"Al Hilal" Islamic Bank" JSC

Financial statements

For the year ended 31 December 2016
together with independent auditor's report

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«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

Independent auditor's report

To the Shareholders and Board of Directors of
"Al Hilal" Islamic Bank" JSC

Opinion

We have audited the financial statements of "Al Hilal" Islamic Bank" JSC (hereinafter – the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – the "IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter – the "ISA"). Our responsibilities under those standards are further described in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (hereinafter – the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / audit partner

Auditor qualification certificate
No. МФ – 0000099 dated 27 August 2012

050060, Almaty, Kazakhstan
77/7, Al - Farabi Ave.

30 March 2017

Gulmira Turmagambetova
General director
Ernst & Young LLP

State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003, issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(In thousands of tenge)

	Notes	*2016*	*2015*
Assets			
Cash and cash equivalents	6	**14,192,485**	11,966,695
Islamic derivative financial instruments	7	**1,726,353**	1,859,953
Receivables under commodity murabaha agreements	8	**2,760,064**	10,219,577
Wakala investment deposits	9	**1,031,361**	1,841,428
Ijara	10	**962,216**	561,903
Property and equipment	11	**262,657**	267,370
Intangible assets	12	**13,057**	10,541
Current corporate income tax assets	13	**20,202**	–
Deferred corporate income tax assets	13	**33,393**	7,106
Other assets	14	**70,799**	68,022
Total assets		**21,072,587**	26,802,595
Liabilities			
Amounts due to other banks	15	**76,758**	2,741,229
Amounts due to customers	16	**6,175,612**	4,577,786
International reverse murabaha	17	**–**	6,130,516
Unamortised commission income	18	**11,740**	19,075
Current corporate income tax liabilities	13	**–**	44,809
Other liabilities	14	**210,500**	170,276
Total liabilities		**6,474,610**	13,683,691
Equity			
Share capital	19	**10,732,338**	10,732,338
Retained earnings		**3,865,639**	2,386,566
Total equity		**14,597,977**	13,118,904
Total liabilities and equity		**21,072,587**	26,802,595

Signed and authorised for issue on behalf of the Management Board of the Bank

Gordon Haskins — Chairman of the Management Board

مصرف الهلال
al hilal bank

Aidyn Tairov — Chief Accountant

30 March 2017

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(In thousands of tenge)

	Notes	*2016*	*2015*
Revenue from ijara and Islamic financing activities	20	1,490,147	921,572
Revenue from wakala investment deposits	20	105,818	164,839
Expenses from Islamic finance activities	20	(21,032)	(37,755)
Net revenue from Islamic finance activities		1,574,933	1,048,656
Net fee and commission income	21	1,559,290	1,402,259
(Loss)/gain from Islamic derivative financial instruments	7	(133,600)	1,628,790
Net gains/(losses) from foreign currencies	22	299,774	(1,093,934)
Non-finance income		1,725,464	1,937,115
Impairment (charge)/reversal	23	(75,068)	102,169
Personnel expenses	24	(791,464)	(610,121)
Other operating expenses	24	(596,125)	(474,418)
Other impairment and provisions	25	(3,617)	–
Non-finance expenses		(1,466,274)	(982,370)
Profit before corporate income tax expense		1,834,123	2,003,401
Corporate income tax expense	13	(355,050)	(391,529)
Profit for the year		1,479,073	1,611,872
Other comprehensive income		–	–
Total comprehensive income for the year		1,479,073	1,611,872

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(In thousands of tenge)

	Share capital	*Retained earnings*	*Total equity*
As at 1 January 2015	10,732,338	774,694	11,507,032
Profit for the year	–	1,611,872	1,611,872
Total comprehensive income for the year	–	1,611,872	1,611,872
As at 31 December 2015	10,732,338	2,386,566	13,118,904
As at 1 January 2016	10,732,338	2,386,566	13,118,904
Profit for the year	–	1,479,073	1,479,073
Total comprehensive income for the year	–	1,479,073	1,479,073
As at 31 December 2016	10,732,338	3,865,639	14,597,977

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

(In thousands of tenge)

	Notes	*2016*	*2015*
Cash flows from operating activities			
Revenue received from Islamic finance activities		1,413,081	1,053,839
Expenses from Islamic finance activities paid		(21,032)	(37,755)
Fees and commissions received		1,562,942	1,400,755
Fees and commissions paid		(10,987)	(4,402)
Net realised gains from dealing in foreign currencies		109,638	217,846
Personnel expenses paid		(784,769)	(569,193)
Other operating expenses paid		(502,416)	(364,071)
Cash flows from operating activities before changes in operating assets and liabilities		1,766,457	1,697,019
Net (increase)/decrease in operating assets			
Receivables under commodity murabaha agreements		6,459,504	(296,942)
Wakala investment deposits		821,214	795,606
Ijara		593,788	455,627
Other assets		(6,707)	(4,874)
Net increase/(decrease) in operating liabilities			
Amounts due to other banks		(2,444,004)	2,706,134
Amounts due to customers		1,977,222	646,545
International reverse murabaha		(6,272,990)	3,352,678
Other liabilities		(15,179)	(35,624)
Net cash flows from operating activities before corporate income tax		2,879,305	9,316,169
Corporate income tax paid		(446,348)	(348,984)
Net cash flows received from operating activities		2,432,957	8,967,185
Cash flows from investing activities			
Purchase of property and equipment	11	(51,559)	(9,595)
Purchase of intangible assets	12	(6,348)	(6,803)
Net cash flows used in investing activities		(57,907)	(16,398)
Effect of exchange rates changes on cash and cash equivalents		(149,260)	1,326,375
Net increase in cash and cash equivalents		2,225,790	10,277,162
Cash and cash equivalents, as at 1 January		11,966,695	1,689,533
Cash and cash equivalents as at 31 December	6	14,192,485	11,966,695

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

(In thousands of tenge)

1. Principal activities

"Al Hilal" Islamic Bank" JSC (hereinafter – the "Bank") was formed on 22 January 2010 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking license No. 1.1.261 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations on 17 March 2010 and re-issued by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK") on 23 February 2015.

The Bank is involved in Islamic banking activities and carries out its operations through its head office in Almaty and branches in Astana and Shymkent. The Bank accepts deposits from the public and extends finance transactions based on Sharia principles and rules, transfers payments within the Republic of Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial customers.

The sole shareholder of the Bank is Al Hilal Bank PJSC (Abu Dhabi, United Arab Emirates). The ultimate shareholder of the Bank is the Government of Abu Dhabi, represented by Abu Dhabi Investment Council.

The registered and actual address of the Bank is: Republic of Kazakhstan, Almaty, Al-Farabi Ave. 77/7, Esentai Tower.

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except that Islamic derivative financial instruments are stated at fair value. These financial statements are presented in thousands of tenge ("tenge" or "KZT") unless otherwise is stated.

3. Definition of significant terms

Sharia

Sharia is the Body of Islamic law and is derived from the Holy Quran and the Sunna'h of Holy Prophet (PBUH). The Bank being an Islamic Financial Institution incorporates the principles and rules of Sharia in its activities, as interpreted by its Islamic Financial Principles Board.

