# VTB Bank (Kazakhstan) Subsidiary Joint Stock Company

## Financial statements

*For the year ended 31 December 2017*
*together with independent auditor's report*

# CONTENTS

## INDEPENDENT AUDITOR'S 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 (Kazakhstan) Joint Stock Company (the "Bank"), which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive income, the statement of changes in equity and the 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 2017, 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 ("ISA"). Our responsibilities in accordance with these standards are described below in the section *Responsibility of the auditor for the audit of the financial statements* of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (the "Code of IESBA"), and we have met other ethical obligations under the Code of IESBA.

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

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the 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 of the following matters, our description of how the respective matter was addressed in the course of our audit is provided in this context.

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We have met the obligations described in the section "Responsibility of the auditor for the audit of the financial statements" of our report, including with respect to these matters. Accordingly, our audit included performance of procedures designed in response to our assessment of risks of significant misstatement of the financial statements. The results of our audit procedures including procedures performed during the consideration of the following matters serve as a basis for our audit opinion on the accompanying financial statements.

| Key audit matter | How a relevant key matter was reviewed in the course of our audit |
|---|---|
| ***Adequacy of provision for impairment of loans to customers*** | |
| The assessment of the provision for impairment of loans to customers is a key area of judgement for the Bank's management. Identification of impairment evidence and measurement of the recoverable value is a process involving a significant use of judgment, assumptions and analysis of various factors, including the financial condition of the borrower, estimated future cash flows and value of the collateral. The use of various models and assumptions can significantly affect the amount of provision for impairment of loans to customers.<br><br>Because of the substantial amounts of loans to customers, which in aggregate amount to 47% of the total assets of the Bank as at 31 December 2017, assessment of provision for impairment has been one of the key audit matters. | Our audit procedures included analysis of the methodology for assessing the impairment of loans to customers, as well as the analysis and testing of controls over the processes of identifying impairment evidence and calculation of the provision for impairment of loans. As part of the audit procedures, we performed an analysis of assumptions and testing of inputs used by the Bank in assessing impairment of loans to customers on a cumulative basis, including migration rates, default probability and the level of non-recoverable losses.<br><br>We have analysed the consistency of judgments used by the Bank's management in assessing economic factors and statistical information on the losses incurred and amounts reimbursed, as well as their compliance with the applied impairment model, general practice and our professional judgment. As for the assessment of individual impairment of loans to customers, we have analysed the expectations of the Bank's management with respect to future cash flows, including in the case of foreclosure on the property, based on our professional judgment and available information in the market.<br><br>We have also analyzed information about the provision for impairment of loans to customers disclosed in Note 9 "Loans to customers" and Note 26 "Risk management" in the financial statements. |

| *Recoverability of deferred corporate income tax assets* | |
|---|---|
| We considered this matter to be the key audit matter of the current period due to materiality of the amount of deferred corporate income tax assets and subjective judgement used by the Bank's management in assessing the recoverability of deferred corporate income tax assets impacted by the uncertainty around the likely timing and the level of future taxable profit together with the tax planning strategy and expiration of tax losses. | Our audit procedures on recoverability of deferred corporate income tax assets included analysis, with the involvement of our tax experts, of forecasts of future taxable profits developed by the Bank's management on the basis of the budget and the assessment of business prospects by the management and Parent of the Bank. We assessed the significant assumptions underlying the forecasts and compared them with the available external data and actual performance indicators of the Bank.<br><br>We also reviewed information on deferred corporate income tax assets disclosed in Note 14 "Taxation" in the financial statements. |

### *Other information included in the Bank's annual report for 2017*

Other information comprises information contained in the annual report but it does not include 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 audit report. Our opinion on the financial statements does not cover the other information, and we will 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 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.

### *Responsibility of the management and Board of Directors for the financial statements*

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

In preparing the financial statements, the management is responsible for assessing the ability of the Bank to continue as a going concern, disclosure of appropriate information relating to business continuity, and for the preparation of financial statements based on the going concern basis, except when the management intends to liquidate the Bank, cease its activities or if it has no real alternative to such actions.

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

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### *Responsibility of the auditor for the audit of financial statements*

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an audit report containing our opinion. Reasonable assurance is a high degree of confidence, but is not a guarantee that the audit performed in accordance with International Auditing Standard will always detected a material misstatement, if any. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit performed in accordance with the International Auditing Standard, we use professional judgement and retain a professional scepticism throughout the audit. Besides, we perform the following:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures in response to these risks; obtain audit evidence, which is sufficient and appropriate to serve as a basis for our audit 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 controls relevant to the audit, for the purpose of developing 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 controls;
- assess the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, and disclosure of relevant information;
- conclude on eligibility of the management's application of going concern assumption, and based on obtained audit evidence, conclude if there is a sufficient uncertainty due to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we determine the existence of material uncertainty, we shall draw attention in our opinion to the related disclosure in the financial statements or, if such a disclosure is improper, modify our opinion. Our findings are based on audit evidence received before the date of our opinion. However, subsequent events or conditions may result in the Bank's loss of ability to continue as a going concern;
- evaluate the overall presentation of the financial statements, their structure and content, including disclosure of information, and if the financial statements present transactions underlying the financial statements and events in such a way that their fair presentation is provided.

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 independent 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.

Bakhtiyor Eshonkulov is in charge of the audit based on the results of which this independent auditor's report has been issued.

