Subsidiary JSC VTB Bank (Kazakhstan)

Financial statements

for 2016 together with Independent Auditor's Report

CONTENT

INDEPENDENT AUDITORS' REPORT

NOTES TO THE FINANCIAL STATEMENTS

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Independent auditor's report

To the Shareholder and Board of Directors of Subsidiary Bank VTB (Kazakhstan) Joint Stock Company

Opinion

We have audited the financial statements of Subsidiary Bank VTB Bank Joint Stock Company (Kazakhstan) (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 ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 ("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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

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Adequacy of allowance for impairment of loans to customers

Adequacy of the amount of allowance for impairment of loans to customers is the key area of the Bank's management judgement. Determination of the evidence of impairment and determination of the recoverable amount are the processes that involve high level of subjective judgement, use of assumptions and analysis of different factors, including borrower's financial position, expected future cash flows and value of collateral. Use of different models and assumptions may materially affect the amount of allowance for impairment of loans to customers.

Due to the substantial amount of loans to customers, which in aggregate amounts to 35% of the Bank's total assets as at 31 December 2016, estimation of allowance for impairment was one of the key audit matters.

Our audit procedures included the analysis of methodology on estimation of allowance for impairment of loans to customers and assessment and testing of the design and operating effectiveness of controls over the processes of impairment identification and estimation. As part of the audit procedures, we analysed assumptions and tested the accuracy of inputs used by the Bank in its assessment of impairment of loans to customers on a collective basis, such as migration rates, probability of default and loss given default.

We analysed the sequence of Bank's management judgements used in assessment of the economic factors and statistical information on the losses incurred and the amounts recovered, as well as conformity of the applied impairment model with general practice and our professional judgement. With regard to assessment of impairment of loans to customers on an individual basis, we performed the analysis of the Bank's management expectations on future cash flows, including the cash flows that may result from foreclosure of collateral, based on our professional judgement and information available in the market.

We assessed the information on allowance for impairment of loans to customers disclosed in Note 8 to the financial statements for completeness and compliance with IFRS.

Recoverability of deferred tax assets

We considered this matter to be one of the key audit matters of the current period due to the magnitude of the amounts involved and subjective judgments of the Bank's management used in estimating the recoverability of deferred tax assets, which is impacted by uncertainties regarding the likely timing and amount of future taxable profits, together with tax planning strategies and the statutory expiration of tax losses.

Our audit procedures in respect of recoverability of deferred tax assets included assessment, with involvement of our tax specialists, of the forecasts of future taxable profit developed by the management of the Bank based on budgets and management's assessment of business perspectives. We evaluated the significant assumptions made in the forecasts and compared them to externally available data and actual data on the Bank's business activity.

We assessed the information on deferred tax assets disclosed in Note 13 to the financial statements for completeness and compliance with IFRS.

Other information included in the Bank's 2016 Annual report

Other information consists of the information included in the Annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available to us and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibilities of management and the Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

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 ISAs 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 ISAs, 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.

We communicate with the Board of Directors 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.

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We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Bakhtiyor Eshonkulov.

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / audit partner

Auditor Qualification Certificate No. МФ-0000099 dated 27 August 2012

Gulmira Turmagambetova
General director

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

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14 March 2017

STATEMENT OF FINANCIAL POSITION

31 December 2016

(thousands of tenge)

	Note	*2016*	*2015*
Assets			
Cash and cash equivalents	6	**41,362,254**	49,892,441
Trading securities	7	**69,753,016**	2,796
Amounts due from credit institutions		**572,329**	577,587
Loans to customers	8	**63,238,078**	92,734,701
Investment securities:	9		
- available-for-sale		**–**	6,483,525
- held-to-maturity		**653,228**	656,314
Derivative financial assets	10	**18,998**	7,539,881
Property and equipment	11	**3,056,607**	3,184,647
Intangible assets	12	**1,134,970**	1,082,726
Current corporate income tax prepaid	13	**74,834**	142,156
Deferred corporate income tax assets	13	**2,179,372**	934,606
Other assets	14	**1,196,698**	1,257,953
Total assets		**183,240,384**	164,489,333
Liabilities			
Amounts due to credit institutions	15	**43,508,885**	5,708,048
Amounts due to customers	16	**90,482,343**	104,937,199
Debt securities issued	17	**19,357,545**	18,867,470
Subordinated debt	18	**13,623,698**	11,538,590
Provisions	19	**12,076**	827,775
Other liabilities	14	**1,756,877**	1,749,675
Total liabilities		**168,741,424**	143,628,757
Equity			
Share capital	20	**27,357,000**	27,357,000
Accumulated deficit		**(12,858,040)**	(6,354,028)
Available-for-sale investment securities revaluation reserve		**–**	(142,396)
Total equity		**14,498,960**	20,860,576
Total equity and liabilities		**183,240,384**	164,489,333

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

D.A. Zabello — Chairman of the Management Board

A. V. Lavrentyeva — Chief Accountant

14 March 2017

The accompanying notes on pages 5 to 49 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE LOSS

for the year ended 31 December 2016

(thousands of tenge)

	Note	*2016*	*2015*
Interest income			
Cash and cash equivalents		**686,280**	363,532
Amounts due from credit institutions		**463**	300
Loans to customers		**11,448,538**	15,025,292
Investment securities		**381,490**	52,773
		12,516,771	15,441,897
Trading securities		**4,443,664**	150
		16,960,435	15,442,047
Interest expenses			
Amounts due to credit institutions		**(2,561,010)**	(481,565)
Amounts due to customers		**(5,366,191)**	(5,557,207)
Debt securities issued		**(2,091,575)**	(1,323,598)
Subordinated debt		**(1,526,350)**	(389,656)
		(11,545,126)	(7,752,026)
Net interest income before impairment		**5,415,309**	7,690,021
Charge of impairment of loans to customers	8	**(7,594,256)**	(5,679,622)
Net interest income		**(2,178,947)**	2,010,399
Net fee and commission income	22	**1,545,486**	2,094,511
Net gains from investment securities available-for-sale		**286,698**	–
Net income/(expenses) on transactions with financial instruments at fair value through profit or loss		**(1,258,888)**	9,260,568
Net gains /(losses) from foreign currencies			
- dealing		**2,853,528**	(1,282,339)
- foreign exchange revaluation		**(1,447,741)**	(5,961,841)
Other income		**64,983**	51,059
Non-interest income		**2,044,066**	4,161,958
Personnel expenses	23	**(3,647,359)**	(4,842,428)
Other operating expenses	23	**(3,661,222)**	(3,846,852)
Depreciation and amortisation	11, 12	**(666,031)**	(906,551)
Taxes other than corporate income tax		**(180,837)**	(188,523)
Other impairment and provisions	19	**668,909**	(870,938)
Other expenses		**(127,357)**	(83,052)
Non-interest expense		**(7,613,897)**	(10,738,344)
Loss before corporate income tax benefit		**(7,748,778)**	(4,565,987)
Corporate income tax benefit	13	**1,244,766**	835,737
Loss for the year		**(6,504,012)**	(3,730,250)
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in the subsequent periods			
Unrealised gains/(losses) from transactions with available-for-sale investment securities		**502,222**	(142,396)
Realised gains from transactions with available-for-sale investment securities reclassified to profit or loss		**(359,826)**	–
Other comprehensive income/(loss) for the year, net of tax		**142,396**	(142,396)
Total comprehensive loss for the year		**(6,361,616)**	(3,872,646)
Basic and diluted loss per share (in tenge)	24	**(2,377.46)**	(1,859.50)

The accompanying notes on pages 5 to 49 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

(thousands of tenge)

	Share capital	*Accumulated deficit*	*Available-for-sale investment securities revaluation reserve*	*Total equity*
At 31 December 2014	20,000,000	(1,901,358)	–	18,098,642
Loss for the year	–	(3,730,250)	–	(3,730,250)
Other comprehensive loss for the year	–	–	(142,396)	(142,396)
Total comprehensive loss for the year	–	(3,730,250)	(142,396)	(3,872,646)
Increase in share capital	7,357,000	–	–	7,357,000
Dividends declared *(Note 20)*	–	(722,420)	–	(722,420)
At 31 December 2015	27,357,000	(6,354,028)	(142,396)	20,860,576
Loss for the year	–	**(6,504,012)**	–	**(6,504,012)**
Other comprehensive income for the year	–	–	**142,396**	**142,396**
Total comprehensive loss for the year	–	**(6,504,012)**	**142,396**	**(6,361,616)**
At 31 December 2016	**27,357,000**	**(12,858,040)**	–	**14,498,960**

The accompanying notes on pages 5 to 49 are an integral part of these financial statements.

STATEMET OF CASH FLOWS

for the year ended 31 December 2016

(thousands of tenge)

	Note	2016	2015
Cash flows from operating activities			
Interest income received		**11,908,875**	14,035,668
Interest expenses paid		**(10,597,691)**	(7,864,656)
Commission income received		**2,228,342**	2,777,482
Commission expenses paid		**(635,041)**	(716,519)
Gains less losses on transactions with financial instruments at fair value through profit or loss		**(1,258,888)**	2,216,304
Realised gains less losses from dealing in foreign currencies		**2,853,528**	(1,282,339)
Personnel expenses paid		**(3,952,749)**	(5,113,062)
Other operating expenses paid		**(3,750,262)**	(3,813,646)
Cash (used in)/ from operating activities before changes in operating assets and liabilities		**(3,203,886)**	239,232
Net (increase) / decrease in operating assets			
Trading securities		**(65,528,385)**	–
Amounts due from credit institutions		**7,671**	(219,934)
Derivative financial assets		**7,520,883**	15,080
Loans to customers		**23,131,380**	27,000,546
Other assets		**(90,437)**	2,862,590
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		**37,288,826**	(17,720,780)
Amounts due to customers		**(14,778,160)**	(34,352,723)
Other liabilities		**49,550**	(142,875)
Net cash used in operating activities before corporate income tax		**(15,602,558)**	(22,318,864)
Corporate income tax paid		**–**	(105,150)
Net cash flows used in operating activities		**(15,602,558)**	(22,424,014)
Cash flows from investing activities			
Acquisition of available-for-sale investment securities		**–**	(6,568,876)
Proceeds from sale of available-for-sale investment securities		**6,910,326**	–
Purchase of property and equipment		**(368,656)**	(832,138)
Purchase of intangible assets	12	**(221,578)**	(269,870)
Net cash flows received from/(used in) investing activities		**6,320,092**	(7,670,884)
Cash flows from financing activities			
Proceeds from debt securities issued		**–**	9,492,663
Proceeds from subordinated loan		**–**	6,975,000
Proceeds from shares issuance		**–**	7,357,000
Dividends paid to the Shareholder of the Bank	20	**–**	(722,420)
Net cash from financing activities		**–**	23,102,243
Effect of exchange rates changes on cash and cash equivalents		**752,279**	30,338,627
Net (decrease)/increase in cash and cash equivalents		**(8,530,187)**	23,345,972
Cash and cash equivalents, beginning		**49,892,441**	26,546,469
Cash and cash equivalents, ending	6	**41,362,254**	49,892,441
Non-cash transactions			
CIT offset against obligations on other payments to budget		**67,322**	–

(in thousands of tenge, unless otherwise is stated)

1. Principal activities

Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank") was formed on 19 September 2008 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general license for conducting banking and other activities and operations on securities market No. 1.2.14/39 issued by the National Bank of the Republic of Kazakhstan (hereinafter, the "NBRK") on 23 December 2014, which supersedes previous licenses.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's registered office is: 050040, Almaty, 28B Timiryazev Str., Republic of Kazakhstan. As at 31 December 2016 the Bank had 17 branches throughout Kazakhstan (31 December 2015 – 17).