Commodity Murabaha and Tawarruq and Reverse Murabaha

A method where the Bank purchases a commodity from a Broker and takes ownership and constructive possession of that commodity and then sells it to a customer on a deferred payment basis. The customer then sells the same asset to a third party for immediate delivery and payment, the end result being that the customer receives a cash amount and has a deferred payment obligation for the marked-up price to the Bank. The asset is typically a freely tradable commodity such as platinum or palladium. Gold and silver are treated by Sharia as currency and cannot be used.

Ijara

Leasing of an identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek), ijara is an agreement whereby the Bank buys an asset according to the customer's intention, presented in an intent notice and then leases it, in its capacity as a lessor, to the customer as lessee for the specified rental over a specific period. The duration of the lease term, as well as the basis for rental, are set and agreed in the lease agreement. The Bank owns possesses ownership of the asset throughout the lease term. The arrangement could end by transferring the ownership of the asset to the lessee upon completion by the lessee of it obligation during or at the end of the lease term.

Mudaraba

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between an investment account holder as the provider of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of the investment account holder, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

(In thousands of tenge)

3. Definition of significant terms (continued)

Wakala

An agreement whereby the Investor provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or percentage of the amount invested). The agent may be granted any excess over and above a certain pre-agreed expected rate of return as a performance incentive. The agent is obliged to return the invested amount in case of the agent's negligence or violation of the terms and conditions of the Wakala.

Zakah

Zakah is a right which becomes due in certain types of wealth and disbursable to specific categories of recipients. It is an in rem duty when its conditions are satisfied.

Sukuk

Sukuk are certificates of equal value representing undivided common shares in ownership of tangible assets or in the ownership of a specific asset (leased or to be leased either existing or to be constructed in future), usufruct and services, or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or partnership companies. In all these cases, the Sukuk holders are the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the partnership or the Mudaraba.

Wa'ad Swap (Islamic derivative financial instrument)

Currency and profit rate swaps are promises to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or profit rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency profit rate swaps).

Qard Hassan

Qard Hassan short term receivables are non-profit bearing financing receivables whereby the customer borrows funds for a specific time with an understanding that the same amount will be repaid at the end of the agreed period.

4. Summary of significant accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank's financial statements.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

Financial assets

The Bank has voluntarily adopted IFRS 9 starting from 1 January 2013.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

The financing instruments are measured at amortised cost only if:

- The asset is held within a business model the objective of which is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss (FVTPL). Additionally, even if the asset meets the amortised cost criteria the entity may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. The Bank has elected not to designate any financing instruments as FVTPL under the fair value option.

Only financial assets that are classified and measured at amortised cost are tested for impairment.

Investments in equity instruments not held for trading are designated by the Bank as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

The management has reviewed and assessed all of the Bank's existing financial assets as at the date of initial application of IFRS 9. The adoption of IFRS 9 has no impact on the financial statements, and the Bank has not performed any reclassification or made any adjustment of the book value of its financial instruments as a result of adoption of IFRS 9.

Initial recognition

Financial assets in the scope of IFRS 9 are classified as either financial assets at fair value through profit or loss, at fair value through other comprehensive income or financial assets measured at amortised cost as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Receivables from Islamic finance activities

Receivables from Islamic finance activities, which include receivables under commodity murabaha agreements, are non-derivative financial assets with fixed payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale but to receive contractual cash flows. Assets are carried at amortised cost using the effective profit rate method. Gains and losses are recognised in the profit or loss when the receivables are derecognised or impaired, as well as through the amortisation process. The Bank's receivables from Islamic finance activities consist of Murabaha receivables. Murabaha receivables are stated at amortised cost less any allowance for impairment.

Fair value measurement

The Bank measures financial instruments such as Islamic derivative financial instruments at fair value at the balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in *Note 28*.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, obligatory reserves, amounts due from the NBRK and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Islamic derivative financial instruments

In the normal course of business, the Bank enters into Islamic derivative financial instruments (Wa'ad Swap) in the foreign exchange markets. Such financial instruments are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Islamic derivative financial instruments are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as loss/gain from Islamic derivative financial instruments.

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Ijara Muntahia Bitamleek (Finance lease) – Bank as lessor

The Bank recognizes ijara assets at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Rental income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the financing under ijara agreements.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the obligor or a group of obligors is experiencing significant financial difficulty, default or delinquency in profit rate or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Receivables from Islamic finance activities

For receivables from Islamic finance activities carried at amortised cost, including receivables under Commodity Murabaha agreements, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit-risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Finance income continues to be accrued on the reduced carrying amount based on the original effective profit rate of the asset. Receivables from Islamic finance activities together with the associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Receivables from Islamic finance activities (continued)

The present value of the estimated future cash flows is discounted at the financial asset’s original effective profit rate. If receivable from Islamic finance activities has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank’s internal credit grading system that considers credit-risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit-risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same financer on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Taxation

The current corporate income tax expenses is calculated in accordance with the regulations of the Republic of Kazakhstan.

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

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Taxation (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

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

	Years
Buildings	20
Leasehold improvements	7
Motor vehicles	4
Furniture and fixtures	4
Computers and office equipment	4

Assets' residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Assets under construction represent property and equipment under construction and equipment awaiting installation and are stated at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. Once completed or when the equipment is ready for its intended use, construction-in-process is transferred into the appropriate category and depreciation commenced accordingly.

Intangible assets

Intangible assets include computer software and licenses. Intangible assets are carried at cost less any accumulated amortization. Intangible assets are amortised on a straight-line basis over the useful economic lives of 4 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Share capital

Common shares with discretionary dividends are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Fiduciary assets

Assets held in a fiduciary capacity under wakala and mudaraba agreements are not reported in the financial statements, as they are not the assets of the Bank.

Since the Bank carries no risk and is not responsible for any losses incurred during normal investment activity for mudaraba and wakala products, unless this happened due to the Bank's gross negligence or willful misconduct, both wakala and mudaraba deposits are accounted for as off balance sheet items.

Contingencies

A contingent liability is not recognised in the statement of financial position but is disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but is disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Income and expense on Islamic finance activities

For all financial instruments measured at amortised cost income or expense on Islamic finance activities is recorded at the effective profit rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective profit rate and the change in carrying amount is recorded as income or expense on Islamic finance activities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, revenue on Islamic finance activities continues to be recognised using the original effective profit rate applied to the new carrying amount.

Fee and commission income

Fees earned for the provision of services over a period are accrued over that period. These fees include commission income, Mudarib share of profit, Wakil's incentive and agency fee under wakala agreements.

Foreign currency translation

The financial statements are presented in tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into tenge at the market exchange rate quoted by the Kazakhstan Stock Exchange (the "KASE") and reported by the NBRK at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as net gains/(losses) from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate quoted by KASE on the date of the transaction are included in net gains/(losses) from foreign currencies – dealing. The market exchange rates quoted by KASE at 31 December 2016 and 2015 were KZT 333.29 and KZT 340.01 to USD 1, respectively.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The Bank intends, if necessary, to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IFRS Board published the final version of IFRS 9 *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* as well as all previous versions of IFRS 9. The standard introduces new requirements regarding classification and measurement, impairment and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to financing impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all financings and other debt financial assets not carried at FVPL, as well as for financing commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IFRS Board published IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, profit and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IFRS Board published the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, lessees recognise unpaid rental payment for the part obtained usufruct from leased asset its balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with profit and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IFRS Board clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IFRS Board published amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

Amendments to IFRS 2 Share-based Payment

The IFRS Board published amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations;
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Bank's financial statements.