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / Audit Partner

Qualification certificate of the auditor
No. МФ-0000099 dated 27 August 2012

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

26 March 2018

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

# STATEMENT OF FINANCIAL POSITION

## 31 December 2017

*(thousands of tenge)*

| | *Note* | ***2017*** | ***2016*** |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | **43,372,860** | 41,362,254 |
| Trading securities | 7 | **22,547,605** | 69,753,016 |
| Amounts due from credit institutions | 8 | **5,489,775** | 572,329 |
| Loans to customers | 9 | **72,517,630** | 63,238,078 |
| Investment securities: | 10 | | |
| - available-for-sale | | **577,362** | – |
| - held-to-maturity | | **–** | 653,228 |
| Derivative financial assets | 11 | **–** | 18,998 |
| Property and equipment | 12 | **2,694,405** | 3,056,607 |
| Intangible assets | 13 | **1,715,263** | 1,134,970 |
| Current corporate income tax assets | 14 | **52,783** | 74,834 |
| Deferred corporate income tax assets | 14 | **2,192,415** | 2,179,372 |
| Other assets | 15 | **1,871,653** | 1,196,698 |
| **Total assets** | | **153,031,751** | 183,240,384 |
| | | | |
| **Liabilities** | | | |
| Amounts due to credit institutions | 16 | **17,912,141** | 43,508,885 |
| Amounts due to customers | 17 | **82,949,837** | 90,482,343 |
| Debt securities issued | 18 | **19,878,909** | 19,357,545 |
| Subordinated debt | 19 | **14,476,889** | 13,623,698 |
| Provisions | 20 | **19,695** | 12,076 |
| Derivative financial liabilities | 11 | **5,724** | – |
| Other liabilities | 15 | **1,465,481** | 1,756,877 |
| **Total liabilities** | | **136,708,676** | 168,741,424 |
| | | | |
| **Equity** | | | |
| Share capital | 21 | **27,357,000** | 27,357,000 |
| Accumulated deficit | | **(10,969,564)** | (12,858,040) |
| Revaluation reserve for available-for-sale investment securities | | **(64,361)** | – |
| **Total equity** | | **16,323,075** | 14,498,960 |
| **Total equity and liabilities** | | **153,031,751** | 183,240,384 |

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

D.A. Zabello — Chairman of the Management Board

A.V. Lavrentyeva — Chief Accountant

26 March 2018

*The accompanying notes on pages 5 to 48 are an integral part of these financial statements.*

# STATEMENT OF COMPREHENSIVE INCOME

## for the year ended 31 December 2017

*(thousands of tenge)*

| | *Note* | *2017* | *2016* |
|---|---|---|---|
| Interest income | | | |
| Cash and cash equivalents | | **697,048** | 686,280 |
| Amounts due from credit institutions | | **6,918** | 463 |
| Loans to customers | | **12,035,291** | 11,448,538 |
| Investment securities | | **46,286** | 381,490 |
| | | **12,785,543** | 12,516,771 |
| Trading securities | | **6,171,411** | 4,443,664 |
| | | **18,956,954** | 16,960,435 |
| **Interest expense** | | | |
| Amounts due to credit institutions | | **(2,636,912)** | (2,561,010) |
| Amounts due to customers | | **(4,127,060)** | (5,366,191) |
| Debt securities issued | | **(2,122,864)** | (2,091,575) |
| Subordinated debt | | **(1,668,015)** | (1,526,350) |
| | | **(10,554,851)** | (11,545,126) |
| **Net interest income before impairment** | | **8,402,103** | 5,415,309 |
| Impairment charge on loans to customers | 9 | **(1,741,089)** | (7,594,256) |
| **Net interest income/(expense)** | | **6,661,014** | (2,178,947) |
| Net fee and commission income | 23 | **1,616,500** | 1,545,486 |
| Net gains from transactions with available-for-sale investment securities | | **–** | 286,698 |
| Net losses from financial instruments at fair value through profit or loss | | **(6,269)** | (1,258,888) |
| Net gains/(losses) from foreign currencies: | | | |
| - dealing | | **4,263,408** | 2,853,528 |
| - translation differences | | **(2,325,060)** | (1,447,741) |
| Other income | | **167,940** | 64,983 |
| **Non-interest income** | | **3,716,519** | 2,044,066 |
| Personnel expenses | 24 | **(4,248,678)** | (3,647,359) |
| Other operating expenses | 24 | **(3,276,134)** | (3,661,222) |
| Depreciation and amortization | 12, 13 | **(732,807)** | (666,031) |
| Taxes other than corporate income tax | | **(140,566)** | (180,837) |
| Other impairment and provisions | 20 | **(40,283)** | 668,909 |
| Other expenses | | **(63,632)** | (127,357) |
| **Non-interest expense** | | **(8,502,100)** | (7,613,897) |
| **Profit/(loss) before corporate income tax benefit** | | **1,875,433** | (7,748,778) |
| Corporate income tax benefit | 14 | **13,043** | 1,244,766 |
| **Profit/(loss) for the year** | | **1,888,476** | (6,504,012) |
| **Other comprehensive (loss)/income** | | | |
| *Other comprehensive (loss)/income to be reclassified to profit or loss in the subsequent periods* | | | |
| Unrealised (losses)/gains from transactions with available-for-sale investment securities | | **(64,361)** | 502,222 |
| Realised gains from transactions with available-for-sale investment securities reclassified to profit or loss | | **–** | (359,826) |
| **Other comprehensive (loss)/income for the year, net of tax** | | **(64,361)** | 142,396 |
| **Total comprehensive income/(loss) for the year** | | **1,824,115** | (6,361,616) |
| **Basic and diluted earnings/(loss) per a share, in tenge** | 25 | **690.31** | (2,377.46) |

*The accompanying notes on pages 5 to 48 are an integral part of these financial statements.*