The Bank is a member of the deposit insurance system. The system operates under the laws of the Republic of Kazakhstan and is governed by the NBRK. Insurance covers the Bank's liabilities to individual depositors for an amount up to 10 million Kazakh tenge for each individual in the event of business failure and revocation of the banking licence.

As at 31 December 2016 and 2015, the sole shareholder of the Bank is Public Joint-Stock Company Bank VTB (Russia) (the "Parent"). The ultimate controlling party of the Bank is the Government of the Russian Federation.

2. Basis of preparation

General

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

These financial statements are presented in thousands of tenge, unless otherwise indicated.

As at 31 December 2016 the official exchange rate used for translation of monetary balances on foreign currency accounts was KZT 333.29 for 1 US Dollar (31 December 2015: KZT 340.01 for 1 US Dollar).

Basis of measurement

The financial statements are prepared under the historical cost convention except for recording at fair value of financial assets available for sale and financial assets through profit or loss and classified as trading securities and derivatives as required by IAS 39 *Financial Instruments: Recognition and Measurement.*

Functional and presentation currency of financial statements

The functional currency of the Bank is tenge as, being the national currency of the Republic of Kazakhstan, reflects the economic substance of the majority of the Bank's transactions and circumstances relevant to them that affect its activities.

The Kazakhstan tenge is also the presentation currency for the purposes of these financial statements.

Financial information of the financial statements is rounded to the nearest thousand.

(in thousands of tenge, unless otherwise is stated)

3. Summary of accounting policies

Changes in accounting policy

The Bank applied the following revised IFRSs and interpretations, which became effective for annual periods on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

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

- IAS 1 requirements to definition of materiality;
- 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 statement(s) of profit or loss and other comprehensive income. These amendments are effective for annual reporting periods beginning on or after 1 January 2016. These amendments have no impact on financial statements of the Bank.

Annual Improvements Cycle - 2012-2014

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

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

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other should not be considered to be 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 shall be applied prospectively. The amendment had no impact on the Bank's financial statements.

IFRS 7 "Financial Instruments: Disclosures"

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The Group must assess the nature of the fee and 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 Bank first applies the amendments. The amendment had no impact on the Bank's financial statements.

Fair value measurement

The Bank evaluates such financial instruments as trading securities, investment securities available for sale and derivatives at fair value at each reporting date. Information on fair value of financial instruments measured at amortized cost is disclosed in *Note 26*.

The fair value is a 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.

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.

(in thousands of tenge, unless otherwise is stated)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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.

In the event of assets and liabilities recognized in the financial statements on a regular basis, the Bank determines the fact of transfer between levels of hierarchy sources by analysing the classification once again (based on initial data of the lowest level that are significant for fair value evaluation in whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Company 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.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investment securities

Securities with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Securities intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses on such assets are recognised in profit or loss upon derecognition or impairment as well as through the amortisation process.

Available for sale financial assets

Available-for-sale financial assets represent non-derivative financial assets that are classified as available-for-sale or are not included in any of three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired. At which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the income statement. However, interest calculated using the effective interest method is recognised in profit or loss.

(in thousands of tenge, unless otherwise is stated)

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Company has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

Financial assets are reclassified at their fair value on the date of reclassification. Gains and expenses recognized in the statement of comprehensive income are not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amount due from the National Bank of the Republic of Kazakhstan and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards, swaps and options on currency markets. Such financial instruments are held for trading and 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. Derivatives are carried as other assets when their fair value is positive and as other liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income within net income or expenses from financial instruments at fair value through profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to customers, amounts due to credit institutions, debt securities issued and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when liabilities are derecognised, as well as through the amortisation process.

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.

3. Summary of accounting policies (continued)

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

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;
- in case of failure to discharge an obligation; and
- in case of insolvency or bankruptcy of an entity or any counteragent.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

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 borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest 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.

Loans to customers

For loans to customers carried at amortised cost, 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 recognised are not included in a collective assessment of impairment.

(in thousands of tenge, unless otherwise is stated)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Loans to customers (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected loan 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 recognized in the statement of comprehensive income . Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized 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 statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not 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.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of comprehensive income.

Restructuring of loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- if the currency of a loan has been changed the old loan is derecognised and the new loan is recognized in the statement of financial position;
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

(in thousands of tenge, unless otherwise is stated)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans (continued)

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

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 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. In this case the extent of the Bank's continuing involvement is limited to the lower of: the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of: the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

(in thousands of tenge, unless otherwise is stated)

3. Summary of accounting policies (continued)

Taxation

The current corporate income tax charge is calculated in accordance with the tax legislation 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 values for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred corporate 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. Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are disclosed in the statement of comprehensive income as taxes other than income tax.

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 equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value 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
Furniture and fixtures	2-8
Leasehold improvements	10
Computers and office equipment	2-10
Vehicles	7
Other	2-16

The asset's 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 capitalisation.

Intangible assets

Intangible assets include software and licenses and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives from 5 to 12 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the 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 expenses are charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or other compensated benefits requiring accrual.

3. Summary of accounting policies (continued)

Share capital

Ordinary shares are classified as equity. Share capital is measured at the fair value of consideration received. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: "Corporate - investment banking, (including following sub-segments: "Investment - banking", "Loans and deposits" and "Transactional business"), "Medium corporate business" (including following sub-segments: "Investment - banking", "Loans and deposits" and "Transactional business"), "Retail business", "Treasury" and "Other".

Contingent assets and liabilities

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

Revenue and expense recognition

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:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as trading, interest income or expense is recorded at the effective interest 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 (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest 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 interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income and expenses

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

  Fee and commission income obtained for rendering the services during a certain period of time are accrued during this period. These items include commission income and fees for the issuance of guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loans.

- *Commission income from providing transaction services*

  Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as purchase or sale of currency, transfer transactions or cash transactions are recognised on completion of such transaction.

The Bank's expenses for the agent's services are recognized as fee and commission expenses in the statement of comprehensive income.

(in thousands of tenge, unless otherwise is stated)

3. Summary of accounting policies (continued)

Foreign currency translation

The financial statements are presented in Kazakh tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated into functional currency at the official exchange rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter - the "KASE") and published by the NBRK. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income 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 official 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 official exchange rate on the date of the transaction are included in net gains/(losses) from dealing in foreign currencies.

Standards 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 plans, if necessary, to adopt these standards when they become effective.

IFRS 9 Financial Instruments:

In July 2014, the IASB issued 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 version of IFRS 9. The standard introduces new requirements to 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 loan 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 loans and other debt financial assets not carried at FVPL, as well as for loan 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. Early application is 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 not expected to have any effect on the classification and measurement of the Bank's financial assets and liabilities. The Bank is currently evaluating the impact of 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

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue from lease contracts, insurance contracts and originated with respect to financial instruments and other contractual rights and obligations relating to scope of application of IAS 17 *Lease*, IFRS 4 *Insurance contracts* and IAS 39 *Financial instruments: recognition and measurement* (or, in case of early application, IFRS 9 *Financial instruments*) accordingly is not within the scope of application of IFRS 15 and regulated by the respective standards.

According to IFRS 15, revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

(in thousands of tenge, unless otherwise is stated)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

The IASB issued 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, it does require lessees to recognise most leases on their 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 interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 becomes effective for financial years 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.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB 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 IASB issued 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 IASB issued 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.

These amendments are 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. These amendments are not expected to have any impact to the Bank.

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

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 relief 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.

(in thousands of tenge, unless otherwise is stated)

4. Significant accounting judgements and estimates

Estimation uncertainty

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

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

Fair value of financial instruments;

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. More details are provided in *Note 26*.

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

5. Segment information

Disclosure of segment information is presented on the basis consistent with IFRS data about reportable segments, adjusted if necessary, on intersegment reallocation. Qualitative and quantitative information about operating segments is reported to the management of the Bank in order to make decisions about allocation of resources to the segment and assess its performance.

Income, disclosed in this note, comprises the following: net interest income, net commission income, gains less losses on transactions with financial assets at fair value through profit or loss, gains less losses from foreign currencies and other operating income. Each of these items is considered in determining the income of a particular sub-segment /segment without sub-segments, if its value for this sub-segment /segment without sub-segments is positive. Totals are calculated as the sum of item-by-item components.

Transactions between segments are carried out mainly in the normal course of business.

Below is the information about the reportable segments of the Bank as at 31 December 2016 and 2015, and segment results for the years ended 31 December 2016 and 2015.

(in thousands of tenge, unless otherwise is stated)

5. Segment information (continued)

2016	Corporate - investment banking: Investment banking	Corporate - investment banking: Loans and deposits	Corporate - investment banking: Cash and liquidity management	Total CIB	Medium corporate business: Investment banking	Medium corporate business: Loans and deposits	Medium corporate business: Cash and liquidity management	Total MCB	Retail Banking	Treasury	Total prior to elimination of interseg-ment transactions	Elimination of interseg-ment transactions	Total
Cash and cash equivalents	–	–	–	–	–	–	–	–	835,481	40,526,773	41,362,254	–	41,362,254
Trading securities	69,753,016	–	–	69,753,016	–	–	–	–	–	–	69,753,016	–	69,753,016
Amounts due from credit institutions	–	–	–	–	–	–	–	–	566,256	6,073	572,329	–	572,329
Loans to customers	–	4,212,844	–	4,212,844	–	17,004,758	–	17,004,758	42,020,476	–	63,238,078	–	63,238,078
Investment securities available-for-sale	–	–	–	–	–	–	–	–	–	–	–	–	–
Held-to-maturity investment securities	653,228	–	–	653,228	–	–	–	–	–	–	653,228	–	653,228
Derivative financial assets	18,998	–	–	18,998	–	–	–	–	–	–	18,998	–	18,998
Property and equipment	–	51,485	66,367	117,852	–	113,467	138,514	251,981	2,626,872	59,902	3,056,607	–	3,056,607
Intangible assets	–	34,745	37,931	72,676	–	67,260	66,981	134,241	873,693	54,360	1,134,970	–	1,134,970
Current corporate income tax assets	–	2,707	2,601	5,308	–	4,972	4,181	9,153	55,717	4,656	74,834	–	74,834
Deferred corporate income tax assets:	–	–	433,180	433,180	–	–	–	–	1,355,819	390,373	2,179,372	–	2,179,372
Other assets	–	18,588	267,379	285,967	–	30,865	61,809	92,674	769,380	48,677	1,196,698	–	1,196,698
Intersegment /intersub-segment transfer of funds	500,540	97,127	35,814,735	36,412,402	–	1,784,375	11,387,558	13,171,933	52,331,915	66,825,174	168,741,424	(168,741,424)	–
Total assets	70,925,782	4,417,496	36,622,193	111,965,471	–	19,005,697	11,659,043	30,664,740	101,435,609	107,915,988	351,981,808	(168,741,424)	183,240,384
Amounts due to credit institutions:	–	–	–	–	–	1,084,958	4,403,028	5,487,986	4,357,372	33,663,527	43,508,885	–	43,508,885
Amounts due to customers	–	85,123	35,436,745	35,521,868	–	676,599	6,947,886	7,624,485	47,335,990	–	90,482,343	–	90,482,343
Debt securities issued	–	–	–	–	–	–	–	–	–	19,357,545	19,357,545	–	19,357,545
Subordinated debt	–	–	–	–	–	–	–	–	–	13,623,698	13,623,698	–	13,623,698
Provisions	–	–	1,842	1,842	–	–	6,936	6,936	3,298	–	12,076	–	12,076
Other liabilities	500,540	12,004	376,148	888,692	–	22,818	29,708	52,526	635,255	180,404	1,756,877	–	1,756,877
Intersegment /intersub-segemt transfer of funds	70,290,732	3,273,331	561,858	74,125,921	–	13,008,927	102,647	13,111,574	40,709,360	40,794,569	168,741,424	(168,741,424)	–
Total liabilities	70,791,272	3,370,458	36,376,593	110,538,323	–	14,793,302	11,490,205	26,283,507	93,041,275	107,619,743	337,482,848	(168,741,424)	168,741,424
Total equity	134,510	1,047,038	245,600	1,427,148	–	4,212,395	168,838	4,381,233	8,394,334	296,245	14,498,960	–	14,498,960
Total equity and liabilities	70,925,782	4,417,496	36,622,193	111,965,471	–	19,005,697	11,659,043	30,664,740	101,435,609	107,915,988	351,981,808	(168,741,424)	183,240,384