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Bank's financial statements.

5. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Property and equipment

The cost of property and equipment is depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

(In thousands of tenge)

5. Significant accounting judgments and estimates (continued)

Contingent liability arising from litigations

Due to the nature of its operations, the Bank may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with certainty.

Business model

In making an assessment whether a business model’s objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Bank considers:

- Management’s stated policies and objectives for the portfolio and the operation of those policies in practice;
- How management evaluates the performance of the portfolio;
- Whether management’s strategy focuses on earning contractual profit revenues;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In particular, the Bank exercises judgment to determine the objective of the business model for portfolios which are held for liquidity purposes. The Bank Treasury Department holds Sukuk in a separate portfolio as liquid assets.

The securities may be sold in order to meet unexpected liquidity shortfalls but such sales are not anticipated to be more than infrequent.

The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

When a business model involves transfers of contractual rights to cash flows from financial assets to third parties and the transferred assets are not derecognised, the Bank reviews the arrangements to determine their impact on assessing the objective of the business model. In making the assessment, the Bank considers whether, under the arrangements, the Bank will continue to receive cash flows from the assets, either directly from the issuer, or indirectly from the transferee, including whether it will repurchase the assets from the transferee.

Impairment losses on receivables under commodity murabaha, wakala investment deposits and ijara

The Bank regularly reviews its receivables under commodity murabaha, wakala investment deposits and ijara to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where an obligor is in financial difficulties and there are few available sources of historical data relating to similar obligors. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of obligors.

Measurement and recognition of Wa’ad Swap (Islamic derivative financial instruments)

The Bank enters into derivative transactions with counterparties. The transaction price in the market in which these transactions are undertaken may be different from fair value in the Bank’s principal market for those instruments, which is the wholesale dealer market. At initial recognition, the Bank estimates the fair values of Islamic derivative financial instruments transacted with counterparties using valuation techniques. In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the wholesale dealer market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Bank uses valuation techniques that rely on unobservable inputs – for example, volatilities of certain underlyings.

(In thousands of tenge)

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2016	*2015*
Cash on hand	166,121	340,711
Current account with the NBRK	1,468,943	2,462,176
Murabaha treasury tawarruq with the NBRK	8,409,961	1,202,800
Current accounts with other financial institutions	4,147,460	7,961,008
Cash and cash equivalents	14,192,485	11,966,695

Under legislation of the Republic of Kazakhstan, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on current account with the NBRK or physical cash computed based on average monthly balances of the aggregate of cash balances on current account with the NBRK or physical cash in national and hard currencies during the period of reserve creation. However, the Bank is not restricted from using these funds to finance its day-to-day operations.

As at 31 December 2016, obligatory reserves were equal to KZT 252,139 thousand (as at 31 December 2015: KZT 455,918 thousand).

7. Wa’ad Swap (Islamic derivative financial instruments)

Derivative financial asset represents the fair value of the cross currency wa’ad swaption undertaking with the NBRK to deliver KZT 1,989,570 thousand in exchange for USD 11,000 thousand. At Wa’ad Swap inception date in 2014, the Bank paid the premium of KZT 179,080 thousand. This wa’ad swap matures in 2017. According to the Wa’ad document, the NBRK has a right to early terminate the undertaking at its discretion. As at 31 December 2016, the fair value of the instruments was equal to KZT 1,726,353 thousand (as at 31 December 2015: KZT 1,859,953 thousand).

During 2016, the Bank recognized a loss of KZT 133,600 thousand from change in fair value of Islamic derivative financial instruments as a result of amortization of prepayments and tenge appreciation (in 2015: a gain of KZT 1,628,790 thousand as a result of significant tenge devaluation).

8. Receivables under commodity murabaha agreements

Receivables under commodity murabaha agreements comprise the following:

	2016	*2015*
Receivables under commodity murabaha agreements – corporate	2,726,613	10,212,949
Receivables under commodity murabaha agreements – retail	33,451	13,324
Gross receivables under commodity murabaha agreements	2,760,064	10,226,273
Less: allowance for impairment *(Note 23)*	–	(6,696)
Net receivables under commodity murabaha agreements	2,760,064	10,219,577

As at 31 December 2016, receivables under commodity murabaha agreements bear profit rate of 8.3%-14% per annum and mature in 2017-2021 (as at 31 December 2015: profit rate of 6.5%-14% per annum and maturity in 2016-2020).

As at 31 December 2016, the Bank has no counterparties (as at 31 December 2015: four), whose balances of receivables under commodity murabaha agreements exceed 10% of equity. As at 31 December 2016, the total gross value of these balances is nil (as at 31 December 2015: KZT 6,861,699 thousand).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

As at 31 December 2016 and 2015, receivables arising from commodity murabaha agreements are secured by real estate, movable property, inventory, corporate guarantees. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment on receivables under commodity murabaha agreements.

(In thousands of tenge)

8. Receivables under commodity murabaha agreements (continued)

Concentration of receivables under commodity murabaha agreements

Receivables arise under commodity murabaha agreements which are made within the Republic of Kazakhstan in the following industry sectors:

	2016	*2015*
Transportation and communication	1,400,756	1,942,982
Trade	619,375	2,313,421
Food trading	318,371	2,527,945
Machinery and equipment trade	305,900	720,428
Agriculture	82,211	149,298
Individuals (employees of the Bank)	32,595	11,860
Individuals	856	1,464
Real estate construction	–	2,019,737
Energy supply	–	341,852
Operating leases	–	170,997
Oil and gas industry	–	26,289
	2,760,064	10,226,273
Less: allowance for impairment *(Note 23)*	–	(6,696)
	2,760,064	10,219,577

As at 31 December 2016 and 2015, no receivables under commodity murabaha agreements show specific indicators of impairment. Information on movements in impairment allowance is disclosed in *Note 23*.

9. Wakala investment deposits

As at 31 December 2016, the Bank had investment transactions under wakala agreements, which bear expected profit rate of 7%-8% per annum and mature in 2017-2019 (as at 31 December 2015: profit rate of 7%-8% per annum and mature in 2017-2019). As at 31 December 2016, carrying amount of the wakala investment deposits equals to KZT 1,031,361 thousand (as at 31 December 2015: KZT 1,841,428 thousand). Wakala investment deposits are made within the Republic of Kazakhstan in the postal services industry sector.

As at 31 December 2016, the Bank has no financial institution (as at 31 December 2015: one), whose investment deposit balances exceed 10% of equity. The gross value of these balances as at 31 December 2016 is nil (as at 31 December 2015: KZT 1,841,428 thousand).