# STATEMENT OF CHANGES IN EQUITY

## for the year ended 31 December 2017

*(thousands of tenge)*

| | *Share capital* | *Accumulated deficit* | *Revaluation reserve for available-for-sale investment securities* | *Total equity* |
|---|---|---|---|---|
| **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 |
| Profit for the year | – | **1,888,476** | – | **1,888,476** |
| Other comprehensive loss for the year | – | – | **(64,361)** | **(64,361)** |
| **Total comprehensive income for the year** | – | **1,888,476** | **(64,361)** | **1,824,115** |
| **At 31 December 2017** | **27,357,000** | **(10,969,564)** | **(64,361)** | **16,323,075** |

*The accompanying notes on pages 5 to 48 are an integral part of these financial statements.*

## STATEMENT OF CASH FLOWS

### for the year ended 31 December 2017

*(thousands of tenge)*

| | *Note* | *2017* | *2016* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest income received | | **12,363,709** | 11,908,875 |
| Interest expenses paid | | **(10,715,817)** | (10,597,691) |
| Fee and commission income received | | **2,350,649** | 2,228,342 |
| Fee and commission expenses paid | | **(701,283)** | (635,041) |
| Gains less losses from financial instruments at fair value through profit or loss | | **(6,269)** | (1,258,888) |
| Realised gains less losses from dealing in foreign currencies | | **4,263,408** | 2,853,528 |
| Personnel expenses paid | | **(4,132,347)** | (3,952,749) |
| Other operating expenses paid | | **(3,424,044)** | (3,750,262) |
| **Cash flows used in operating activities before changes in operating assets and liabilities** | | **(1,994)** | (3,203,886) |
| *Net decrease/(increase) in operating assets* | | | |
| Trading securities | | **53,376,669** | (65,528,385) |
| Amounts due from credit institutions | | **(4,913,984)** | 7,671 |
| Loans to customers | | **(10,329,117)** | 23,131,380 |
| Derivative financial assets | | **18,998** | 7,520,883 |
| Other assets | | **(550,250)** | (90,437) |
| *Net (decrease)/increase in operating liabilities* | | | |
| Amounts due to credit institutions | | **(25,426,068)** | 37,288,826 |
| Amounts due to customers | | **(7,087,258)** | (14,778,160) |
| Other liabilities | | **(372,151)** | 49,550 |
| **Net cash from / (used in) operating activities before corporate income tax** | | **4,714,845** | (15,602,558) |
| Corporate income tax paid | | – | – |
| **Net cash from / (used in) operating activities** | | 4,714,845 | (15,602,558) |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of available-for-sale investment securities | | – | 6,910,326 |
| Purchase of property and equipment | | **(471,640)** | (368,656) |
| Purchase of intangible assets | 13 | **(735,059)** | (221,578) |
| **Net cash (used in) / from investing activities** | | (1,206,699) | 6,320,092 |
| Effect of exchange rates changes on cash and cash equivalents | | (1,497,540) | 752,279 |
| **Net increase/(decrease) in cash and cash equivalents** | | **2,010,606** | (8,530,187) |
| Cash and cash equivalents, beginning | | **41,362,254** | 49,892,441 |
| **Cash and cash equivalents, ending** | 6 | **43,372,860** | 41,362,254 |
| **Non-cash transactions** | | | |
| Offset of current corporate income tax assets against other taxes payable | | **22,051** | 67,322 |

*The accompanying notes on pages 5 to 48 are an integral part of these financial statements.*

## 1. Principal activities

VTB Bank (Kazakhstan) subsidiary Joinst Stock Company (the "Bank") was established 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 2017 the Bank had 17 branches throughout Kazakhstan (31 December 2016 – 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 in the amount of up to KZT 10 million on deposits in national currency for each individual in the event of business termination and revocation of the banking licence.

As at 31 December 2017 and 2016, the sole shareholder of the Bank is Bank VTB (Russia) Public Joint-Stock Company (the "Parent"). The ultimate controlling party of the Bank is the Government of the Russian Federation.

## 2. Basis of preparation

### General provisions

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 2017 the official exchange rate used for translation of monetary balances of foreign currency accounts was KZT 332.33 for USD 1 (31 December 2016 – KZT 333.29 for USD 1).

### Basis of measurement

The financial statements are prepared under the historical cost convention except for measuring 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 it, 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.

## 3. Summary of accounting policies

### Changes in accounting policies

The Bank applied the following revised IFRSs and interpretations, which became effective for annual periods on or after 1 January 2017:

*Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Bank has provided the information for both the current and the comparative period in *Note 31*.

*Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference associated with unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Their application had no impact on the financial position and performance results of the Bank, as the Bank does not have deductible temporary differences or assets related to the scope of application of these amendments.

*(thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

### Fair value measurement

The Bank measures financial instruments, such 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 27*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Bank The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

### 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 Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

*Date of recognition*

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

*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.

*(thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

### Financial assets (continued)

*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 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 profit and loss. However, interest calculated using the effective interest method is recognised in profit or loss.

*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 Bank 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 rate method.

### Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards, swaps and options in the 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 assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as net gains/(losses) from financial instruments at fair value through profit or loss.

*(thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

### Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results if 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.

### 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:

- In 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.

*(thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

### Impairment of financial assets (continued)

*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.

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 collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

*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 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.

*Renegotiated 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.

*(thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant 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 or the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

### 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.

## 3. Summary of significant accounting policies (continued)

### Taxation (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred 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 included 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 value of property and equipment is 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 |
| Motor 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 measured on initial recognition 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 17 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.

### 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 recognized as a liability and deducted from equity at the reporting date only if they are declared 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.

## 3. Summary of significant accounting policies (continued)

### Segment reporting

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

## 3. Summary of significant 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 intends, if necessary, to adopt these standards when they become effective.