(in thousands of tenge, unless otherwise is stated)

5. Segment information (continued)

	Corporate - investment banking				*Medium corporate business*								
2015	*Investment banking*	*Loans and deposits*	*Cash and liquidity management*	*Total CIB*	*Investment banking*	*Loans and deposits*	*Cash and liquidity management*	*Total MCB*	*Retail Banking*	*Treasury*	*Total prior to elimination of interseg-ment transactions*	*Elimination of interseg-ment transactions*	*Total*
Cash and cash equivalents	–	–	–	–	–	–	–	–	808,135	49,084,306	49,892,441	–	49,892,441
Trading securities	2,796	–	–	2,796	–	–	–	–	–	–	2,796	–	2,796
Amounts due from credit institutions	–	–	–	–	–	–	–	–	577,587	–	577,587	–	577,587
Loans to customers	–	17,770,042	–	17,770,042	–	26,600,963	–	26,600,963	48,363,696	–	92,734,701	–	92,734,701
Investment securities available-for-sale	–	–	–	–	–	–	–	–	–	6,483,525	6,483,525	–	6,483,525
Held-to-maturity investment securities	656,314	–	–	656,314	–	–	–	–	–	–	656,314	–	656,314
Derivative financial assets	–	–	–	–	–	–	–	–	–	7,539,881	7,539,881	–	7,539,881
Property and equipment	–	79,473	84,367	163,840	–	164,268	173,782	338,050	2,586,412	96,345	3,184,647	–	3,184,647
Intangible assets	–	43,170	42,132	85,302	–	89,053	77,255	166,308	766,207	64,909	1,082,726	–	1,082,726
Current corporate income tax assets	–	7,180	6,561	13,741	–	12,813	10,133	22,946	95,017	10,452	142,156	–	142,156
Deferred corporate income tax assets:	–	–	185,766	185,766	–	–	–	–	581,432	167,408	934,606	–	934,606
Other assets	–	19,824	250,027	269,851	–	17,216	323,494	340,710	610,900	36,492	1,257,953	–	1,257,953
Intersegment /intersub-segment transfer of funds	–	33,860,904	11,803,477	45,664,381	–	5,661,376	8,454,293	14,115,669	51,544,982	32,416,747	143,741,779	(143,741,779)	–
Total assets	659,110	51,780,593	12,372,330	64,812,033	–	32,545,689	9,038,957	41,584,646	105,934,368	95,900,065	308,231,112	(143,741,779)	164,489,333
Amounts due to credit institutions:	–	–	–	–	–	2,211,512	–	2,211,512	1,600,687	1,895,849	5,708,048	–	5,708,048
Amounts due to customers	–	33,606,956	11,118,717	44,725,673	–	3,373,038	8,145,707	11,518,745	48,692,781	–	104,937,199	–	104,937,199
Debt securities issued	–	–	–	–	–	–	–	–	–	18,867,470	18,867,470	–	18,867,470
Subordinated debt	–	–	–	–	–	–	–	–	–	11,538,590	11,538,590	–	11,538,590
Provisions	–	215,975	217,459	433,434	–	–	17,234	17,234	377,107	–	827,775	–	827,775
Other liabilities	–	37,973	354,279	392,252	–	76,826	291,352	368,178	874,407	114,838	1,749,675	–	1,749,675
Intersegment /intersub-segment transfer of funds	533,899	13,763,215	–	14,297,114	–	21,217,751	213,567	21,431,318	45,782,280	62,231,067	143,741,779	(143,741,779)	–
Total liabilities	533,899	47,624,119	11,690,455	59,848,473	–	26,879,127	8,667,860	35,546,987	97,327,262	94,647,814	287,370,536	(143,741,779)	143,628,757
Total equity	125,211	4,156,474	681,875	4,963,560	–	5,666,562	371,097	6,037,659	8,607,106	1,252,251	20,860,576	–	20,860,576
Total equity and liabilities	659,110	51,780,593	12,372,330	64,812,033	–	32,545,689	9,038,957	41,584,646	105,934,368	95,900,065	308,231,112	(143,741,779)	164,489,333

(in thousands of tenge, unless otherwise is stated)

5. Segment information (continued)

	Corporate - investment banking (CIB)								Medium corporate business (MCB)													
	Investment Banking		Loans and deposits		Cash and liquidity management		Total CIB		Investment Banking		Loans and deposits		Cash and liquidity management		Total MCB		Retail Banking		Treasury		Elimination of intersegment transactions	
2016	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other customers		Total
Interest income	4,486,470	3,041	707,705	3,477	–	3,818,003	5,194,175	3,824,521	–	–	3,011,612	211,412	–	927,040	3,011,612	1,138,452	7,729,686	3,198,616	1,024,962	11,549,995	(19,711,584)	16,960,435
Interest expenses	–	(3,208,006)	(11)	(829,362)	(2,998,049)	–	(2,998,060)	(4,037,368)	–	–	(208,187)	(2,637,117)	(566,513)	–	(774,700)	(2,637,117)	(2,461,208)	(4,875,511)	(5,311,158)	(8,161,588)	19,711,584	(11,545,126)
Net interest income	4,486,470	(3,204,965)	707,694	(825,885)	(2,998,049)	3,818,003	2,196,115	(212,847)	–	–	2,803,425	(2,425,705)	(566,513)	927,040	2,236,912	(1,498,665)	5,268,478	(1,676,895)	(4,286,196)	3,388,407	–	5,415,309
Impairment charge	6	–	(3,516,830)	–	–	–	(3,516,824)	–	–	–	(1,562,615)	–	–	–	(1,562,615)	–	(2,515,996)	–	1,179	–		(7,594,256)
Net interest income	4,486,476	(3,204,965)	(2,809,136)	(825,885)	(2,998,049)	3,818,003	(1,320,709)	(212,847)	–	–	1,240,810	(2,425,705)	(566,513)	927,040	674,297	(1,498,665)	2,752,482	(1,676,895)	(4,285,017)	3,388,407	–	(2,178,947)
Net fee and commission income	97,048	–	–	–	322,766	–	419,814	–	21,521	–	–	–	252,830	–	274,351	–	976,516	–	(125,195)	–	–	1,545,486
Net income on transactions with financial instruments at fair value through profit or loss	1,392	–	–	–	–	–	1,392	–	–	–	–	–	–	–	–	–	–	–	(1,260,280)	–	–	(1,258,888)
Net gains from investment securities available-for-sale							–	–							–	–			286,698			286,698
Net gains /(losses) from foreign currencies:	920,254	–	–	–	–	–	920,254	–	75,588	–	–	–	–	–	75,588	–	537,107	–	(127,162)	–	–	1,405,787
Other operating revenue	–	–	2,684	–	5,173	–	7,857	–	–	–	3,438	–	3,798	–	7,236	–	47,624	–	2,266	–	–	64,983
Net non-interest income	1,018,694	–	2,684	–	327,939	–	1,349,317	–	97,109	–	3,438	–	256,628	–	357,175	–	1,561,247	–	(1,223,673)	–	–	2,044,066
Net operating loss	5,505,170	(3,204,965)	(2,806,452)	(825,885)	(2,670,110)	3,818,003	28,608	(212,847)	97,109	–	1,244,248	(2,425,705)	(309,885)	927,040	1,031,472	(1,498,665)	4,313,729	(1,676,895)	(5,508,690)	3,388,407	–	(134,881)
Non-interest expense	(137,018)	–	(135,934)	–	(67,500)	–	(340,452)	–	–	–	(521,801)	–	(429,104)		(950,905)	–	(5,939,872)	–	(382,668)	–	–	(7,613,897)
Loss before corporate income tax benefit	5,368,152	(3,204,965)	(2,942,386)	(825,885)	(2,737,610)	3,818,003	(311,844)	(212,847)	97,109	–	722,447	(2,425,705)	(738,989)	927,040	80,567	(1,498,665)	(1,626,143)	(1,676,895)	(5,891,358)	3,388,407	–	(7,748,778)
Corporate income tax benefit	(347,495)	–	605,335	–	(173,555)	–	84,285	–	(15,600)	–	273,612	–	(30,209)	–	227,803	–	501,363	–	431,315	–	–	1,244,766
Loss for the year	5,020,657	(3,204,965)	(2,337,051)	(825,885)	(2,911,165)	3,818,003	(227,559)	(212,847)	81,509	–	996,059	(2,425,705)	(769,198)	927,040	308,370	(1,498,665)	(1,124,780)	(1,676,895)	(5,460,043)	3,388,407	–	(6,504,012)
Segment result							–	(440,406)							–	(1,190,295)	–	(2,801,675)	–	(2,071,636)	–	(6,504,012)

(in thousands of tenge, unless otherwise is stated)