Information on movements in impairment allowance is disclosed in *Note 23.*

10. Ijara

Ijara represent net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentation for ijara includes a separate undertaking from the Bank to sell the leased assets to the lessee upon maturity of the lease:

As at 31 December 2016	*Not later than 1 year*	*Later than 1 year and not later than 5 years*	*Total*
Ijara to be received upon maturity – corporate	502,431	753,541	1,255,972
Less: future variable rental (deferred income) – corporate	(41,975)	(170,017)	(211,992)
Less: allowance for impairment *(Note 23)*	–	(81,764)	(81,764)
Net present value of minimum ijara	460,456	501,760	962,216

As at 31 December 2015	*Not later than 1 year*	*Later than 1 year and not later than 5 years*	*Total*
Ijara to be received upon maturity – corporate	401,500	188,899	590,399
Less: future variable rental (deferred income) – corporate	(13,296)	(15,200)	(28,496)
Net present value of minimum ijara	388,204	173,699	561,903

As at 31 December 2016, ijara transactions bear profit rate of 18% per annum and mature in 2019 (as at 31 December 2015: profit rate of 7.5%-8.5% per annum and mature in 2016-2017). Ijara are made within the Republic of Kazakhstan in the trade industry sector.

(In thousands of tenge)

10. Ijara (continued)

The entire amount of ijara is collateralised by equipment, fair value of which is determined at the reporting date.

As at 31 December 2016 and 2015, the Bank has no counterparties under ijara, whose ijara balances exceed 10% of equity.

Information on movements in impairment allowance is disclosed in *Note 23.*

11. Property and equipment

Movements in property and equipment were as follows:

	Buildings	*Leasehold improve-ments*	*Motor vehicles*	*Furniture and fixtures*	*Computers and other office equipment*	*Total*
Cost						
At 31 December 2014	221,969	107,917	22,557	34,026	29,190	415,659
Additions	–	5,406	–	5,787	1,437	12,630
At 31 December 2015	221,969	113,323	22,557	39,813	30,627	428,289
Additions	–	6,269	–	944	44,346	51,559
Disposals	–	–	–	(359)	(137)	(496)
At 31 December 2016	221,969	119,592	22,557	40,398	74,836	479,352
Accumulated depreciation						
At 31 December 2014	(39,361)	(3,421)	(19,737)	(26,060)	(13,906)	(102,485)
Charge for the year	(11,025)	(33,469)	(2,820)	(5,265)	(5,855)	(58,434)
At 31 December 2015	(50,386)	(36,890)	(22,557)	(31,325)	(19,761)	(160,919)
Charge for the year	(11,025)	(36,126)	–	(2,992)	(5,894)	(56,037)
Disposal	–	–	–	132	129	261
At 31 December 2016	(61,411)	(73,016)	(22,557)	(34,185)	(25,526)	(216,695)
Net book value						
At 31 December 2014	182,608	104,496	2,820	7,966	15,284	313,174
At 31 December 2015	171,583	76,433	–	8,488	10,866	267,370
At 31 December 2016	160,558	46,576	–	6,213	49,310	262,657

12. Intangible assets

Movements of intangible assets were as follows:

	Computer software
Cost	
At 31 December 2014	19,528
Additions	6,803
At 31 December 2015	26,331
Additions	6,348
At 31 December 2016	32,679
Accumulated amortization	
At 31 December 2014	(12,405)
Charge for the year	(3,385)
At 31 December 2015	(15,790)
Charge for the year	(3,832)
At 31 December 2016	(19,622)
Net book value	
At 31 December 2014	7,123
At 31 December 2015	10,541
At 31 December 2016	13,057

(In thousands of tenge)

13. Taxation

The corporate income tax expense comprises:

	2016	*2015*
Current corporate income tax charge	381,337	412,741
Deferred corporate income tax benefit – origination and reversal of temporary differences	(26,287)	(21,212)
Corporate income tax expense	355,050	391,529

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2016 and 2015.

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax multiplied by the statutory tax rate for the years ended 31 December is as follows:

	2016	*2015*
Profit before corporate income tax expense	1,834,123	2,003,401
Statutory tax rate	20%	20%
Theoretical corporate income tax expense at the statutory rate	366,825	400,680
Non-taxable income from ijara	(14,371)	(11,092)
Non-deductible expenditures	2,596	1,941
Corporate income tax expense	355,050	391,529

As at 31 December 2016, current corporate income tax assets comprised KZT 20,202 thousand (as at 31 December 2015, current corporate income tax liabilities of KZT 44,809 thousand).

Deferred corporate income tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	2014	*Origination and reversal of temporary differences in profit or loss*	*2015*	*Origination and reversal of temporary differences in profit or loss*	*2016*
Tax effect of deductible temporary differences					
Accrual for bonuses	16,596	9,026	25,622	4,586	30,208
Allowance for impairment	–	–	–	16,353	16,353
Accrued professional services	–	–	–	3,734	3,734
Unused vacation accrual	1,581	(466)	1,115	461	1,576
Deferred corporate income tax assets	18,177	8,560	26,737	25,134	51,871
Tax effect of taxable temporary differences					
Islamic derivative financial instruments	(6,887)	6,887	–	–	–
Property and equipment	(25,396)	5,765	(19,631)	1,153	(18,478)
Deferred corporate income tax liabilities	(32,283)	12,652	(19,631)	1,153	(18,478)
Net deferred corporate income tax assets/ (liabilities)	(14,106)	21,212	7,106	26,287	33,393

(In thousands of tenge)

14. Other assets and liabilities

Other assets comprise the following:

	2016	*2015*
Guarantee deposit	35,040	24,665
Due from employees under Qard Hassan agreements	5,144	8,591
Total other financial assets	40,184	33,256
Rent prepayment	12,684	7,813
Prepaid insurance premium	10,197	10,087
Information services and consulting prepayments	3,698	712
Prepaid taxes other than income tax	3,449	3,406
Prepayments for air tickets	941	2,084
Prepayment for cleaning services	–	4,999
Other	3,263	5,665
Total other non-financial assets	34,232	34,766
Less: allowance for impairment of other assets (*Note 25*)	(3,617)	–
Other assets	70,799	68,022

Other liabilities comprise the following:

	2016	*2015*
Accounts payable	23,776	11,038
Total other financial liabilities	23,776	11,038
Accrued bonuses	133,819	113,922
Salary payable	25,639	18,275
Taxes other than income tax payable	9,438	10,764
Accrued unused vacations expenses	7,878	5,577
Other	9,950	10,700
Total other non-financial liabilities	186,724	159,238
Other liabilities	210,500	170,276

15. Amounts due to other banks

As at 31 December 2016, amounts due to other banks mainly comprise current accounts of AsiaCredit Bank JSC and Bank CenterCredit JSC totaling to KZT 52,516 thousand and KZT 24,242 thousand, respectively (as at 31 December 2015: KZT 2,724,857 thousand and KZT 16,372 thousand, respectively).