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued IFRS 9 *Financial Instruments* which replaces IAS 39 *Financial Instruments: Recognition and Measurement.* The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 becomes effective for financial years beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Bank plans to adopt the new standard by recognising the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. Based on the data as at 31 December 2017 and the current status of implementation, the Bank believes that application of IFRS 9 will result in a decrease in equity as at 1 January 2018 by approximately KZT 354,155 thousand.

As at the date of approval of the financial statements, the methodology for impairment of the Bank's financial assets is at the stage of agreement with the NBRK. The Bank does not exclude that the effect of application of IFRS 9 may differ from the one indicated above based on the results of review by the regulator.

*(a) Classification and measurement*

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis are classified as measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

The Bank expects that it will continue measuring at fair value all financial assets currently measured at fair value. Trading debt securities will continue to be classified as measured at FVPL. Debt securities that are classified as available-for-sale are expected to be measured at FVOCI in accordance with IFRS 9 since the Bank expects to hold these assets not only for the purpose of obtaining contractual cash flows, but also for the sale of significant amounts on a relatively frequent basis. The majority of loans are expected to meet SPPI criteria and will continue to be measured at amortized cost.

*(thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

**Standards issued but not yet effective (continued)**

*IFRS 9 Financial Instruments (continued)*

*(b) Impairment*

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL 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 is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 with amendments introduced in April 2016. The new standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard using the modified retrospective method by recognising the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRS 15 establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). As a result, the majority of the Bank's income will not be impacted by the adoption of this standard.

The Bank currently does not expect a material effect from initial application of IFRS 15.

*Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Bank does not expect a material effect from application of these amendments.

*Amendments to IFRS 2 – Classification and measurement of share-based payment transactions*

The IASB issued amendments to IFRS 2 *Share-based Payments* that address three main areas: The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; 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. 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. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application is allowed. These amendments will not have any impact on the Bank's financial statements.

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

## 3. Summary of significant accounting policies (continued)

### Standards issued but not yet effective (continued)

*IFRS 16 Leases (continued)*

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 becomes effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Bank will continue assessing the potential effect of IFRS 16 on its financial statements.

*IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 replaces IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

There are several scope exceptions. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021, with early application permitted. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank will assess the effect of IFRS 17 on its financial statements.

*Transfers of Investment Property – Amendments to IAS 40*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after 1 January 2018. The Bank does not expect a material effect from application of these amendments.

***Annual IFRS improvements 2014-2016 cycle***

These improvements comprise the following:

*IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3-E7 (IFRS 1) have been deleted because they have served their intended purpose. These amendments are effective from 1 January 2018. These amendments are not applicable to the Bank.

*(thousands of tenge, unless otherwise is stated)*

## 3. Summary of significant accounting policies (continued)

**Standards issued but not yet effective (continued)**

***IFRS annual improvements, 2014-2016 cycle (continued)***

*IAS 28 Investments in Associates and Joint Ventures – carification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. Such a decision is taken separately for each investment upon initial recognition.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments are applied retrospectively and take effect from 1 January 2018. These amendments will not have any impact on the Bank's financial statements.

*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 IFRS 17 *Insurance Contracts*, which will replace IFRS 4. The amendments provide two options for entities that issue insurance contracts: temporary exemption from applying IFRS 9 and overlay approach. 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 entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Bank.

*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018. However, as the current activities of the Bank comply with the Interpretation requirements, the Bank does not expect any impact on its financial statements.

*IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual periods beginning on or after 1 January 2019. The Bank will adopt the interpretation when it becomes effective. Since the Bank operates in a complex tax environment, applying the interpretation may affect its financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

*(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 27*.

*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 interest charges. 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.

An assessment of the recoverability of deferred corporate income tax assets requires the use of subjective judgments of the Bank's management in relation to the likely timing and amount of future taxable profits, as well as the tax planning strategy.

The management believes that deferred corporate income tax assets as at 31 December 2017 are recorded to the extent that it is probable that future taxable profits will be available to cover temporary differences, unused tax losses and unused tax benefits , and deferred corporate income tax assets are reduced to the extent that it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

## 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 2017 and 2016, and segment results for the years ended 31 December 2017 and 2016.