5. Segment information (continued)

	Corporate - investment banking (CIB)								Medium corporate business (MCB)													
	Investment Banking		Loans and deposits		Cash and liquidity management		Total CIB		Investment Banking		Loans and deposits		Cash and liquidity management		Total MCB		Retail Banking		Treasury		Elimination of intersegment transactions	
2015	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other segments	External customers	Other customers		Total
Interest income	31,506	–	1,576,536	4,636,750	–	162,723	1,608,042	4,799,473	–	–	4,115,415	360,241	–	196,766	4,115,415	557,007	9,333,640	1,808,449	384,950	11,012,645	(18,177,574)	15,442,047
Interest expenses	–	(44,622)	(3,998,777)	(1,093,383)	–	–	(3,998,777)	(1,138,005)	–	–	(281,343)	(3,608,964)	–	–	(281,343)	(3,608,964)	(1,601,228)	(6,265,676)	(1,870,678)	(7,164,929)	18,177,574	(7,752,026)
Net interest income	31,506	(44,622)	(2,422,241)	3,543,367	–	162,723	(2,390,735)	3,661,468	–	–	3,834,072	(3,248,723)	–	196,766	3,834,072	(3,051,957)	7,732,412	(4,457,227)	(1,485,728)	3,847,716	–	7,690,021
Impairment charge	(504)	–	(132,597)	–	–	–	(133,101)	–	–	–	(1,954,616)	–	–	–	(1,954,616)	–	(3,592,106)	–	201	–		(5,679,622)
Net interest income	31,002	(44,622)	(2,554,838)	3,543,367	–	162,723	(2,523,836)	3,661,468	–	–	1,879,456	(3,248,723)	–	196,766	1,879,456	(3,051,957)	4,140,306	(4,457,227)	(1,485,527)	3,847,716	–	2,010,399
Net fee and commission income/ (expense)	136,934	–	–	–	435,009	–	571,943	–	36,076	–	–	–	614,442	–	650,518	–	1,092,774	–	(220,724)	–	–	2,094,511
Net income /(expenses) on transactions with financial instruments at fair value through profit or loss	(212)	–	–	–	–	–	(212)	–	–	–	–	–	–	–	–	–	–	–	9,260,780	–	–	9,260,568
Net gains /(losses) from foreign currencies:	728,211	–	–	–	–	–	728,211	–	282,800	–	–	–	–	–	282,800	–	1,382,006	–	(9,637,197)	–	–	(7,244,180)
Other operating revenue	–	–	3,270	–	525	–	3,795	–	–	–	2,742	–	1,009	–	3,751	–	42,746	–	767	–	–	51,059
Net non-interest income	864,933	–	3,270	–	435,534	–	1,303,737	–	318,876	–	2,742	–	615,451	–	937,069	–	2,517,526	–	(596,374)	–	–	4,161,958
Net operating income	895,935	(44,622)	(2,551,568)	3,543,367	435,534	162,723	(1,220,099)	3,661,468	318,876	–	1,882,198	(3,248,723)	615,451	196,766	2,816,525	(3,051,957)	6,657,832	(4,457,227)	(2,081,901)	3,847,716	–	6,172,357
Non-interest expense	(160,227)	–	(556,994)	–	(532,144)	–	(1,249,365)	–	–	–	(741,652)	–	(599,434)		(1,341,086)	–	(7,785,327)	–	(362,566)	–	–	(10,738,344)
Profit /(loss) before corporate income tax benefit	735,708	(44,622)	(3,108,562)	3,543,367	(96,610)	162,723	(2,469,464)	3,661,468	318,876	–	1,140,546	(3,248,723)	16,017	196,766	1,475,439	(3,051,957)	(1,127,495)	(4,457,227)	(2,444,467)	3,847,716	–	(4,565,987)
Corporate income tax benefit	(126,493)	–	(79,584)	–	(12,101)	–	(218,178)	–	(58,365)	–	385,871	–	(38,947)	–	288,559	–	1,022,202	–	(256,846)	–	–	835,737
Profit / (loss) for the year	609,215	(44,622)	(3,188,146)	3,543,367	(108,711)	162,723	(2,687,642)	3,661,468	260,511	–	1,526,417	(3,248,723)	(22,930)	196,766	1,763,998	(3,051,957)	(105,293)	(4,457,227)	(2,701,313)	3,847,716	–	(3,730,250)
Segment result							–	973,826							–	(1,287,959)	–	(4,562,520)	–	1,146,403	–	(3,730,250)

All revenues of the Bank are generated in Kazakhstan. Geographic areas of the Bank activities are presented in *Note 25* to these financial statements with reference to the actual location of the counteragent, i.e. based on economic risk rather than legal risk of the counteragent. The Bank has no customers, which would bring more than ten percent of the total income earned in 2016 and 2015.

(in thousands of tenge, unless otherwise is stated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2016	*2015*
Cash on hand	**9,159,335**	7,216,521
Cash on current accounts in the NBRK	**21,671,883**	35,163,059
Cash on current accounts of the brokerage house	**–**	3,578,086
Cash on current accounts in credit institutions	**6,526,534**	1,954,669
Reverse repurchase agreements	**3,001,277**	–
Time deposits with credit institutions placed for a term of up to 90 days	**1,003,225**	1,980,106
	41,362,254	49,892,441

Under Kazakh legislation, 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 the current account with the NBRK or physical cash computed based on average balances of the aggregate of cash balances on current account with the NBRK or physical cash during the period of reserve creation.

As at 31 December 2016, obligatory reserves amounted to KZT 1,411,784 thousand (31 December 2015: KZT 1,527,127 thousand).

As at 31 December 2016, the Bank entered into reverse repurchase agreements on the KASE. The subject of these agreements are bonds of the Ministry of Finance of the Republic of Kazakhstan with the general fair value of KZT 3,000,911 thousand as at 31 December 2016.

7. Trading securities

Trading securities comprise:

	2016	*2015*
Notes of the NBRK	**69,750,136**	–
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**2,880**	2,796
	69,753,016	2,796
Notes of the NBRK pledged under repurchase agreements (*Note 15*)	**29,110,478**	–

8. Loans to customers

Loans to customers comprise:

	2016	*2015*
Corporate lending	**29,774,443**	48,566,635
Small business lending	**18,958,666**	22,491,196
Consumer lending	**23,463,874**	25,464,025
Mortgage lending	**5,138,352**	6,165,787
Gross loans to customers	**77,335,335**	102,687,643
Less: allowance for impairment	**(14,097,257)**	(9,952,942)
Loans to customers	**63,238,078**	92,734,701

(in thousands of tenge, unless otherwise is stated)

8. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of allowance for impairment of loans to customers by class is as follows:

	Commercial lending	*Lending to medium-sized businesses*	*Consumer lending*	*Mortgage lending*	*Total*
At 1 January 2016	**4,195,630**	**3,342,003**	**2,112,349**	**302,960**	**9,952,942**
Deductions/(reversal) for the year	**5,134,585**	**2,784,188**	**(274,904)**	**(49,613)**	**7,594,256**
Write-offs	**(771,848)**	**(2,612,322)**	**(19,014)**	**(28,159)**	**(3,431,343)**
Effect from changes in exchange rates	**(1,525)**	**(17,719)**	**652**	**(6)**	**(18,598)**
At 31 December 2016	**8,556,842**	**3,496,150**	**1,819,083**	**225,182**	**14,097,257**
Individual impairment	**8,342,495**	**2,813,093**	**–**	**–**	**11,155,588**
Collective impairment	**214,347**	**683,057**	**1,819,083**	**225,182**	**2,941,669**
	8,556,842	**3,496,150**	**1,819,083**	**225,182**	**14,097,257**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**15,922,311**	**4,115,018**	**–**	**–**	**20,037,329**

	Commercial lending	*Lending to medium-sized businesses*	*Consumer lending*	*Mortgage lending*	*Total*
At 1 January 2015	2,191,315	1,929,980	1,341,715	198,198	5,661,208
Charge for the year	2,087,767	2,359,518	1,127,678	104,659	5,679,622
Write-offs	(126,309)	(1,069,362)	(360,312)	–	(1,555,983)
Effect from changes in exchange rates	42,857	121,867	3,268	103	168,095
At 31 December 2015	4,195,630	3,342,003	2,112,349	302,960	9,952,942
Individual impairment	3,369,685	2,562,785	–	–	5,932,470
Collective impairment	825,945	779,218	2,112,349	302,960	4,020,472
	4,195,630	3,342,003	2,112,349	302,960	9,952,942
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	9,593,387	3,852,151	–	–	13,445,538

Loans individually determined as impaired

Interest income accrued on loans, individually determined as impaired, for the year ended 31 December 2016, amounted to KZT 1,295,091 thousand (2015: KZT 552,356 thousand).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- for commercial lending, charges over real estate properties, production equipment, inventory and trade receivables;
- For retail lending, mortgages over residential properties, charges over transport, cash and cash equivalents and guarantees of third parties.

The Bank also receives guarantees of the parents on loans issued to subsidiaries.

Management 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.

(in thousands of tenge, unless otherwise is stated)

8. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2016, the Bank had a concentration of loans represented by KZT 20,372,005 thousand due from ten largest third party entities or 26.3% of gross loan portfolio (31 December 2015: KZT 29,482,312 thousand or 28.7%). As at 31 December 2016, an allowance of KZT 6,715,616 thousand (as at 31 December 2015: KZT 1,416,755 thousand) for impairment was recognised against these loans.

Loans have been extended to the following types of customers:

	2016	*2015*
Private enterprises	**48,733,109**	71,057,831
Individuals	**28,602,226**	31,629,812
	77,335,335	102,687,643

Loans were mainly extended to the customers in Kazakhstan performing their activities in the following economic sectors:

	2016	*2015*
Individuals	**28,602,226**	31,629,812
Wholesale trading	**9,789,051**	16,750,750
Vehicles	**6,173,756**	10,111,761
Food industry	**4,607,963**	5,030,683
Housing construction	**4,316,090**	5,577,543
Investments in real estate	**3,436,915**	3,905,090
Hotel business and restaurants	**2,481,880**	2,741,878
Oil and gas industry	**2,293,656**	2,383,663
Agriculture	**2,151,599**	3,660,638
Retail trading	**2,129,458**	1,848,708
Consumer goods industry	**1,864,213**	1,570,752
Recreation and tourist activities	**1,496,651**	36,207
Production of machinery and equipment	**1,369,185**	1,722,103
Road and industrial construction	**1,344,510**	3,390,071
Mining industry	**829,347**	5,446,585
Healthcare	**658,212**	616,482
Production of construction materials	**535,551**	1,036,107
Education	**184,181**	442,666
Energy	**9,310**	1,235,968
Financial services	**5,635**	365,554
Other	**3,055,946**	3,184,622
	77,335,335	102,687,643

9. Investment securities

Investment securities available-for-sale

As at 31 December 2015 investment securities available-for-sale, include Eurobonds of the Ministry of Finance of the Republic of Kazakhstan with a total carrying amount of KZT 6,483,525 thousand with maturity in 2024 and a nominal interest rate of 3.9% per annum.

In 2016, investment securities available-for-sale were sold by the Bank.

Held-to-maturity investment securities

As at 31 December 2016 and 2015, held-to-maturity investment securities comprise bonds of Kazakhstan bank with a total carrying amount of KZT 653,228 thousand and KZT 656,314 thousand with maturity in 2019 and a nominal interest rate of 10.0% and 5.3% per annum, respectively.

(in thousands of tenge, unless otherwise is stated)

10. Derivative financial assets

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2016			*2015*		
	Notional	*Fair values*		*Notional*	*Fair values*	
	principal	*Asset*	*Liability*	*principal*	*Asset*	*Liability*
Foreign exchange contracts						
Forwards – domestic	**2,417,508**	**18,998**	–	–	–	–
Swaptions – domestic	–	–	–	13,600,400	7,539,881	–
Total derivative financial assets	**2,417,508**	**18,998**	–	13,600,400	7,539,881	–

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaptions

Swaptions are contractual agreements that convey the right, but not the obligation, for the purchaser to exchange movements in foreign currency rates to make payments with respect to defined events based on specified notional amounts.

In 2014, the Bank entered into currency swaption contracts with the NBRK with the period of execution in 2015-2016. Under the contracts, the NBRK had a right to exercise the transaction at any date during the period of execution.

In 2016 net (losses)/gains from transactions with financial instruments at fair value through profit or loss include realised loss from the change in the fair value of currency swaptions in the amount of KZT 1,260,281 thousand (2015 – unrealised income and realised loss in the amount of KZT 7,044,476 thousand and KZT 2,216,304 thousand, respectively).