16. Amounts due to customers

Amounts due to customers comprise the following:

	2016	*2015*
Current accounts	6,175,612	4,577,786
Amounts due to customers	6,175,612	4,577,786

Amounts due to customers include accounts with the following types of customers:

	2016	*2015*
Private enterprises	5,364,303	4,017,251
Government entities	329,679	101,990
Individuals	292,176	292,344
International organizations	183,184	85,393
Employees	6,270	80,808
Amounts due to customers	6,175,612	4,577,786

(In thousands of tenge)

16. Amounts due to customers (continued)

Amounts due to customers are geographically concentrated within the Republic of Kazakhstan in the following economic sectors:

	2016	*2015*
Construction	3,366,205	2,892,025
Trade	983,775	110,179
Leasing	446,806	351,811
Government	329,679	101,990
Individuals	292,176	292,344
Post	251,383	44,662
Charity	183,184	85,393
Agriculture	92,776	148,881
Food trading	86,278	437,179
Financial services	76,119	14,975
Energetics	43,267	–
Machinery and equipment trade	12,022	5,112
Employees	6,270	80,808
Transport and communication	2,087	2,308
Other	3,585	10,119
Amounts due to customers	6,175,612	4,577,786

17. International reverse murabaha

International reverse murabaha comprise the following:

	2016	*2015*
Gross international reverse murabaha	–	6,150,220
Less: deferred profit	–	(19,704)
International reverse murabaha	–	6,130,516

International reverse murabaha was received on 2 June 2015, for the purpose of supporting investment activity of the Bank bearing annual profit rate at 1.25% and was repaid at the maturity on 3 February 2016.

18. Unamortised commission income

Unamortised commissions are the commissions charged by the Bank to its customers for examining and documenting Islamic financing. As unamortised commissions are transaction costs directly attributable to the issue of Islamic financing, they are amortised over the expected life of the agreements. As at 31 December 2016 and 2015, amount of unamortised commission income was equal to KZT 11,740 thousand and KZT 19,075 thousand, respectively.

19. Equity

As at 31 December 2016 and 2015, authorized and outstanding 10,732,338 common shares are issued and fully paid by the sole shareholder of the Bank at placement value of KZT 1 thousand per common share. No dividends were declared or paid during 2016 and 2015.

20. Net revenue from Islamic finance activities

Net revenue from Islamic finance activities comprises:

	2016	*2015*
Revenue from receivables under commodity murabaha agreements – corporate	716,850	795,041
Revenue from murabaha treasury tawarruq – banks	699,274	68,501
Revenue from wakala investment deposits – corporate	105,818	164,839
Revenue from ijara – corporate	71,854	55,460
Revenue from receivables under commodity murabaha agreements – retail	2,169	2,570
Expenses from Islamic finance activities	(21,032)	(37,755)
	1,574,933	1,048,656

In 2016 expenses from Islamic finance activities included expenses from international reverse murabaha of KZT 21,032 thousand (in 2015: KZT 37,755 thousand).

(In thousands of tenge)

21. Net fee and commission income

Net fee and commission income comprises:

	2016	*2015*
Agency commission and performance incentive under wakala and mudarib share of profit under mudaraba agreements *(Note 26)*	1,394,130	1,262,595
Letters of credit and guarantees	111,443	83,481
Transfer operations	32,262	22,281
Non-capitalisable portion of examination and documentation fee in relation to financing	18,991	29,426
Settlement and cash operations	12,616	8,153
Other	835	725
Fee and commission income	1,570,277	1,406,661
Transfer operations	(1,211)	(1,725)
Other	(9,776)	(2,677)
Fee and commission expense	(10,987)	(4,402)
Net fee and commission income	1,559,290	1,402,259

22. Net gains/(losses) from foreign currencies

Net gains/(losses) from foreign currencies comprise the following:

	2016	*2015*
Net gains/(losses) from foreign currencies		
- dealing	109,638	217,846
- translation differences	190,136	(1,311,780)
	299,774	(1,093,934)

23. Impairment charge

Movement in allowance for impairment of receivables from Islamic finance activities is as follows:

	Receivables under commodity murabaha agreements (Note 8)	*Wakala investment deposits (Note 9)*	*Ijara (Note 10)*	*Total*
As at 1 January 2016	6,696	–	–	6,696
(Reversal)/charge for the year	(6,696)	–	81,764	75,068
As at 31 December 2016	–	–	81,764	81,764
Specific impairment	–	–	81,764	81,764
	–	–	81,764	81,764

	Receivables under commodity murabaha agreements (Note 8)	*Wakala investment deposits (Note 9)*	*Ijara (Note 10)*	*Total*
As at 1 January 2015	73,684	25,371	9,799	108,854
Reversal for the year	(66,999)	(25,371)	(9,799)	(102,169)
Translation difference	11	–	–	11
As at 31 December 2015	6,696	–	–	6,696
Collective impairment	6,696	–	–	6,696
	6,696	–	–	6,696

(In thousands of tenge)

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2016	*2015*
Salaries and bonuses	731,340	561,684
Social security costs	60,124	48,437
Personnel expenses	791,464	610,121
Rent	300,294	198,369
Depreciation and amortization	59,869	61,819
Information technology services	59,638	20,787
Taxes other than income tax	39,087	30,477
Professional services	33,389	53,752
Business trips	21,124	10,831
Communication	16,173	18,315
Security	15,001	16,137
Transportation	8,990	8,369
Utilities	8,394	8,960
Cleaning services	6,285	5,942
Trainings	3,240	2,705
Stationery	2,276	2,454
Sponsorship	1,300	1,701
Penalties	1,272	8,800
Charity expense	716	–
Sharia expenses	–	11,331
Other	19,077	13,669
Other operating expenses	596,125	474,418

25. Other impairment and provisions

Movements in other impairment allowances and provisions were as follows:

	Other assets	*Total*
As at 31 December 2014	–	–
Charge for the year	–	–
As at 31 December 2015	–	–
Charge for the year	3,617	3,617
As at 31 December 2016	3,617	3,617

Allowance for impairment of other assets is deducted from the carrying amount of the related assets.

26. Commitments and contingencies

Operating environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2016, similar to 2015, the Kazakhstan economy continued to be negatively impacted by a significant decline in crude oil prices and a significant tenge devaluation that occurred in 2015. These factors resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. However, in the latter half of 2016, the tenge stabilized, the rate of inflation dropped and economic growth improved marginally. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

(In thousands of tenge)

26. Commitments and contingencies (continued)

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or future performance of the Bank. As at 31 December 2016 and 2015, no provision has been made in these financial statements for any of such action or complaints.

Taxation

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and fines related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of 50% of the taxes unpaid or more.

The Bank believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

These circumstances may create tax risks in the Republic of 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 financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Credit related commitments and contingencies

As at 31 December, the Bank's credit related commitments comprise:

	2016	*2015*
Undrawn commitments on receivables from Islamic finance activities	15,781,803	9,461,383
Guarantees issued	3,157,103	2,383,650
Letters of credit issued	226,974	–
Credit related commitments	19,165,880	11,845,033

Trust activities

The Bank acts in agent capacity for investing amounts received under wakala and acts as a mudarib in mudaraba agreements as follows:

	2016	*2015*
Wakala		
Unutilised portion of wakala deposits at 1 January	–	–
Wakala deposits received	81,428,978	170,675,919
Amount utilised for murabaha	(81,428,978)	(170,233,906)
Amount utilised for wakala investment deposits	–	(442,013)
Unutilised portion of wakala deposits at 31 December	–	–
Mudaraba		
Unutilised portion of mudaraba deposits at 1 January	–	–
Mudaraba deposits received	10,332	32,348
Amount utilised for issuance of murabaha receivables	(10,332)	(32,348)
Unutilised portion of mudaraba deposits at 31 December	–	–
Profit accrued on receivable under murabaha agreements and ijara	1,894,443	1,882,063
Profit accrued on wakala investment deposits	–	4,492
Agency commission attributable to the Bank *(Note 21)*	(1,394,130)	(1,262,595)
Profit attributable to customers on wakala and mudaraba deposits	500,313	623,960

The Bank carries no risk for utilised portion of wakala and mudaraba deposits except when the deposits are lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank. Profit attributable to customers also includes depositors profit reserves and the zakah due on these reserves. The Bank is discharging this zakah on behalf of the depositors.