*(In thousands of tenge, unless otherwise is stated)*

## 5. Segment information (continued)

| | Corporate – investment banking | | | | Medium corporate business | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *2017* | *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 intersegment transactions* | *Elimination of intersegment transactions* | *Total* |
| Cash and cash equivalents | – | – | – | – | – | – | – | – | 946,371 | 42,426,489 | 43,372,860 | – | 43,372,860 |
| Trading securities | 22,547,605 | – | – | 22,547,605 | – | – | – | – | – | – | 22,547,605 | – | 22,547,605 |
| Amounts due from credit institutions | – | 4,914,629 | – | 4,914,629 | – | – | – | – | 565,146 | 10,000 | 5,489,775 | – | 5,489,775 |
| Loans to customers | – | 9,667,455 | – | 9,667,455 | – | 16,533,907 | – | 16,533,907 | 46,316,268 | – | 72,517,630 | – | 72,517,630 |
| Investment securities: | | | | | | | | | | | | | |
| - available-for-sale | 577,362 | – | – | 577,362 | – | – | – | – | – | – | 577,362 | – | 577,362 |
| - held-to-maturity | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Property and equipment | 26,024 | 34,006 | 43,606 | 103,636 | – | 93,725 | 91,372 | 185,097 | 2,405,672 | – | 2,694,405 | – | 2,694,405 |
| Intangible assets | 33,104 | 46,452 | 51,425 | 130,981 | – | 97,699 | 83,642 | 181,341 | 1,402,941 | – | 1,715,263 | – | 1,715,263 |
| Current corporate income tax assets | 1,356 | 1,830 | 1,923 | 5,109 | – | 3,371 | 2,901 | 6,772 | 40,902 | – | 52,783 | – | 52,783 |
| Deferred corporate income tax assets | 14,699 | 251,442 | 238,957 | 505,098 | – | 47,587 | 101,634 | 149,221 | 1,053,379 | 484,717 | 2,192,415 | – | 2,192,415 |
| Other assets | 41,879 | 22,925 | 220,758 | 285,562 | – | 49,207 | 146,580 | 195,787 | 1,342,345 | 47,959 | 1,871,653 | – | 1,871,653 |
| Intersegment/intersub-segment transfer of funds | 242,192 | 142,399 | 42,874,477 | 43,259,068 | – | 2,145,276 | 14,104,096 | 16,249,372 | 41,957,781 | 35,242,452 | 136,708,673 | (136,708,673) | – |
| Total assets | 23,484,221 | 15,081,138 | 43,431,146 | 81,996,505 | – | 18,971,272 | 14,530,225 | 33,501,497 | 96,030,805 | 78,211,617 | 289,740,424 | (136,708,673) | 153,031,751 |
| | | | | | | | | | | | | | |
| Amounts due to credit institutions | – | 100 | 10,572,326 | 10,572,426 | – | 1,421,004 | – | 1,421,004 | 5,033,485 | 885,226 | 17,912,141 | – | 17,912,141 |
| Amounts due to customers | – | 85,028 | 31,189,942 | 31,274,970 | – | 658,065 | 13,571,583 | 14,229,648 | 35,932,700 | – | 81,437,318 | – | 81,437,318 |
| Debt securities issued | – | – | – | – | – | – | – | – | – | 19,878,909 | 19,878,909 | – | 19,878,909 |
| Subordinated debt | – | – | – | – | – | – | – | – | – | 14,476,889 | 14,476,889 | – | 14,476,889 |
| Provisions | – | – | – | – | – | – | 4,836 | 4,836 | 14,859 | – | 19,695 | – | 19,695 |
| Other liabilities | 236,471 | 57,271 | 1,112,209 | 1,405,951 | – | 66,207 | 527,677 | 593,884 | 976,741 | 1,424 | 2,978,000 | – | 2,978,000 |
| Derivative financial liabilities | 5,724 | – | – | 5,724 | – | – | – | – | – | – | 5,724 | – | 5,724 |
| Intersegment/intersub-segment transfer of funds | 23,223,226 | 12,699,061 | 189,246 | 36,111,533 | – | 12,699,966 | 203,741 | 12,903,707 | 45,433,147 | 42,260,283 | 136,708,673 | (136,708,673) | – |
| **Total liabilities** | 23,465,421 | 12,841,460 | 43,063,723 | 79,370,604 | – | 14,845,242 | 14,307,837 | 29,153,079 | 87,390,932 | 77,502,731 | 273,417,349 | (136,708,673) | 136,708,676 |
| **Total equity** | 18,804 | 2,239,678 | 367,423 | 2,625,905 | – | 4,126,030 | 222,388 | 4,348,418 | 8,639,871 | 708,881 | 16,323,075 | – | 16,323,075 |
| **Total equity and liabilities** | 23,484,225 | 15,081,138 | 43,431,146 | 81,996,509 | – | 18,971,272 | 14,530,225 | 33,501,497 | 96,030,803 | 78,211,612 | 289,740,424 | (136,708,673) | 153,031,751 |