(in thousands of tenge, unless otherwise is stated)

11. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Leasehold improvement*	*Computers and office equipment*	*Vehicles*	*Assets to be installed*	*Other assets*	*Total*
Initial cost							
At 31 December 2014	265,239	1,048,862	1,306,894	57,239	714,519	939,518	4,332,271
Additions	11,889	33,117	76,376	–	666,024	197,145	984,551
Disposals	(2,173)	(74,424)	(4,183)	–	–	(22,767)	(103,547)
Transfers	–	–	838,039	–	(838,039)	–	–
At 31 December 2015	274,955	1,007,555	2,217,126	57,239	542,504	1,113,896	5,213,275
Additions	**5,670**	**12,245**	**1,084**	**–**	**256,734**	**92,923**	**368,656**
Disposals	**(1,348)**	**–**	**(29,129)**	**(18,810)**	**–**	**(28,408)**	**(77,695)**
Transfers	**–**	**–**	**404,934**	**–**	**(404,934)**	**–**	**–**
At 31 December 2016	**279,277**	**1,019,800**	**2,594,015**	**38,429**	**394,304**	**1,178,411**	**5,504,236**
Accumulated depreciation							
At 31 December 2014	(94,476)	(232,685)	(591,803)	(22,696)		(491,991)	(1,433,651)
Depreciation charge	(38,455)	(159,885)	(203,380)	(8,177)		(288,396)	(698,293)
Disposals	2,173	74,424	3,952	–		22,767	103,316
At 31 December 2015	(130,758)	(318,146)	(791,231)	(30,873)		(757,620)	(2,028,628)
Depreciation charge	**(38,304)**	**(112,834)**	**(225,278)**	**(8,706)**		**(111,574)**	**(496,696)**
Disposals	**1,348**	**–**	**29,129**	**18,810**		**28,408**	**77,695**
At 31 December 2016	**(167,714)**	**(430,980)**	**(987,380)**	**(20,769)**		**(840,786)**	**(2,447,629)**
Net book value							
At 31 December 2014	170,763	816,177	715,091	34,543	714,519	447,527	2,898,620
At 31 December 2015	144,197	689,409	1,425,895	26,366	542,504	356,276	3,184,647
At 31 December 2016	**111,563**	**588,820**	**1,606,635**	**17,660**	**394,304**	**337,625**	**3,056,607**

As at 31 December 2016, the original cost of fully depreciated property and equipment in use of the Bank was equal to KZT 602,746 thousand (31 December 2015 - KZT 616,054 thousand).

(in thousands of tenge, unless otherwise is stated)

12. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Software*	*Assets to be installed*	*Total*
Initial cost				
At 31 December 2014	413,489	1,021,357	3,861	1,438,707
Additions	58,427	190,933	20,510	269,870
Transfers	–	3,861	(3,861)	–
At 31 December 2015	471,916	1,216,151	20,510	1,708,577
Additions	**30,810**	**116,278**	**74,490**	**221,578**
Transfers	**32,302**	**35,242**	**(67,544)**	**–**
At 31 December 2016	**535,028**	**1,367,671**	**27,456**	**1,930,155**
Accumulated depreciation				
At 31 December 2014	(142,593)	(275,000)		(417,593)
Amortisation charges	(114,439)	(93,819)		(208,258)
At 31 December 2015	(257,032)	(368,819)		(625,851)
Amortisation charges	**(37,214)**	**(132,120)**		**(169,334)**
At 31 December 2016	**(294,246)**	**(500,939)**		**(795,185)**
Net book value				
At 31 December 2014	270,896	746,357	3,861	1,021,114
At 31 December 2015	214,884	847,332	20,510	1,082,726
At 31 December 2016	**240,782**	**866,732**	**27,456**	**1,134,970**

13. Taxation

The corporate income tax expense comprises:

	2016	*2015*
Current corporate income tax charge	**–**	–
Deferred tax benefit - origination and reversal of temporary differences	**(1,244,766)**	(835,737)
Corporate income tax benefit	**(1,244,766)**	(835,737)

The Republic of Kazakhstan was only one 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 benefit in the accompanying financial statements and loss before corporate income tax benefit multiplied by the statutory tax rate for the years ended 31 December is as follows:

	2016	*2015*
Loss before tax	**(7,748,778)**	(4,565,987)
Statutory tax rate	**20%**	20%
Theoretical corporate income tax benefit at the statutory rate	**(1,549,756)**	(913,197)
Non-deductible charges for impairment	**63,618**	70,009
Non-deductible interest expenses	**45,679**	15,586
Non-deductible operating expenses	**4,130**	15,121
Adjustment of historical losses carried forward	**182,256**	–
Other differences	**9,307**	(23,256)
Corporate income tax benefit	**(1,244,766)**	(835,737)

(in thousands of tenge, unless otherwise is stated)

13. Taxation (continued)

As at 31 December 2016, current corporate income tax prepaid was equal KZT 74,834 thousand (31 December 2015: KZT 142,156 thousand).

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

	2014	*Origination and reversal of temporary difference within profit or loss*	*2015*	*Origination and reversal of temporary difference within profit or loss*	*2016*
Tax effect of deductible temporary differences					
Tax losses carry-forward	424,716	810,275	1,234,991	**1,381,534**	**2,616,525**
Accrued expenses for unused vacations	116,153	(69,382)	46,771	**(20,310)**	**26,461**
Accrued expenses on premiums	47,423	12,642	60,065	**(60,065)**	**–**
Accrued interest expenses	21,553	(2,141)	19,412	**69,846**	**89,258**
Provisions for doubtful debts	–	18,689	18,689	**1,845**	**20,534**
Other accrued expenses	19,180	92,582	111,762	**(101,120)**	**10,642**
Deferred corporate income tax assets:	629,025	862,665	1,491,690	**1,271,730**	**2,763,420**
Tax effect of taxable temporary differences:					
Dynamic provisions	(202,360)	–	(202,360)	**–**	**(202,360)**
Property and equipment	(327,796)	(26,928)	(354,724)	**(26,964)**	**(381,688)**
Deferred corporate income tax liabilities	(530,156)	(26,928)	(557,084)	(26,964)	(584,048)
Deferred corporate income tax assets, net	98,869	835,737	934,606	**1,244,766**	**2,179,372**

In Kazakhstan tax losses are carried forward for a period of ten years. The Bank expects that tax losses carried forward will be used.

14. Other assets and liabilities

Other assets comprise at 31 December:

	2016	*2015*
Accounts receivable on guarantees and letters of credits	**379,996**	650,491
Rent prepayment	**342,216**	150,473
Other deferred expenses	**294,652**	266,364
Inventory	**71,766**	72,679
Prepayments for acquisition of property and equipment	**2,213**	37,206
Other	**349,923**	212,548
	1,440,766	1,389,761
Less: provision for impairment (*Note 19*)	**(244,068)**	(131,808)
	1,196,698	1,257,953

(in thousands of tenge, unless otherwise is stated)

14. Other assets and liabilities (continued)

As at 31 December other liabilities comprise:

	2016	*2015*
Advance payment received on forward contracts	**500,540**	–
Deferred commission income	**364,709**	446,020
Liabilities in currency transactions	**152,065**	66,840
Accrued expenses for unused vacations	**132,305**	233,856
Accrued administrative expenses	**106,496**	79,289
Taxes other than corporate income tax payable	**99,591**	221,307
Fee and commission expenses accrued	**51,785**	32,327
Liabilities on contributions to Kazakhstan deposit guarantee fund	**41,401**	43,705
Professional services payable	**26,235**	26,235
Insurance payables	**24,666**	41,260
Premiums accrued	**–**	306,035
Accounts payable for acquisition of property and equipment	**–**	34,488
Other	**257,084**	218,313
	1,756,877	1,749,675

15. Amounts due to credit institutions:

As at 31 December amounts due to credit institutions comprise:

	2016	*2015*
Repurchase agreements	**28,232,564**	–
Term deposits and loans	**14,615,319**	4,999,186
Current accounts	**661,002**	708,862
	43,508,885	5,708,048

At 31 December 2016, term deposits and loans from credit institutions comprised credits received from "DAMU" entrepreneurship development fund JSC in the amount of KZT 1,681,839 thousand (31 December 2015 – KZT 1,600,688 thousand) as part of the government program to support small and medium-sized businesses by the banking sector. The loans are denominated in KZT, bear interest rates of 6% - 8.5% per annum and mature in 2018-2023.

As at 31 December 2016, the fair value of the securities pledged under the repurchase agreements amounted to KZT 29,110,478 thousand (*Note 7*).

As at 31 December 2016, term deposits and loans also include deposits placed by the Parent totalling KZT 885,780 thousand (31 December 2015 – KZT 1,830,516 thousand) (*Note 29*).

16. Amounts due to customers

As at 31 December amounts due to customers comprised:

	2016	*2015*
Time deposits	**61,581,621**	76,523,361
Current accounts	**28,900,722**	28,413,838
	90,482,343	104,937,199
Term deposits held as security against guarantees and letters of credit	**310,160**	1,219,070

As at 31 December 2016, the Bank's ten largest customers accounted for KZT 25,498,640 thousand or 28.2% of total amounts due to customers (31 December 2015: KZT 28,920,055 thousand or 27.6%).

Included in time deposits are deposits of individuals of KZT 34,291,933 thousand (31 December 2015: KZT 38,025,592 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

(in thousands of tenge, unless otherwise is stated)

16. Amounts due to customers (continued)

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

	2016	*2015*
Private enterprises	**52,720,027**	65,008,895
Individuals	**37,762,316**	39,928,304
	90,482,343	104,937,199

An analysis of customer accounts by economic sector follows:

	2016	*2015*
Individuals	**37,762,316**	39,928,304
Non-credit financial institutions	**23,533,066**	16,033,557
Wholesale trading	**8,610,480**	7,091,804
Construction	**5,689,085**	22,018,344
Production of construction materials	**3,233,760**	549,696
Transport and communication	**1,421,970**	3,941,290
Energy	**1,215,640**	3,179,064
Retail trading	**1,089,857**	1,447,072
Oil and gas production	**861,570**	1,103,303
Mining industry	**502,270**	1,041,281
Chemical industry	**266,799**	451,686
Agriculture	**273,068**	334,103
Investments in real estate	**257,786**	102,298
Education	**137,963**	409,595
Production of machinery and equipment	**137,078**	215,931
Food industry	**126,535**	178,967
Metallurgy	**98,788**	68,256
Consumer goods industry	**95,157**	134,274
Research and development	**42,170**	1,160,946
Entertainment	**39,909**	16,729
Other	**5,087,076**	5,530,699
	90,482,343	104,937,199

17. Debt securities issued

Debt securities issued comprise:

	2016	*2015*
Debt securities issued at KASE	**20,750,124**	20,750,124
Less: unamortised discount	**(1,392,579)**	(1,882,654)
Debt securities issued	**19,357,545**	18,867,470

As at 31 December 2016 and 2015, the Bank's debt securities comprise unsecured coupon bonds placed under the first bond program with the aggregate nominal value of KZT 20,025,000 thousand. These bonds mature in 2018 and 2019 and bear a nominal interest rate of 6% to 8% per annum.

18. Subordinated debt

As of 31 December 2016, the subordinated debt of the Bank comprise loans received from the Parent in the amount of KZT 13,623,698 thousand (31 December 2015 - KZT 11,538,590 thousand) with an interest rate of 10.76% - 12.72% per annum and maturity in 2021-2022. The loans have been received in Russian Roubles.

(in thousands of tenge, unless otherwise is stated)

19. Other impairment and provisions

The movements in allowances for other losses and provisions were as follows:

	Other assets	*Guarantees and letters of credit*	*Other estimated liabilities*	*Total*
At 31 December 2014	84,380	18,183	–	102,563
Charge for the year	65,511	373,476	431,951	870,938
Write-offs	(18,985)	–	–	(18,985)
Effect from changes in exchange rates	902	4,165	–	5,067
At 31 December 2015	131,808	395,824	431,951	959,583
Deductions/(reversal) for the year	**136,518**	**(373,476)**	**(431,951)**	**(668,909)**
Write-offs	**(25,667)**	**(19,339)**	**–**	**(45,006)**
Effect from changes in exchange rates	**1,409**	**9,067**	**–**	**10,476**
At 31 December 2016	**244,068**	**12,076**	**–**	**256,144**

Allowances for impairment of other assets are deducted from the related assets (*Note 14*).