(In thousands of tenge)

27. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, Shari'a risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Management Department and Internal Control and Operational Risk Department

The Risk Management Department and Internal Control and Operational Risk Department are responsible for control over compliance with principles, policies on risk-management and risk limits of the Bank for independent risk control, including positions subject to risk in comparison with established limits for estimation of risk of new products and structured transactions; and also for collecting full information in risk estimation systems and risk-management reports. The Risk Management Department monitors the quality of the credit portfolio and coverage of credit risk by liquid collateral. The Risk Management Department together with business units is responsible for realisation of the credit policy of the Bank and requirements of other internal documents and of state regulators. The Risk Management Department and Internal Control and Operational Risk Department take part in making decisions on accepting different risks. The Risk Management Department and Internal Control and Operational Risk Department develop methods of quantitative estimation of risks attributable to the Bank and provide recommendations to different departments of the Bank on minimisation of effective control over risks. The Risk Management Department develops and implements methodologies and analytical instruments, which allow the evaluation of risks, to control the level of risks and organise procedures to mitigate those risks.

Islamic Finance Principles Board

The Islamic Finance Principles Board is responsible to review the operating, financing and investing activities of the Bank ensuring their alignment and compliance with the principles and rules of Sharia. Being a supervisory board it is also required to audit the business activities undertaken and present an independent Sharia report to the shareholders with regard to the implementation of the principles and rules of Sharia in the Bank's overall activities.

The Sharia Coordinator represents the Islamic Finance Principles Board and is also responsible to ensure compliance with instructions issued by the Islamic Finance Principles Board including reviewing all standard and non-standard contracts, product parameters and financial statements and conducting the Sharia audit.

Bank Treasury

The Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are monitored by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

(In thousands of tenge)

27. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

The Bank's risks are measured using a method, which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all activities and risk types.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Asset and Liability Committee, and the Credit Committee as appropriate. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, capital adequacy ratios, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry and customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

The Bank actively uses collateral to reduce its credit risk.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies procedures and risk appetite framework include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Islamic derivative financial instruments

Credit risk arising from Islamic derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

(In thousands of tenge)

27. Risk management (continued)

Credit risk (continued)

Credit-related commitments

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letters of credit or guarantee. They expose the Bank to similar risks to receivables under commodity murabaha and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivative financial instruments, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for receivable-related lines in the statement of financial position, based on the Bank's credit rating system.

2016	*Notes*	*Neither past due nor impaired* *Standard grade*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	6	14,026,364	–	14,026,364
Receivables under commodity murabaha agreements	8	2,760,064	–	2,760,064
Wakala investment deposits	9	1,031,361	–	1,031,361
Ijara	10	10	1,043,970	1,043,980
Other financial assets	14	40,184	–	40,184
Total		17,857,983	1,043,970	18,901,953

2015	*Notes*	*Neither past due nor impaired* *Standard grade*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	6	11,625,984	–	11,625,984
Receivables under commodity murabaha agreements	8	10,226,273	–	10,226,273
Wakala investment deposits	9	1,841,428	–	1,841,428
Ijara	10	561,903	–	561,903
Other financial assets	14	33,256	–	33,256
Total		24,288,844	–	24,288,844

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Impairment assessment

The main considerations for the impairment assessment of receivables from Islamic finance activities include whether any payments on those receivables are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the agreement. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for individually significant receivables from Islamic finance activities on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(In thousands of tenge)

27. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on receivables from Islamic finance activities that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet any objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the expected delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by risk management to ensure alignment with the Bank's overall policy.

The geographical concentration of Bank's financial assets and liabilities is set out below:

	2016		
	Kazakhstan	*UAE*	*Total*
Assets			
Cash and cash equivalents	10,045,025	4,147,460	14,192,485
Islamic derivative financial instruments	1,726,353	–	1,726,353
Receivables under commodity murabaha agreements	2,760,064	–	2,760,064
Wakala investment deposits	1,031,361	–	1,031,361
Ijara	962,216	–	962,216
Other financial assets	40,184	–	40,184
	16,565,203	4,147,460	20,712,663
Liabilities			
Amounts due to other banks	76,758	–	76,758
Amounts due to customers	6,175,612	–	6,175,612
Other financial liabilities	23,776	–	23,776
	6,276,146	–	6,276,146
Net assets	10,289,057	4,147,460	14,436,517

	2015		
	Kazakhstan	*UAE*	*Total*
Assets			
Cash and cash equivalents	4,005,687	7,961,008	11,966,695
Islamic derivative financial instruments	1,859,953	–	1,859,953
Receivables under commodity murabaha agreements	10,219,577	–	10,219,577
Wakala investment deposits	1,841,428	–	1,841,428
Ijara	561,903	–	561,903
Other financial assets	33,256	–	33,256
	18,521,804	7,961,008	26,482,812
Liabilities			
Amounts due to other banks	2,741,229	–	2,741,229
Amounts due to customers	4,577,786	–	4,577,786
International reverse murabaha	6,130,516	–	6,130,516
Other financial liabilities	11,038	–	11,038
	13,460,569	–	13,460,569
Net assets	5,061,235	7,961,008	13,022,243

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

(In thousands of tenge)

27. Risk management (continued)

Liquidity risk and funding management (continued)

The Bank maintains a portfolio of diverse assets the terms to maturity of which provide sufficient liquidity to manage unforeseen interruptions of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily based on certain liquidity ratios established by the NBRK.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments, which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

As at 31 December 2016	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to other banks	76,758	–	–	–	76,758
Amounts due to customers	6,175,612	–	–	–	6,175,612
Other financial liabilities	–	23,776	–	–	23,776
Total undiscounted financial liabilities	6,252,370	23,776	–	–	6,276,146

As at 31 December 2015	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to other banks	2,741,229	–	–	–	2,741,229
Amounts due to customers	4,577,786	–	–	–	4,577,786
International reverse murabaha	6,150,220	–	–	–	6,150,220
Other financial liabilities	–	11,038	–	–	11,038
Total undiscounted financial liabilities	13,469,235	11,038	–	–	13,480,273

The table below shows the contractual maturity of the Bank's financial commitments and contingencies. Each undrawn commitment on a receivable is included in the time band containing the earliest date it can be drawn down.