*(In thousands of tenge, unless otherwise is stated)*

## 5. Segment information (continued)

| | Corporate – investment banking | | | | Medium corporate business | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *2016* | *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 intersegment transactions* | *Elimination of intersegment 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 | – | 22,318 | 29,708 | 52,526 | 635,255 | 180,404 | 1,756,877 | – | 1,756,877 |
| Intersegment/intersub-segment 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 | – | 19,005,597 | 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 (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 inter-segment transactions | |
| 2017 | 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 | 6,217,697 | 7,702 | 803,830 | 31,770 | – | 2,416,125 | 7,021,527 | 2,455,597 | – | – | 2,486,727 | 151,772 | – | 486,567 | 2,486,727 | 638,339 | 8,750,329 | 3,203,343 | 698,371 | 11,706,412 | (18,003,691) | 18,956,954 |
| Interest expense | – | (4,332,544) | (21,784) | (469,830) | (2,027,226) | – | (2,049,010) | (4,802,374) | – | – | (152,131) | (1,887,271) | (256,070) | – | (408,201) | (1,887,271) | (2,783,094) | (5,016,768) | (5,314,546) | (6,297,278) | 18,003,691 | (10,554,851) |
| **Net interest income** | 6,217,697 | (4,324,842) | 782,046 | (438,060) | (2,027,226) | 2,416,125 | 4,972,517 | (2,346,777) | – | – | 2,334,596 | (1,735,499) | (256,070) | 486,567 | 2,078,526 | (1,248,932) | 5,967,235 | (1,813,425) | (4,616,175) | 5,409,134 | – | 8,402,103 |
| Impairment charge | 1,309 | – | 312,271 | – | – | – | 313,580 | – | – | – | (741,492) | – | – | – | (741,492) | – | (1,314,503) | – | 1,326 | – | – | (1,741,089) |
| Net interest income | 6,219,006 | (4,324,842) | 1,094,317 | (438,060) | (2,027,226) | 2,416,125 | 5,286,097 | (2,346,777) | – | – | 1,593,104 | (1,735,499) | (256,070) | 486,567 | 1,337,034 | (1,248,932) | 4,652,732 | (1,813,425) | (4,614,849) | 5,409,134 | – | 6,661,014 |
| Net fee and commission income | 68,369 | – | – | – | 259,902 | – | 328,271 | – | 19,179 | – | – | – | 274,780 | – | 293,959 | – | 1,145,111 | – | (150,841) | – | – | 1,616,500 |
| Net losses from financial instruments at fair value through profit or loss | (6,269) | – | – | – | – | – | (6,269) | – | – | – | – | – | – | – | – | – | – | – | – | – | – | (6,269) |
| Net gains from financial instruments available-for-sale | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Net gains from transactions in foreign currencies | 2,515,504 | – | – | – | – | – | 2,515,504 | – | 70,726 | – | – | – | – | – | 70,726 | – | 421,753 | – | (1,069,635) | – | – | 1,938,348 |
| Other operating income | 5,379 | – | 9,856 | – | 38,118 | – | 53,353 | – | – | – | 21,574 | – | 11,221 | – | 32,795 | – | 78,909 | – | 2,883 | – | – | 167,940 |
| **Net non-interest income** | 2,582,983 | – | 9,856 | – | 298,020 | – | 2,890,859 | – | 89,905 | – | 21,574 | – | 286,001 | – | 397,480 | – | 1,645,773 | – | (1,217,593) | – | – | 3,716,519 |
| **Net operating profit** | 8,801,989 | (4,324,842) | 1,104,173 | (438,060) | (1,729,206) | 2,416,125 | 8,176,956 | (2,346,777) | 89,905 | – | 1,614,678 | (1,735,499) | 29,931 | 486,567 | 1,734,514 | (1,248,932) | 6,298,505 | (1,813,425) | (5,832,442) | 5,409,134 | – | 10,377,533 |
| Non-interest expense | (344,328) | – | (280,115) | – | (362,298) | – | (986,741) | – | – | – | (684,798) | – | (422,595) | – | (1,107,393) | – | (6,355,002) | – | (52,964) | – | – | (8,502,100) |
| **Profit before corporate income tax benefit** | 8,457,661 | (4,324,842) | 824,058 | (438,060) | (2,091,504) | 2,416,125 | 7,190,215 | (2,346,777) | 89,905 | – | 929,880 | (1,735,499) | (392,664) | 486,567 | 627,121 | (1,248,932) | (56,497) | (1,813,425) | (5,885,406) | 5,409,134 | – | 1,875,433 |
| Corporate income tax benefit | 87 | – | 1,496 | – | 1,422 | – | 3,005 | – | – | – | 283 | – | 605 | – | 888 | – | 6,266 | – | 2,884 | – | – | 13,043 |
| Profit for the year | 8,457,748 | (4,324,842) | 825,554 | (438,060) | (2,090,082) | 2,416,125 | 7,193,220 | (2,346,777) | 89,905 | – | 930,163 | (1,735,499) | (392,059) | 486,567 | 628,009 | (1,248,932) | (50,231) | (1,813,425) | (5,882,522) | 5,409,134 | – | 1,888,476 |
| Segment result | | | | | | | – | 4,846,443 | | | | | | | – | (620,923) | – | (1,863,656) | – | (473,388) | – | 1,888,476 |

*(In thousands of tenge, unless otherwise is stated)*

## 5. Segment information (continued)

| | Corporate – investment banking (CIB) | | | | | | | | Medium corporate business (MCB) | | | | | | | | | | | | Elimination of inter-segment transactions | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | | | |
| 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) | 16,960,135 |
| Interest expense | – | (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 gains from financial instruments at fair value through profit or loss | 1,392 | – | – | – | – | – | 1,392 | – | – | – | – | – | – | – | – | – | – | – | (1,260,280) | – | – | (1,258,888) |
| Net gains from available-for-sale investment securities | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 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 income | – | – | 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 income** | 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) |

All revenues of the Bank are generated in Kazakhstan. Geographic areas of the Bank activities are presented in *Note 26* 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 2017 and 2016.

*(In thousands of tenge, unless otherwise is stated)*

## 6. Cash and cash equivalents

Cash and cash equivalents comprise:

| | *2017* | *2016* |
|---|---|---|
| Cash on hand | **6,182,879** | 9,159,335 |
| Cash on current accounts with the NBRK | **33,055,751** | 21,671,883 |
| Cash on current accounts with credit institutions | **2,633,459** | 6,526,534 |
| Reverse repurchase agreements | **–** | 3,001,277 |
| Time deposits with the NBRK with a contractual maturity of up to 90 days | **1,500,771** | – |
| Time deposits with credit institutions with a contractual maturity of up to 90 days | **–** | 1,003,225 |
| | **43,372,860** | 41,362,254 |

Under Kazakh legislation, the Bank is required to maintain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on current accounts with the NBRK or physical cash computed based on average balances of the aggregate of cash balances on current accounts with the NBRK or physical cash during the period of reserve creation.

As at 31 December 2017 and 2016 the obligatory reserves of the Bank amounted to KZT 1,453,086 thousand and KZT 1,411,784 thousand respectively.

## 7. Trading securities

Trading securities comprise:

| | *2017* | *2016* |
|---|---|---|
| Notes of the NBRK | **22,547,605** | 69,750,136 |
| Treasury bills of the Ministry of Finance of the Republic of Kazakhstan | **–** | 2,880 |
| | **22,547,605** | 69,753,016 |
| | | |
| Notes of the NBRK pledged under repurchase agreements *(Note 16)* | **–** | 29,110,478 |

## 8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

| | *2017* | *2016* |
|---|---|---|
| Term deposits with a contractual maturity of more than 90 days | **4,914,629** | – |
| Deposits held as collateral for the Bank's liabilities | **575,146** | 572,329 |
| | **5,489,775** | 572,329 |

As at 31 December 2017, term deposits placed for a period of more than 90 days included a deposit placed in a Kazakhstani bank in the amount of KZT 4,950,000 thousand (31 December 2016 – KZT nil thousand). The deposit is denominated in tenge, has an interest rate of 12.2% per annum and matures at the end of 2018.