20. Share capital

As at 31 December 2016 and 2015 authorised and outstanding ordinary shares in the amount of 2,735,700 shares are issued and fully paid by the Parent at the price of placement of KZT 10 thousand per one ordinary share.

No dividends were declared or paid during 2016.

Subject to the decision of the sole shareholder dated 27 April 2015, the Bank declared and paid dividends on ordinary shares for the year ended 31 December 2014, in the amount of KZT 722,420 thousand.

In accordance with the Resolution of NBRK No.137 dated 27 May 2013, from 1 January 2013 the Bank calculated dynamic provisions associated with a risk of future losses on a loan portfolio. As at 31 December 2016, dynamic provisions calculated in accordance with the NBRK requirements amounted to KZT 1,011,802 thousand (31 December 2015 – KZT 1,011,802 thousand).

21. Commitments and contingencies

Political and economic environment

Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. These reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government are aimed to support the future stability of the Kazakhstan economy.

In 2016, low prices for crude oil and the volatility of the tenge's exchange rate against major foreign currencies continued to have a negative impact on the Kazakhstan economy. Interest rates in tenge remain high. Combination of these factors resulted in a reduced access to capital, a higher cost of capital, and uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. 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.

Legal issues

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. The Bank did not generate any provisions in these financial statements for any legal liabilities related to legal proceedings.

(in thousands of tenge, unless otherwise is stated)

21. Commitments and contingencies (continued)

Tax contingencies

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 interest related to reported and discovered violations of Kazakh laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Bank believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application 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.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2016. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

Commitments and contingencies

Commitments and contingencies of the Bank as at 31 December comprise:

	2016	*2015*
Credit related commitments		
Undrawn loan commitments	**10,017,949**	16,366,452
Guarantees	**8,850,512**	15,482,182
Letters of credit	**–**	224,000
	18,868,461	32,072,634
Operating lease commitments		
Not later than 1 year	**1,335,663**	1,515,468
From 1 to 5 years	**3,356,202**	1,501,330
Later than five years	**129,761**	–
	4,821,626	3,016,798
Less: provisions for guarantees and letters of credits (*Note 19*)	**(12,076)**	(395,824)
Commitments and contingencies (before deducting collateral)	**23,678,011**	34,693,608
Less: cash held as security against guarantees and letters of credit *(Note 16)*	**(310,160)**	(1,219,070)
Commitments and contingencies	**23,367,851**	33,474,538

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and other conditions.

The total outstanding contractual amount of commitments on issuance of loans, letters of credit and guarantees does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

(in thousands of tenge, unless otherwise is stated)

22. Net fee and commission income

Net fee and commission income comprise:

	2016	*2015*
Transfer operations	**831,839**	814,004
Cash transactions	**478,698**	564,521
Guarantees issued	**335,788**	623,856
Foreign currency transactions	**222,980**	285,593
Settlement transactions	**114,482**	116,270
Online banking	**36,195**	58,231
Letters of credit issued	**793**	222,969
Other	**179,210**	133,623
Fee and commission income	2,199,985	2,819,067
Transfer operations	**(300,039)**	(206,018)
Settlement transactions	**(290,105)**	(156,929)
Custodian services	**(35,036)**	(14,164)
Agency services	**(15,353)**	(209,306)
Letters of credit and guarantees issued	**(10,253)**	(136,664)
Other	**(3,713)**	(1,475)
Commission expenses	**(654,499)**	(724,556)
Net fee and commission income	**1,545,486**	2,094,511

23. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2016	*2015*
Salaries and bonuses	**(3,276,553)**	(4,324,811)
Social security contributions	**(370,806)**	(517,617)
Personnel expenses	**(3,647,359)**	(4,842,428)
Rent	**(1,513,852)**	(1,500,647)
Security	**(455,550)**	(500,262)
Licenses	**(433,145)**	(290,906)
Information services	**(262,368)**	(197,539)
Communication services	**(185,122)**	(214,899)
Contributions to Kazakhstan deposit guarantee fund	**(157,083)**	(245,755)
Marketing and advertising	**(157,012)**	(290,291)
Repair and maintenance of property and equipment	**(123,237)**	(13,282)
Cash collection	**(65,121)**	(81,409)
Business trip expenses	**(59,139)**	(83,462)
Vehicles	**(54,419)**	(73,440)
Legal and advisory services	**(28,235)**	(116,975)
Office supplies	**(27,813)**	(34,652)
Membership fee	**(23,973)**	(20,823)
Insurance	**(7,125)**	(5,190)
Representation expenses	**(4,316)**	(4,638)
Translation services	**(3,782)**	(16,077)
Other	**(99,930)**	(156,605)
Other operating expenses	**(3,661,222)**	(3,846,852)

24. Loss per share

Basic loss per share is calculated by dividing the net loss for the period attributable to common shareholders by the weighted average number of participating shares outstanding during the period. The Bank does not have any share options or convertible debt or equity instruments.

(in thousands of tenge, unless otherwise is stated)

24. Loss per share (continued)

The following reflects the loss and share data used in the basic and diluted loss per share computations:

	2016	*2015*
Net loss for the year attributable to the shareholder of the Bank	**(6,504,012)**	(3,730,250)
Weighted average number of common shares for basic and diluted loss per share computation	**2,735,700**	2,006,047
Basic and diluted loss per share (in tenge)	**(2,377.46)**	(1,859.50)

As at 31 December 2016 and 2015, the Bank did not have any financial instruments diluting loss per share.

The carrying amount of one ordinary share calculated in accordance with the methodology indicated in the Listing Rules of Kazakhstan Stock Exchange as at 31 December 2016 and 2015 is presented below:

	31 December 2016			*31 December 2015*		
Type of shares	*Number of outstanding shares*	*Net assets (thousands of tenge)*	*Book value per share, tenge*	*Number of outstanding shares*	*Net assets (thousands of tenge)*	*Book value per share, tenge*
Common	**2,735,700**	**13,363,990**	**4,885.03**	2,735,700	19,777,850	7,229.54

25. Risk management

Introduction

Risk is inherent in the Bank's activities . The Bank manages these risks 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 and market risk. It is also subject to operating risks. In managing risks the Bank applies approved group-wide standards and approaches.

Risk management structure

The Board of Directors is ultimately responsible for identifying risks, establishing permissible level 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 Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

25. Risk management (continued)

Introduction (continued)

Risk controlling

The Risk Control Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank, for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. It monitors and controls quality of credit portfolio, coverage of credit risk by liquid collateral. The unit is responsible for implementation of the credit policies of the Bank and fulfilment of requirements of internal documents and state regulatory authorities. It takes part in making decisions on accepting different risks. The unit develops methods of quantitative estimation of risks attributable to the Bank, and provides recommendation to different departments of the Bank on minimisation and effective control over risks. It develops and implements methodology and analytical instruments, which allow evaluating risks, controlling level of risk and organising procedures to mitigate risks.

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 audited annually by the internal audit group 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 Audit Committee.

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 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 risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. The above information is provided to the Board of Directors, Management Board of the Bank, Committees of the Bank and managers of units. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios, risk profile changes. On a monthly basis detailed reporting of industry, customer and geography risks takes place. The appropriateness of the allowance for credit losses is assessed on a monthly basis. The Board of Directors receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess the risks of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks (see below for more detail).

(in thousands of tenge, unless otherwise is stated)

25. Risk management (continued)

Introduction (continued)

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 and procedures 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 will fail 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.

Derivative financial instruments

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

Credit-related commitments risks

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 letter of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

The carrying amount of components of the statement of financial position without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 8 Loans to customers* and *Note 21 Contractual commitments and contingencies.*

(in thousands of tenge, unless otherwise is stated)

25. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

2016	*Note*	*Neither past due nor impaired individually*	*Past due but not impaired individually*	*Individually impaired*	*Total*
Cash (excluding cash on hand)	6	**32,202,919**	–	–	**32,202,919**
Trading securities	7	**69,753,016**	–	–	**69,753,016**
Amounts due from credit institutions		**572,329**	–	–	**572,329**
Loans to customers	8				
Corporate lending		**13,672,537**	**179,595**	**15,922,311**	**29,774,443**
Small business lending		**13,684,308**	**1,159,340**	**4,115,018**	**18,958,666**
Consumer lending		**19,662,052**	**3,801,822**	–	**23,463,874**
Mortgage lending		**4,455,858**	**682,494**	–	**5,138,352**
Investment securities:					
- available-for-sale	9	–	–	–	–
- held-to-maturity	9	**653,228**	–	–	**653,228**
Other financial assets		**589,385**	**166,166**	–	**755,551**
Total		**155,245,632**	**5,989,417**	**20,037,329**	**181,272,378**

2015	*Note*	*Neither past due nor impaired individually*	*Past due but not impaired individually*	*Individually impaired*	*Total*
Cash (excluding cash on hand)	6	42,675,920	–	–	42,675,920
Trading securities	7	2,796	–	–	2,796
Amounts due from credit institutions		577,587	–	–	577,587
Loans to customers	8				
Corporate lending		34,060,900	4,912,348	9,593,387	48,566,635
Small business lending		17,664,829	974,216	3,852,151	22,491,196
Consumer lending		21,728,374	3,735,651	–	25,464,025
Mortgage lending		5,432,543	733,244	–	6,165,787
Investment securities:					
- available-for-sale	9	6,483,525	–	–	6,483,525
- held-to-maturity	9	656,314	–	–	656,314
Other financial assets		851,601	–	–	851,601
Total		130,134,389	10,355,459	13,445,538	153,935,386

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.

(in thousands of tenge, unless otherwise is stated)

25. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets:

	2016				
	Less than 30 days	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers					
Corporate lending	–	–	–	**179,595**	**179,595**
Small business lending	**73,229**	**120,708**	**21,121**	**944,282**	**1,159,340**
Consumer lending	**599,535**	**171,934**	**186,939**	**2,843,414**	**3,801,822**
Mortgage lending	**117,802**	**64,711**	**35,666**	**464,315**	**682,494**
Total	**790,566**	**357,353**	**243,726**	**4,431,606**	**5,823,251**

	2015				
	Less than 30 days	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers					
Corporate lending	1,796,633	–	–	3,115,715	4,912,348
Small business lending	86,067	28,738	4,240	855,171	974,216
Consumer lending	979,482	278,723	292,807	2,184,639	3,735,651
Mortgage lending	97,851	46,411	9,779	579,203	733,244
Total	2,960,033	353,872	306,826	6,734,728	10,355,459

See *Note 8* for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Approved group-wide approaches are used for corporate business transactions.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include: the sustainability of the counterparty's business plan; its ability to improve financial 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.