2016	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Undrawn commitments on receivables from Islamic finance activities	440,586	5,679,450	9,661,767	–	15,781,803
Guarantees issued	299,447	2,857,656	–	–	3,157,103
Letters of credit issued	226,974	–	–	–	226,974

2015	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Undrawn commitments on receivables from Islamic finance activities	–	905,787	8,555,596	–	9,461,383
Guarantees issued	–	–	2,383,650	–	2,383,650

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

In accordance with Kazakhstan legislation, the Bank is obliged to repay term deposits of individuals upon demand of a depositor. However, the Bank is not obliged to return utilised portion of wakala and mudaraba deposits, except when the deposit is lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case such losses would be borne by the Bank. For further information on liquidity risk, see *Note 29*.

(In thousands of tenge)

27. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates and profit rates.

Profit rate risk

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

Profit rate sensitivity analysis

The management of profit rate risk, based on a profit rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss to changes in profit rates (re-pricing risk), based on a simplified scenario of a 100 basis point symmetrical fall or rise in all positions of profit-bearing assets and liabilities existing as at 31 December 2016 and 2015, is as follows:

	2016		*2015*	
Inflation	*Increase in basis points by*	*Sensitivity of net profit*	*Increase in basis points by*	*Sensitivity of net profit*
Currency				
KZT	100	13,485	100	40,958
Inflation	*Decrease in basis points by*	*Sensitivity of net profit*	*Decrease in basis points by*	*Sensitivity of net profit*
Currency				
KZT	(100)	(13,485)	(100)	(40,958)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Asset and Liability Committee has set limits on positions by currency based on the NBRK regulations. Positions are monitored on a daily basis.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2016:

As at 31 December 2016	*KZT*	*USD*	*EUR*	*AED*	*Total*
Cash and cash equivalents	9,283,000	4,572,751	229,082	107,652	14,192,485
Islamic derivative financial instruments	1,726,353	–	–	–	1,726,353
Receivables under commodity murabaha agreements	2,760,064	–	–	–	2,760,064
Wakala investment deposits	1,031,361	–	–	–	1,031,361
Ijara	962,216	–	–	–	962,216
Other assets	40,184	–	–	–	40,184
Total assets	15,803,178	4,572,751	229,082	107,652	20,712,663
Liabilities					
Amounts due to other banks	–	–	–	76,758	76,758
Amounts due to customers	1,309,073	4,606,486	229,059	30,994	6,175,612
Other liabilities	23,776	–	–	–	23,776
Total liabilities	1,332,849	4,606,486	229,059	107,752	6,276,146
	14,470,329	(33,735)	23	(100)	14,436,517
Islamic derivative financial instruments	(1,989,570)	3,666,190	–	–	1,676,620
Net position	12,480,759	3,632,455	23	(100)	16,113,137

(In thousands of tenge)

27. Risk management (continued)

Market risk (continued)

Currency risk (continued)

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

As at 31 December 2015	*KZT*	*USD*	*EUR*	*AED*	*Total*
Cash and cash equivalents	2,007,432	6,513,531	258,080	3,187,652	11,966,695
Islamic derivative financial instruments	1,859,953	–	–	–	1,859,953
Receivables under commodity murabaha agreements	7,128,200	3,091,377	–	–	10,219,577
Wakala investment deposits	1,841,428	–	–	–	1,841,428
Ijara	561,903	–	–	–	561,903
Other assets	33,256	–	–	–	33,256
Total assets	13,432,172	9,604,908	258,080	3,187,652	26,482,812
Liabilities					
Amounts due to other banks	–	–	–	2,741,229	2,741,229
Amounts due to customers	776,506	3,545,023	247,914	8,343	4,577,786
International reverse murabaha	–	6,130,516	–	–	6,130,516
Other liabilities	11,038	–	–	–	11,038
Total liabilities	787,544	9,675,539	247,914	2,749,572	13,460,569
	12,644,628	(70,631)	10,166	438,080	13,022,243
Islamic derivative financial instruments	(1,989,570)	3,740,110	–	–	1,750,540
Net position	10,655,058	3,669,479	10,166	438,080	14,772,783

The table below indicates the currencies to which the Bank had significant exposure at 31 December on certain monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the profit or loss (due to the fair value of certain currency sensitive certain monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the statement of profit or loss, while a positive amount reflects a net potential increase.

	2016		*2015*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	+13%	25,032	+60%	(465,223)
EUR	+15%	(56)	+60%	(5,980)
AED	+13%	(13)	+60%	(262,848)

	2016		*2015*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	-13%	(25,032)	-20%	155,074
EUR	-15%	56	-20%	1,993
AED	-13%	13	-20%	87,616

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors (other than credit, market and liquidity risks) such as those arising from legal, Sharia and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations.

(In thousands of tenge)

27. Risk management (continued)

Operational risk (continued)

The Bank’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management and the Internal Control and Operational Risk Department. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with Sharia, regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation.

Compliance with the Bank’s standards is supported by a programme of periodic reviews undertaken by Internal Audit and Sharia Audit. The results of Internal Audit and Sharia Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board of Directors, Islamic Finance Principle Board and senior management of the Bank.

28. Fair values of financial instruments

At each reporting date, management of the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank’s accounting policies. For this analysis, management of the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management of the Bank, in conjunction with the Bank’s external appraisers also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of disclosing those fair values, the Bank determined classes of assets and liabilities based on the nature, characteristics and risks of those assets and liabilities as well as the hierarchy of fair value sources.

		Fair value measurement using			
As at 31 December 2016	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets measured at fair value					
Islamic derivative financial instruments	31 December 2016	–	–	1,726,353	1,726,353
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2016	14,192,485	–	–	14,192,485
Receivables under commodity murabaha agreements	31 December 2016	–	2,675,485	–	2,675,485
Wakala investment deposits	31 December 2016	–	987,337	–	987,337
Ijara	31 December 2016	–	1,023,564	–	1,023,564
Other financial assets	31 December 2016	–	40,184	–	40,184
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2016	–	76,758	–	76,758
Amounts due to customers	31 December 2016	–	6,175,612	–	6,175,612
Other financial liabilities	31 December 2016	–	23,776	–	23,776

(In thousands of tenge)

28. Fair values of financial instruments (continued)

		Fair value measurement using			
As at 31 December 2015	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets measured at fair value					
Islamic derivative financial instruments	31 December 2015	–	–	1,859,953	1,859,953
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2015	11,966,695	–	–	11,966,695
Receivables under commodity murabaha agreements	31 December 2015	–	10,105,792	–	10,105,792
Wakala investment deposits	31 December 2015	–	1,821,777	–	1,821,777
Ijara	31 December 2015	–	525,617	–	525,617
Other financial assets	31 December 2015	–	33,256	–	33,256
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2015	–	2,741,229	–	2,741,229
Amounts due to customers	31 December 2015	–	4,577,786	–	4,577,786
International reverse murabaha	31 December 2015	–	6,130,516	–	6,130,516
Other financial liabilities	31 December 2015	–	11,038	–	11,038

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short term to maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial instruments with fixed and floating rates

If assets and liabilities are not measured at fair values but the fair values are disclosed in the financial statements, future cash flows are discounted at the average market rate of financial instruments with similar maturities and risk characteristics. The source of those rates is the NBRK statistics.