## 9. Loans to customers

Loans to customers comprise:

| | *2017* | *2016* |
|---|---|---|
| Corporate lending | **31,149,013** | 29,774,443 |
| Lending to small businesses | **16,306,429** | 18,958,666 |
| Consumer lending | **29,057,440** | 23,463,874 |
| Mortgage lending | **5,089,087** | 5,138,352 |
| **Gross loans to customers** | **81,601,969** | 77,335,335 |
| | | |
| Less: allowance for impairment | **(9,084,339)** | (14,097,257) |
| **Loans to customers** | **72,517,630** | 63,238,078 |

*(In thousands of tenge, unless otherwise is stated)*

## 9. 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:

| | *Corporate lending* | *Lending to small businesses* | *Consumer lending* | *Mortgage lending* | *Total* |
|---|---|---|---|---|---|
| **At 1 January 2017** | 8,556,842 | 3,496,150 | 1,819,083 | 225,182 | 14,097,257 |
| Charge for the year | 319,515 | 664,320 | 614,567 | 142,687 | 1,741,089 |
| Write-offs | (4,003,908) | (1,647,163) | (1,265,085) | (1,829) | (6,917,985) |
| Reclassification *(Note 20)* | 66,274 | 55,014 | 16,001 | 8 | 137,297 |
| Effect from changes in exchange rates | 8,926 | 17,244 | 511 | – | 26,681 |
| **At 31 December 2017** | 4,947,649 | 2,585,565 | 1,185,077 | 366,048 | 9,084,339 |
| Individual impairment | 4,793,656 | 1,980,398 | – | – | 6,774,054 |
| Collective impairment | 153,993 | 605,167 | 1,185,077 | 366,048 | 2,310,285 |
| | 4,947,649 | 2,585,565 | 1,185,077 | 366,048 | 9,084,339 |
| **Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance** | 11,562,998 | 2,995,225 | – | – | 14,558,223 |

In 2017 the Bank reclassified certain other assets and a relevant allowance for impairment to loans to customers.

| | *Corporate lending* | *Lending to small businesses* | *Consumer lending* | *Mortgage lending* | *Total* |
|---|---|---|---|---|---|
| **At 1 January 2016** | 4,195,630 | 3,342,003 | 2,112,349 | 302,960 | 9,952,942 |
| Charge/(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 |

### Loans individually determined as impaired

Interest income accrued on loans, individually determined as impaired for the year ended 31 December 2017 amounted to KZT 1,378,775 thousand (31 December 2016 – KZT 1,295,091 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)*

## 9. Loans to customers (continued)

### Concentration of loans to customers

As at 31 December 2017, the Bank had a concentration of loans represented by KZT 21,332,973 thousand due from ten largest third party entities or 26.1% of gross loan portfolio (31 December 2016 – KZT 20,372,005 thousand or 26.3%). As at 31 December 2017, an allowance of KZT 4,179,869 thousand (31 December 2016 – KZT 6,715,616 thousand) for impairment was recognised against these loans.

Loans have been extended to the following types of customers:

| | *2017* | *2016* |
|---|---|---|
| Private companies | **47,455,442** | 48,733,109 |
| Individuals | **34,146,527** | 28,602,226 |
| | **81,601,969** | 77,335,335 |

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

| | *2017* | *2016* |
|---|---|---|
| Individuals | **34,146,527** | 28,602,226 |
| Wholesale trading | **9,662,234** | 9,789,051 |
| Mining industry | **5,726,089** | 829,347 |
| Vehicles | **4,387,793** | 6,173,756 |
| Food industry | **4,318,662** | 4,607,963 |
| Housing construction | **4,294,054** | 4,316,090 |
| Retail trading | **3,711,704** | 2,129,458 |
| Oil and gas industry | **3,660,773** | 2,293,656 |
| Consumer goods industry | **1,427,047** | 1,864,213 |
| Investments in real estate | **1,406,226** | 3,436,915 |
| Road and industrial construction | **1,243,579** | 1,344,510 |
| Hotel business and restaurants | **1,167,707** | 2,481,880 |
| Healthcare | **1,012,232** | 658,212 |
| Machinery and equipment production | **1,010,620** | 1,369,185 |
| Production of construction materials | **566,272** | 535,551 |
| Recreation and tourist activities | **462,428** | 1,496,651 |
| Financial services | **373,801** | 5,635 |
| Education | **136,337** | 184,181 |
| Agriculture | **119,698** | 2,151,599 |
| Energy | **5,814** | 9,310 |
| Other | **2,762,372** | 3,055,946 |
| | **81,601,969** | 77,335,335 |

## 10. Investment securities

### Available-for-sale investment securities

As at 31 December 2017, investment securities available for sale include bonds of a Kazakhstani bank with a total fair value of KZT 577,362 thousand.

### Held-to-maturity investment securities

As at 31 December 2016, held-to-maturity investment securities comprise bonds of a Kazakhstani bank with a total carrying value of KZT 653,228 thousand with maturity in 2019 and a nominal interest rate of 10.0% per annum.

### Reclassifications

In March 2017, the Bank reclassified all securities held to maturity into the portfolio of securities available for sale due to the fact that the Bank does not intend to hold these securities to maturity.

The carrying amount of securities held to maturity amounted KZT 630,756 thousand at the date of reclassification and their fair value at this date amounted to KZT 565,795 thousand. The difference between the carrying amount and the fair value of securities as at the date of reclassification was recognised in other comprehensive income.