Collectively assessed allowances

Allowances are assessed collectively for impairment on loans to customers that are not individually significant (including credit cards, residential mortgages, secured and unsecured consumer loans, borrowings received for car purchases, lending to small businesses) and for individually significant loans 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 no yet 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 appropriate delay between the time a loss is likely to have been incured 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 credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(in thousands of tenge, unless otherwise is stated)

25. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

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

	2016			
	Kazakhstan	***CIS and other non OECD countries***	***OECD countries***	***Total***
Assets				
Cash and cash equivalents	**33,931,557**	**1,642,923**	**5,787,774**	**41,362,254**
Trading securities	**69,753,016**	**–**	**–**	**69,753,016**
Amounts due from credit institutions	**258,238**	**16,661**	**297,430**	**572,329**
Loans to customers	**63,238,078**	**–**	**–**	**63,238,078**
Investment securities:				
- available-for-sale	**–**	**–**	**–**	**–**
- held-to-maturity	**653,228**	**–**	**–**	**653,228**
Other monetary assets	**716,158**	**28,163**	**11,230**	**755,551**
	168,550,275	**1,687,747**	**6,096,434**	**176,334,456**
Liabilities				
Amounts due to credit institutions:	**42,622,540**	**886,345**	**–**	**43,508,885**
Amounts due to customers	**90,482,343**	**–**	**–**	**90,482,343**
Debt securities issued	**19,357,545**	**–**	**–**	**19,357,545**
Subordinated debt	**–**	**13,623,698**	**–**	**13,623,698**
Other monetary liabilities	**335,605**	**40,003**	**73,058**	**448,666**
	152,798,033	**14,550,046**	**73,058**	**167,421,137**
Net assets / (liabilities)	**15,752,242**	**(12,862,299)**	**6,023,376**	**8,913,319**

	2015			
	Kazakhstan	***CIS and other non OECD countries***	***OECD countries***	***Total***
Assets				
Cash and cash equivalents	48,021,956	504,727	1,365,758	49,892,441
Trading securities	2,796	–	–	2,796
Amounts due from credit institutions	257,559	17,000	303,028	577,587
Loans to customers	92,734,701	–	–	92,734,701
Investment securities:				
- available-for-sale	6,483,525	–	–	6,483,525
- held-to-maturity	656,314	–	–	656,314
Other monetary assets	808,880	40,451	2,270	851,601
	148,965,731	562,178	1,671,056	151,198,965
Liabilities				
Amounts due to credit institutions:	3,812,190	1,895,858	–	5,708,048
Amounts due to customers	104,937,199	–	–	104,937,199
Debt securities issued	18,867,470	–	–	18,867,470
Subordinated debt	–	11,538,590	–	11,538,590
Other monetary liabilities	605,696	12,034	36,525	654,255
	128,222,555	13,446,482	36,525	141,705,562
Net assets / (liabilities)	20,743,176	(12,884,304)	1,634,531	9,493,403

(in thousands of tenge, unless otherwise is stated)

25. Risk management (continued)

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 stress 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. Also, it 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.

For the purpose of evaluation and decrease of risk of liquidity as well as to manage this risk, the Bank uses the following ways:

- Analysis of contractual maturities and forecasting cash flows (gap analysis), as well as analysis of deposit base concentration;
- Establishing limits for maturity gaps (gap limit) as well as establishing and regular updating of limits on the total volume of financing considering current and forecast levels of liquidity;
- Distribution and using of treasury securities portfolio to manage current liquidity;
- Development of emergency action plans (plans for emergency financing).

The Bank is also obliged to comply with liquidity requirements established by the regulators including requirements of the NBRK represented by obligatory norms.

The Banks monitors a number of internal liquidity indicators in a daily basis. The Bank's Treasury Department manages short-term liquidity on an on-going basis using cash position and portfolio of highly marketable securities.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains cash (obligatory reserve) with the NBRK, the amount of which depends on the level of customer deposits attracted.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize 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 require repayment on the earliest date at which the Bank will be required to make an appropriate payment and presents deposits of physical persons by maturities based on this proposal in the table below:

	2016				
Financial liabilities	***Less than 3 months***	***3 to 12 months***	***From 1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions:	**34,204,674**	**4,952,051**	**6,114,129**	**308,556**	**45,579,410**
Amounts due to customers	**56,503,769**	**27,384,522**	**8,367,816**	**303,899**	**92,560,006**
Debt securities issued	**800,750**	**800,750**	**26,433,144**	**–**	**28,034,644**
Subordinated debt	**399,396**	**1,220,783**	**11,733,566**	**9,212,267**	**22,566,012**
Other financial liabilities	**448,666**	**–**	**–**	**–**	**448,666**
Total undiscounted financial liabilities	**92,357,255**	**34,358,106**	**52,648,655**	**9,824,722**	**189,188,738**

	2015				
Financial liabilities	***Less than 3 months***	***3 to 12 months***	***From 1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	1,311,389	3,268,789	1,502,142	267,322	6,349,642
Amounts due to customers	35,994,040	38,315,803	35,764,909	347,525	110,422,277
Debt securities issued	800,750	800,750	24,828,000	–	26,429,500
Subordinated debt	318,031	1,029,839	5,506,255	13,651,999	20,506,124
Other financial liabilities	654,255	–	–	–	654,255
Total undiscounted financial liabilities	39,078,465	43,415,181	67,601,306	14,266,846	164,361,798

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 thousands of tenge, unless otherwise is stated)

25. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Included in due to customers are term deposits of individuals. In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. (*Note 16*)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies: Each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

	2016				
	Less than 3 months	*3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Commitments and contingencies	**4,386,089**	**3,768,473**	**15,296,763**	**238,762**	**23,690,087**

	2015				
	Less than 3 months	*3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Commitments and contingencies	7,001,531	13,482,908	14,384,585	217,070	35,086,094

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

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 interest rates, foreign exchanges, and equity prices. The market risk for the trading and non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets and financial liabilities held at 31 December 2016 and 2015.

	2016			*2015*		
Currency	*Change in basis points*	*Sensitivity of net interest income*	*Sensitivity of equity*	*Change in basis points*	*Sensitivity of net interest income*	*Sensitivity of equity*
Tenge	**100**	**0.0004**	–	100	0.0004	0.0026
Tenge	**(100)**	**(0.0004)**	–	(100)	(0.0004)	(0.0026)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Risk Committee established limits on foreign currency positions based on NBRK standards. Positions are monitored on a daily basis.

(in thousands of tenge, unless otherwise is stated)

25. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. All other variables are held constant. The negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

	2016			
Currency	*Change in exchange rates in %*	*Effect on loss before tax*	*Change in exchange rates in %*	*Effect on loss before tax*
US Dollar	**13.0%**	**(1,031,069)**	**(13.0%)**	**1,031,069**
Euro	**15.0%**	**37,350**	**(15.0%)**	**(37,350)**
Russian Rouble	**23.0%**	**(2,683,066)**	**(19.0%)**	**2,216,445**

	2015			
Currency	*Change in exchange rates in %*	*Effect on loss before tax*	*Change in exchange rates in %*	*Effect on loss before tax*
US Dollar	60.0%	(3,506,810)	-20.0%	1,168,937
Euro	60.0%	(221,159)	-20.0%	73,720
Russian Rouble	40.0%	(29,657)	-29.0%	21,501

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Bank uses regression models to project the impact of varying levels of prepayment on its net interest income. The model makes a distinction between the different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties or commissions. The model is back tested against actual outcomes.

The effect on loss before tax and equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows.

	Effect on net interest income
2016	**(1,770,508)**
2015	(117,626)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(in thousands of tenge, unless otherwise is stated)

26. Fair value of financial instruments;

The following table presents analysis of assets and liabilities based on the assets and liabilities nature, characteristics and risks as well as the hierarchy of fair value sources.

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					
Trading securities	31 December 2016	**69,753,016**	–	–	**69,753,016**
Derivative financial assets	31 December 2016	**18,998**	–	–	**18,998**
Assets whose fair value is disclosed:					
Cash and cash equivalents	31 December 2016	–	**41,362,254**	–	**41,362,254**
Amounts due from credit institutions	31 December 2016	–	**572,329**	–	**572,329**
Loans to customers	31 December 2016	–	–	**67,398,982**	**67,398,982**
Held-to-maturity investment securities	31 December 2016	**559,919**	–	–	**559,919**
Other financial assets	31 December 2016	–	–	**836,113**	**836,113**
Liabilities whose fair value is disclosed					
Amounts due to credit institutions	31 December 2016	–	**43,660,871**	–	**43,660,871**
Amounts due to customers	31 December 2016	–	**89,228,596**	–	**89,228,596**
Debt securities issued	31 December 2016	**18,700,909**	–	–	**18,700,909**
Subordinated debt	31 December 2016	–	**13,623,698**	–	**13,623,698**
Other financial liabilities	31 December 2016	–	–	**448,666**	**448,666**

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					
Trading securities	31 December 2015	2,796	–	–	2,796
Investment securities available-for-sale	31 December 2015	6,483,525	–	–	6,483,525
Derivative financial assets	31 December 2015	–	–	7,539,881	7,539,881
Assets whose fair value is disclosed:					
Cash and cash equivalents	31 December 2015	–	49,892,441	–	49,892,441
Amounts due from credit institutions	31 December 2015	–	577,587	–	577,587
Loans to customers	31 December 2015	–	–	97,456,416	97,456,416
Held-to-maturity investment securities	31 December 2015	499,187	–	–	499,187
Other financial assets	31 December 2015	–	–	851,108	851,108
Liabilities whose fair value is disclosed					
Amounts due to credit institutions	31 December 2015	–	5,595,283	–	5,595,283
Amounts due to customers	31 December 2015	–	101,892,765	–	101,892,765
Debt securities issued	31 December 2015	16,373,907	–	–	16,373,907
Subordinated debt	31 December 2015	–	11,174,868	–	11,174,868
Other financial liabilities	31 December 2015	–	–	654,255	654,255

During 2016 and 2015 the Company did not make transfers between levels of the fair value hierarchy for financial instruments recorded at fair value.

(in thousands of tenge, unless otherwise is stated)

26. 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.

	2016			*2015*		
	Carrying amount	*Fair value*	*Unrecognised gain / (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain / (loss)*
Financial assets						
Cash and cash equivalents	**41,362,254**	**41,362,254**	**–**	49,892,441	49,892,441	–
Amounts due from credit institutions	**572,329**	**572,329**	**–**	577,587	577,587	–
Loans to customers	**63,238,078**	**67,398,982**	**4,160,904**	92,734,701	97,456,416	4,721,715
Held-to-maturity investment securities	**653,228**	**559,919**	**(93,309)**	656,314	499,187	(157,127)
Other financial assets	**755,551**	**836,113**	**80,562**	851,601	851,108	(493)
Financial liabilities						
Amounts due to credit institutions	**43,508,885**	**43,660,871**	**(151,986)**	5,708,048	5,595,283	112,765
Amounts due to customers	**90,482,343**	**89,228,596**	**1,253,747**	104,937,199	101,892,765	3,044,434
Debt securities issued	**19,357,545**	**18,700,909**	**656,636**	18,867,470	16,373,907	2,493,563
Subordinated debt	**13,623,698**	**13,623,698**	**–**	11,538,590	11,174,868	363,722
Other financial liabilities	**448,666**	**448,666**	**–**	654,255	654,255	–
Total unrecognised change in unrealized fair value			**5,906,554**			10,578,579

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

In the event of quoted debt instruments, fair value is based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In determining the current interest rate, the Bank uses available information published on the official site of NBRK.

Movements in Level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 assets, which are recorded at fair value:

	Derivative financial assets	
	2016	*2015*
As at 1 January	**7,539,881**	510,483
Net income /(expenses) on transactions with financial instruments at fair value through profit or loss	**(1,260,281)**	9,260,780
Execution of the transaction	**(6,279,600)**	(2,231,382)
At 31 December	**–**	7,539,881

(in thousands of tenge, unless otherwise is stated)

26. Fair values of financial instruments (continued)

Movements in Level 3 assets and liabilities at fair value (continued)

Gains or losses on Level 3 financial instruments included in the profit or loss for the period comprise:

	2016			*2015*		
	Realised losses	***Unrealised gains / (losses)***	***Total***	***Realised gains / (losses)***	***Unrealised gains / (losses)***	***Total***
Total gains or losses included in income statement for the period	**(1,260,281)**	**–**	**(1,260,281)**	2,216,304	7,044,476	9,260,780

Significant non-observable source data and sensitivity of financial instruments of Level 3 measured at fair value to changes in key assumptions

As at 31 December 2016, the Bank had no financial instruments of Level 3 measured at fair value.

