
Available-for-sale financial assets	-	-	-	3,001,770,266	-	3,001,770,266	3,001,770,266
Held-to-maturity investments	-	58,791,034	-	-	-	58,791,034	58,791,034
Other financial assets	-	-	5,994,775	-	-	5,994,775	5,994,775
	1,972,362,670	58,791,034	3,959,792,014	3,001,770,266	-	8,992,715,984	8,991,564,768
Currency in circulation	-	-	-	-	1,382,577,952	1,382,577,952	1,382,577,952
Deposits and balances from banks and other financial institutions	-	-	-	-	3,920,346,154	3,920,346,154	3,920,346,154
Financial instruments at fair value through profit or loss	822,371	-	-	-	-	822,371	822,371
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	1,227,141,853	1,227,141,853	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	522,688,328	522,688,328	522,688,328
Customer accounts	-	-	-	-	311,520,251	311,520,251	311,520,251
Debt securities issued	-	-	-	-	27,014,780	27,014,780	27,014,780
Reserves of guarantee fund	-	-	-	-	173,462,395	173,462,395	173,462,395
Other financial liabilities	-	-	-	-	32,930,036	32,930,036	32,930,036
	822,371	-	-	-	7,597,681,749	7,598,504,120	7,598,504,120

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

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 National 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, comparison to similar instruments for which market-observable prices exist and other valuation models. 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, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. 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 National Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. 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.

As disclosed in Note 21, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 753,110,444 thousand (2014: nil) cannot be determined.

Fair value hierarchy

The National Bank measures fair values using the following fair value hierarchy, which 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: 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 valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2015 and 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

31 December 2015

KZT'000

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Financial instruments at fair value through profit or loss			
- Financial instruments held-for-trading	810,393,914	-	810,393,914
- Derivative assets	725,600	746,541	1,472,141
- Derivative liabilities	(38,344)	(2,287,699)	(2,326,043)
Available-for-sale financial assets			
- Debt and other fixed income instruments	2,505,677,511	735,293,486	3,240,970,997
- Equity investments	1,029,078	79,854	1,108,932
	<u>3,317,787,759</u>	<u>733,832,182</u>	<u>4,051,619,941</u>

31 December 2014

KZT'000

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Financial instruments at fair value through profit or loss			
- Financial instruments held-for-trading	623,298,230	-	623,298,230
- Derivative assets	514,424	-	514,424
- Derivative liabilities	(256,291)	(566,080)	(822,371)
Available-for-sale financial assets			
- Debt and other fixed income instruments	2,175,468,093	826,222,319	3,001,690,412
- Equity investments	-	79,854	79,854
	<u>2,799,024,456</u>	<u>825,736,093</u>	<u>3,624,760,549</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

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

KZT'000	Level 1	Level 2	Total fair values	Total carrying amounts
ASSETS				
Cash on hand in foreign currency	-	211,082,236	211,082,236	211,082,236
Gold	-	2,576,195,433	2,576,195,433	2,576,195,433
Placements with banks and other financial institutions	-	5,331,626,307	5,331,626,307	5,331,626,307
Reverse repurchase agreements	92,607,978	17,256,360	109,864,338	101,851,332
Held-to-maturity investments	-	86,069,920	86,069,920	98,113,672
Other financial assets	-	8,155,946	8,155,946	8,155,946
LIABILITIES				
Currency in circulation	-	1,495,353,817	1,495,353,817	1,495,353,817
Deposits and balances from banks and other financial institutions	-	5,928,265,855	5,928,265,855	5,928,265,855
Repurchase agreements	-	1,177,936	1,177,936	1,100,363
Current accounts of the National Fund of the Republic of Kazakhstan	-	1,251,089,506	1,251,089,506	1,251,089,506
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	883,702,465	883,702,465	883,702,465
Customer accounts	-	148,879,519	148,879,519	148,879,519
Debt securities issued	-	355,052,275	355,052,275	355,052,275
Reserves of guarantee fund	-	209,142,651	209,142,651	209,142,651
Other financial liabilities	-	5,321,666	5,321,666	5,321,666

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41. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

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

KZT'000	Level 1	Level 2	Total fair values	Total carrying amounts
ASSETS				
Cash on hand in foreign currency	-	27,872,157	27,872,157	27,872,157
Gold	-	1,348,550,016	1,348,550,016	1,348,550,016
Placements with banks and other financial institutions	-	3,211,551,064	3,211,551,064	3,211,551,064
Reverse repurchase agreements	162,074	713,060,728	713,222,802	714,374,018
Held-to-maturity investments	-	58,791,034	58,791,034	58,791,034
Other financial assets	-	5,994,775	5,994,775	5,994,775
LIABILITIES				
Currency in circulation	-	1,382,577,952	1,382,577,952	1,382,577,952
Deposits and balances from banks and other financial institutions	-	3,920,346,154	3,920,346,154	3,920,346,154
Current accounts of the National Fund of the Republic of Kazakhstan	-	1,227,141,853	1,227,141,853	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	522,688,328	522,688,328	522,688,328
Customer accounts	-	311,520,251	311,520,251	311,520,251
Debt securities issued	-	27,014,780	27,014,780	27,014,780
Reserves of guarantee fund	-	173,462,395	173,462,395	173,462,395
Other financial liabilities	-	32,930,036	32,930,036	32,930,036

42. EVENTS AFTER THE REPORTING PERIOD

A message of the President of the Republic of Kazakhstan to the people of Kazakhstan on 30 November 2015 contemplated that the “Fund of Problem Loans” JSC and other financial institutions are taken out of control of the NBK as part of anti-recessionary and structural transformations. Pursuant to the measures defined in the Anti-Crisis Action Plan to ensure economic and social stability in 2016-2018, the NBK jointly with the Ministry of Finance and Ministry of the National Economy shall develop and submit for consideration to the Kazakhstan Presidential Executive Office a proposal on how to take the “Fund of Problem Loans” JSC out of the NBK’s control. The NBK is currently making arrangements to implement the above instruction.