The future cash flows are calculated by applying the weighted average profit rate of the financing portfolio to the principal amount as at the end of the reporting period. The following assumptions are applied by the Bank while determining the fair values:

1. The principal amount of the financial instrument is repaid at the weighted average maturity date of the portfolio;
2. Profit payments are made evenly each year until the weighted average maturity date of the portfolio.

The above calculation is applied in determining the fair value of receivables under Islamic finance activities, amounts due from customers and amounts due from credit institutions.

(In thousands of tenge)

28. Fair values of financial instruments (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31 December 2016	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	14,192,485	14,192,485	–
Receivables under commodity murabaha agreements	2,760,064	2,675,485	(84,579)
Wakala investment deposits	1,031,361	987,337	(44,024)
Ijara	962,216	1,023,564	61,348
Other financial assets	40,184	40,184	–
Financial liabilities			
Amounts due to other banks	76,758	76,758	–
Amounts due to customers	6,175,612	6,175,612	–
Other financial liabilities	23,776	23,776	–
Total unrecognised change in unrealised fair value			(67,255)

As at 31 December 2015	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	11,966,695	11,966,695	–
Receivables under commodity murabaha agreements	10,219,577	10,105,792	(113,785)
Wakala investment deposits	1,841,428	1,821,777	(19,651)
Ijara	561,903	525,617	(36,286)
Other financial assets	33,256	33,256	–
Financial liabilities			
Amounts due to other banks	2,741,229	2,741,229	–
Amounts due to customers	4,577,786	4,577,786	–
International reverse murabaha	6,130,516	6,130,516	–
Other financial liabilities	11,038	11,038	–
Total unrecognised change in unrealised fair value			(169,722)

Movements in Level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amounts of assets and liabilities which are recorded at fair value:

	Islamic derivative financial instruments	
	2016	*2015*
Assets		
At 1 January	1,859,953	231,163
Total (loss)/gain recorded in profit or loss	(133,600)	1,628,790
At 31 December	1,726,353	1,859,953

During 2016 and 2015, there were no transfers between levels of the fair value hierarchy.

Gains or losses on financial instruments included in the profit or loss for the period comprise:

	2016			*2015*		
	Realised gains/ (losses)	*Unrealised gains/ (losses)*	*Total*	*Realised gains/ (losses)*	*Unrealised gains/ (losses)*	*Total*
Total gains or losses included in profit or loss for the year	–	(133,600)	(133,600)	–	1,628,790	1,628,790

(In thousands of tenge)

29. Maturity analysis of assets and liabilities

The tables below show an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 27* "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2016		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	14,192,485	–	14,192,485
Islamic derivative financial instruments	1,726,353	–	1,726,353
Receivables under commodity murabaha agreements	2,726,613	33,451	2,760,064
Wakala investment deposits	191,780	839,581	1,031,361
Ijara	460,456	501,760	962,216
Property and equipment	–	262,657	262,657
Intangible assets	–	13,057	13,057
Current corporate income tax assets	20,202	–	20,202
Deferred corporate income tax assets	–	33,393	33,393
Other assets	70,799	–	70,799
Total	19,388,688	1,683,899	21,072,587
Amounts due to other banks	76,758	–	76,758
Amounts due to customers	6,175,612	–	6,175,612
Unamortised commission income	11,446	294	11,740
Other liabilities	210,500	–	210,500
Total	6,474,316	294	6,474,610
Net	12,914,372	1,683,605	14,597,977

	2015		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	11,966,695	–	11,966,695
Islamic derivative financial instruments	–	1,859,953	1,859,953
Receivables under commodity murabaha agreements	9,279,573	940,004	10,219,577
Wakala investment deposits	–	1,841,428	1,841,428
Ijara	388,204	173,699	561,903
Property and equipment	–	267,370	267,370
Intangible assets	–	10,541	10,541
Deferred corporate income tax assets	–	7,106	7,106
Other assets	68,022	–	68,022
Total	21,702,494	5,100,101	26,802,595
Amounts due to other banks	2,741,229	–	2,741,229
Amounts due to customers	4,577,786	–	4,577,786
International reverse murabaha	6,130,516	–	6,130,516
Unamortised commission income	14,217	4,858	19,075
Current corporate income tax liabilities	44,809	–	44,809
Other liabilities	33,396	136,880	170,276
Total	13,541,953	141,738	13,683,691
Net	8,160,541	4,958,363	13,118,904

30. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related-party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(In thousands of tenge)

30. Related party disclosures (continued)

The outstanding balances of related-party transactions are as follows:

	31 December 2016		*31 December 2015*	
Statement of financial position	*Shareholder*	*Key management personnel*	*Shareholder*	*Key management personnel*
Cash and cash equivalents	4,147,460	–	7,961,008	–
Amounts due to customers	337	1,037	137	76,682

	31 December 2016		*31 December 2015*	
Off balance sheet	*Shareholder*	*Key management personnel*	*Shareholder*	*Key management personnel*
Wakala deposits from Banks	16,957,795	–	32,751,113	–

The income and expenses arising from related-party transactions are as follows:

	2016		*2015*	
	Shareholder	*Entities under common control*	*Shareholder*	*Entities under common control*
Expense from Islamic finance activities	(439,138)	–	(356,235)	–
Rent expense	–	(44,400)	–	(44,400)

Compensation of eight (2015: eight) members of key management personnel comprise:

	2016	*2015*
Salaries and other short-term benefits	210,990	126,001
Social security costs	21,084	12,525
Total key management personnel compensation	232,074	138,526

31. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank’s capital is monitored by management and the shareholder using, among other measures, the ratios established by the NBRK.

As at 31 December 2016, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank’s capital management policies are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders’ value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The NBRK requires the Bank to maintain a capital adequacy ratio (Tier 1) of not less than 6% of the total assets and a capital adequacy ratio (Tier 2) of not less than 7.5% of risk weighted assets, computed based on the requirements of the NBRK. As at 31 December 2016 and 2015, the Bank’s Tier 1 and Tier 2 capital adequacy ratios on this basis exceeded the required minimums.

(In thousands of tenge)

31. Capital adequacy (continued)

As at 31 December 2016 and 2015, the capital adequacy ratios of the Bank calculated in accordance with the requirements of the NBRK were as follows:

	2016	*2015*
Tier 1 capital		
Share capital	10,732,338	10,732,338
Retained earnings	2,386,566	774,694
Total tier 1 capital	13,118,904	11,507,032
Tier 2 capital		
Net income of the current year	1,479,073	1,611,872
	1,479,073	1,611,872
Total capital base	14,597,977	13,118,904
Risk weighted assets		
Credit risk	10,352,730	18,661,481
Market risk	64,047	446,928
Operational risk	894,661	540,994
Total risk weighted assets	11,311,438	19,649,403
Capital ratios		
Total capital expressed as a percentage of total risk weighted assets	129%	67%
Tier 1 capital expressed as a percentage of total risk weighted assets	116%	59%

32. Zakah

The Articles of Association of the Bank do not require management of the Bank to pay zakah on behalf of the Shareholder. Consequently, the zakah obligation is to be discharged by the Shareholder.