As at 31 December 2015, Level 3 includes unquoted derivative financial assets comprised of currency swaptions under the agreements with the NBRK, the fair value of which was determined through discounting of future cash flows taking into account forward foreign exchange rates at offshore rates in tenge and adjustment for credit risk of the Republic of Kazakhstan. The curve of offshore rates in tenge was drawn based on swap curve in US Dollars and forward tenge exchange rates to US Dollar. Management of the Bank made an assumption that the NBRK will not use the option for early execution of the transaction.

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy at 31 December 2015:

31 December 2015	*Carrying value*	*Valuation techniques*	*Non-observable inputs*	*Range (Average weighted value)*
Derivative financial assets	7,539,881	Discounted cash flows	Adjustment of credit spread	4.07%

The following table presents impact of possible alternative assumptions on valuation of fair value of Level 3 instruments:

31 December 2015	*Carrying value*	*Impact of possible alternative assumptions*
Derivative financial assets	7,539,881	7,532,431-7,547,313

In order to determine possible alternative assumptions, the Bank adjusted key non-observable inputs for models as follows:

- For currency swaptions the Bank adjusted the probability of default and loss given default assumptions used to calculate the credit value adjustment.

27. Offsetting of financial instruments

Disclosures in the tables below include information on financial assets and financial liabilities, which are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar financial instruments comprise repurchase and reverse repurchase agreements, which are recorded in the statement of financial position at amortised cost.

(in thousands of tenge, unless otherwise is stated)

27. Offsetting of financial instruments (continued)

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received can be pledged or sold during the term of the transaction but must be returned before maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral. The table below shows financial assets subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016.

At 31 December 2016	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Net amount
Financial assets					
Reverse repurchase agreements	**3,001,277**	**–**	**3,001,277**	**3,000,911**	**366**
	3,001,277	**–**	**3,001,277**	**3,000,911**	**366**
Financial liabilities					
Repurchase agreements	**29,110,478**	**–**	**29,110,478**	**(28,232,564)**	**877,914**
	29,110,478	**–**	**29,110,478**	**(28,232,564)**	**877,914**

28. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 25* "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2016			*2015*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**41,362,254**	**–**	**41,362,254**	49,892,441	–	49,892,441
Trading securities	**69,753,016**	**–**	**69,753,016**	2,796	–	2,796
Amounts due from credit institutions	**572,329**	**–**	**572,329**	320,028	257,559	577,587
Loans to customers	**12,390,274**	**50,847,804**	**63,238,078**	40,504,115	52,230,586	92,734,701
Investment securities:						
- available-for-sale	**–**	**–**	**–**	6,483,525	–	6,483,525
- held-to-maturity	**20,668**	**632,560**	**653,228**	10,954	645,360	656,314
Derivative financial assets	**18,998**	**–**	**18,998**	7,539,881	–	7,539,881
Property and equipment	**–**	**3,056,607**	**3,056,607**	–	3,184,647	3,184,647
Intangible assets	**–**	**1,134,970**	**1,134,970**	–	1,082,726	1,082,726
Current income tax assets	**74,834**	**–**	**74,834**	142,156	–	142,156
Deferred income tax assets	**–**	**2,179,372**	**2,179,372**	–	934,606	934,606
Other assets	**511,673**	**685,025**	**1,196,698**	653,238	604,715	1,257,953
Total	**124,704,046**	**58,536,338**	**183,240,384**	105,549,134	58,940,199	164,489,333
Amounts due to credit institutions	**38,396,155**	**5,112,730**	**43,508,885**	4,059,270	1,648,778	5,708,048
Amounts due to customers	**83,318,599**	**7,163,744**	**90,482,343**	72,352,171	32,585,028	104,937,199
Debt securities issued	**725,124**	**18,632,421**	**19,357,545**	725,124	18,142,346	18,867,470
Subordinated debt	**48,698**	**13,575,000**	**13,623,698**	13,590	11,525,000	11,538,590
Provisions	**12,076**	**–**	**12,076**	827,775	–	827,775
Other liabilities	**1,381,910**	**374,967**	**1,756,877**	842,123	907,552	1,749,675
Total	**123,882,562**	**44,858,862**	**168,741,424**	78,820,053	64,808,704	143,628,757
Net position	**821,484**	**13,677,476**	**14,498,960**	26,729,081	(5,868,505)	20,860,576

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

(in thousands of tenge, unless otherwise is stated)

29. Related party transactions

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. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions with government-related entities

The Russian Federation controls the Bank through the Federal Agency for the Administration of State Property of the Russian Federation.

The Russian Federation through its state agencies and other institutions directly and indirectly controls and has significant influence over a significant number of entities (together referred to as "entities associated with the state").

In the course of its daily activities, the Bank performs all transactions with related parties at prices established on the basis of market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2016			
	Parent	*Entities under common control*	*Government-related entities*	*Key management personnel*
Cash and cash equivalents as at 1 January	504,696	354,490	–	–
Receipts on current accounts during the year	6,114,795,190	188,920,608	–	–
Payments from the current accounts during the year	(6,114,660,560)	(189,185,999)	–	–
Cash and cash equivalents, 31 December	639,326	89,099	–	–
Loans to customers as at 1 January	–	–	–	29,514
Other movements	–	–	–	(29,514)
Loans to customers at 31 December	–	–	–	–
Held-to-maturity investment securities at 1 January	–	–	657,629	–
Accrual of interest income on held-to-maturity investment securities	–	–	42,807	–
Payment of interest income on held-to-maturity investment securities	–	–	(45,900)	–
Held-to-maturity investment securities at 31 December	–	–	654,536	–
Less: allowance for impairment at 31 December			(1,309)	
Held-to-maturity investment securities at 31 December, net of allowance			653,227	
Amounts due to credit institutions at 1 January	1,830,516	65,334	2,211,513	–
Proceeds during the year	1,669,882,596	214,926	14,212,181	–
Payments during the year	(1,670,827,332)	(279,824)	(16,423,694)	–
Amounts due to credit institutions at 31 December	885,780	436	–	–
Amounts due to customers at 1 January	–	–	–	9,459
Receipts on current accounts during the year	–	–	–	215,314
Payments from the current accounts during the year	–	–	–	(221,834)
Amounts due to customers at 31 December	–	–	–	2,939
Subordinated debt as at 1 January	11,538,590	–	–	–
Accrued interest on subordinated debt	1,526,350	–	–	–
Repayment of accrued interest on subordinated debt	(1,529,035)	–	–	–
Foreign exchange difference	2,087,793	–	–	–
Subordinated debt as at 31 December	13,623,698	–	–	–

(in thousands of tenge, unless otherwise is stated)

29. Related party transactions (continued)

Transactions with government-related entities (continued)

	2015			
	Parent	*Entities under common control*	*Government-related entities*	*Key management personnel*
Cash and cash equivalents as at 1 January	537,621	50,693	–	–
Receipts on current accounts during the year	564,314,404	37,831,782	–	–
Payments from the current accounts during the year	(564,347,330)	(37,527,985)	–	–
Cash and cash equivalents, 31 December	504,695	354,490	–	–
Loans to customers as at 1 January	–	–	–	–
Loans issued during the year	–	–	–	33,500
Repayment of loans during the year	–	–	–	(3,986)
Loans to customers outstanding at 31 December	–	–	–	29,514
Held-to-maturity investment securities at 1 January	–	–	675,774	–
Accrual of interest income on held-to-maturity investment securities	–	–	31,355	–
Payment of interest income on held-to-maturity investment securities	–	–	(49,500)	–
Held-to-maturity investment securities at 31 December	–	–	657,629	–
Less: allowance for impairment at 31 December	–	–	(1,315)	–
Held-to-maturity investment securities at 31 December, net of allowance	–	–	656,314	–
Amounts due to credit institutions at 1 January	14,742,420	25,427	–	–
Proceeds during the year	127,125,361	171,849	5,123,547	–
Payments during the year	(140,037,265)	(131,942)	(2,912,034)	–
Amounts due to credit institutions at 31 December	1,830,516	65,334	2,211,513	–
Amounts due to customers at 1 January	–	–	–	4,661
Receipts on current accounts during the year	–	–	–	480,219
Payments from the current accounts during the year	–	–	–	(475,421)
Amounts due to customers at 31 December	–	–	–	9,459
Subordinated debt as at 1 January	3,138,304	–	–	–
Received during the year	6,975,000	–	–	–
Accrued interest on subordinated debt	389,656	–	–	–
Repayment of accrued interest on subordinated debt	(500,151)	–	–	–
Foreign exchange difference	1,535,781	–	–	–
Subordinated debt as at 31 December	11,538,590	–	–	–

(in thousands of tenge, unless otherwise is stated)

29. Related party transactions (continued)

Transactions with government-related entities (continued)

	2016				2015			
	Parent	*Entities under common control*	*Government-related entities*	*Key management personnel*	*Parent*	*Entities under common control*	*Government-related entities*	*Key management personnel*
Cash and cash equivalents								
Interest income	**1,820**	**11**	–	–	2,175	154	–	–
Interest rates	**Up to 1.00%**	**Up to 2.15%**			Up to 1.00%	Up to 2.15%	–	–
Loans to customers								
Interest income	–	–	–	**3,129**	–	–	–	1,089
Interest rates	–	–	–	**13,00%**	–	–	–	13,00%
Held-to-maturity investment securities								
Interest income	–	–	**42,807**	–	–	–	31,355	–
Interest rates	–	–	**7.1%**	–	–	–	5.20%	–
Amounts due to credit institutions								
Interest expenses	**(24,462)**	–	**(3,625)**	–	(33,449)	–	(28,117)	–
Interest rates	**1.75%-12.17%**	–	**1%-14%**	–	1.75%-12.17%	–	1%-14%	–
Subordinated debt								
Interest expenses	**(1,526,350)**	–	–	–	(389,656)	–	–	–
Interest rates	**10.76%-12.72%**	–	–	–	10.76%-12.72%	–	–	–

Compensation to key management personnel totalling 6 persons (in 2015 - 9 persons) includes the following:

	2016	*2015*
Salaries and other short-term benefits	**147,036**	332,725
Social security contributions	**7,534**	5,411
Total compensation to the key management personnel	**154,570**	338,136

30. 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 using, among other measures, the ratios established by the NBRK in supervising the Bank.

As at 31 December 2016 and 2015 the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management 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 maximize 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 sets and monitors capital requirements for the Bank.

(in thousands of tenge, unless otherwise is stated)

30. Capital adequacy (continued)

Under the current capital requirements set by the NBRK banks have to maintain:

- a ratio of basic capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities and (k1.1);
- a ratio of tier 1 capital less investments to the sum of credit risk-weighted assets and contingent liabilities, market risk and a quantitative measure of operational risk weighted assets, contingent assets and liabilities (k1.2);
- a ratio of own capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities and (k2);

Investments for the purposes of calculation of the above ratios represent investments into share capital (interest in the charter capital) of a legal entity and subordinated debt of a legal entity if their total exceeds 10% of the total of tier 1 and tier 2 capital of the Bank.

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2016:

	2016	*2015*
Tier 1 capital	**11,331,516**	19,099,944
Tier 2 capital	**13,575,000**	11,525,000
Equity	**24,906,516**	30,624,944
Risk-weighted statutory assets, contingent and possible liabilities, operational and market risk	**80,936,267**	130,259,560
Ratio k1.1 (min. 5%)	**14.00%**	14.70%
Ratio k1.2 (min. 6%)	**14.00%**	14.70%
Ratio k.2 (min. 7.5%)	**30.77%**	23.50%