*(In thousands of tenge, unless otherwise is stated)*

## 11. Derivative financial assets and liabilities

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, 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.

| | *2017* | | | *2016* | | |
|---|---|---|---|---|---|---|
| | *Notional principal* | *Fair values* | | *Notional principal* | *Fair values* | |
| | | *Asset* | *Liability* | | *Asset* | *Liability* |
| **Foreign exchange contracts** | | | | | | |
| Forwards – domestic | **261,957** | **–** | **(5,724)** | 2,417,508 | 18,998 | – |
| **Derivative financial (liabilities)/assets** | **261,957** | **–** | **(5,724)** | 2,417,508 | 18,998 | – |

### 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.

## 12. Property and equipment

The movements in property and equipment were as follows:

| | *Furniture and fixtures* | *Leasehold improve-ment* | *Compu-ters and office equip-ment* | *Motor vehicles* | *Assets to be installed* | *Other assets* | *Total* |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **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 |
| Additions | **742** | **600** | **9,433** | **–** | **203,984** | **1,080** | **215,839** |
| Disposals | **(1,704)** | **(55,925)** | **–** | **–** | **–** | **–** | **(57,629)** |
| Transfers | **8,823** | **19,537** | **300,185** | **–** | **(428,750)** | **100,205** | **–** |
| **At 31 December 2017** | **287,138** | **984,012** | **2,903,633** | **38,429** | **169,538** | **1,279,696** | **5,662,446** |
| **Accumulated depreciation** | | | | | | | |
| **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) |
| Depreciation charge | **(37,104)** | **(154,434)** | **(261,341)** | **(5,490)** | **–** | **(119,672)** | **(578,041)** |
| Disposals | **1,704** | **55,925** | **–** | **–** | **–** | **–** | **57,629** |
| **At 31 December 2017** | **(203,114)** | **(529,489)** | **(1,248,721)** | **(26,259)** | **–** | **(960,458)** | **(2,968,041)** |
| **Net book value** | | | | | | | |
| **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 |
| **At 31 December 2017** | **84,024** | **454,523** | **1,654,912** | **12,170** | **169,538** | **319,238** | **2,694,405** |

As at 31 December 2017, the cost of fully depreciated property and equipment in use of the Bank amounted to KZT 703,071 thousand (31 December 2016 – KZT 602,746 thousand).

*(In thousands of tenge, unless otherwise is stated)*

## 13. Intangible assets

The movements in intangible assets were as follows:

| | *Licences* | *Computer software* | *Assets to be installed* | *Total* |
|---|---|---|---|---|
| **Cost** | | | | |
| **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 |
| Additions | **111,449** | **67,732** | 555,878 | **735,059** |
| Disposal | **(2)** | **(24,831)** | – | **(24,833)** |
| Transfers | **290,312** | **103,674** | **(393,986)** | – |
| **At 31 December 2017** | **936,787** | **1,514,246** | **189,348** | **2,640,381** |
| **Accumulated amortisation** | | | | |
| **At 31 December 2015** | (257,032) | (368,819) | – | (625,851) |
| Amortization charge | (37,214) | (132,120) | – | (169,334) |
| **At 31 December 2016** | (294,246) | (500,939) | – | (795,185) |
| Amortization charge | **(49,561)** | **(105,205)** | – | **(154,766)** |
| Disposal | **2** | **24,831** | – | **24,833** |
| **At 31 December 2017** | **(343,805)** | **(581,313)** | – | **(925,118)** |
| **Net book value** | | | | |
| **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 |
| **At 31 December 2017** | **592,982** | **932,933** | **189,348** | **1,715,263** |

## 14. Taxation

The corporate income tax benefit comprises:

| | *2017* | *2016* |
|---|---|---|
| Current corporate income tax expenses | – | – |
| Deferred tax benefit – origination and reversal of temporary differences | **(13,043)** | (1,244,766) |
| **Corporate income tax benefit** | **(13,043)** | (1,244,766) |

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 2017 and 2016.

The reconciliation between the corporate income tax benefit in these financial statements and profit/(loss) before corporate income tax benefit multiplied by the statutory tax rate for the years ended 31 December is as follows:

| | *2017* | *2016* |
|---|---|---|
| **Profit/(loss) before taxes** | **1,875,433** | (7,748,778) |
| Statutory rate | **20%** | 20% |
| **Theoretical corporate income tax expense/(benefit ) at the statutory rate** | **375,087** | (1,549,756) |
| Non-deductible impairment charge | **18,236** | 63,618 |
| Non-deductible interest expense | **102,022** | 45,679 |
| Non-deductible operating expenses | **9,548** | 4,130 |
| Non taxable income on state securities and securities officially listed at KASE | **(399,150)** | – |
| Adjustment of historical losses carried forward | – | 182,256 |
| Other differences | **(118,786)** | 9,307 |
| **Corporate income tax benefit** | **(13,043)** | (1,244,766) |

*(In thousands of tenge, unless otherwise is stated)*

## 14. Taxation (continued)

As at 31 December 2017, current corporate income tax assets comprised KZT 52,783 thousand (31 December 2016 – KZT 74,834 thousand).

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

| | *2015* | *Origination and reversal of temporary difference in profit or loss* | *2016* | *Origination and reversal of temporary difference in profit or loss* | *2017* |
|---|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | | |
| Tax losses carry-forward | 1,234,991 | 1,381,534 | 2,616,525 | – | **2,616,525** |
| Accrued expenses on unused vacations | 46,771 | (20,310) | 26,461 | **(15,037)** | **11,424** |
| Accrued expenses on premiums | 60,065 | (60,065) | – | **23,200** | **23,200** |
| Accrued interest expenses | 19,412 | 69,846 | 89,258 | **(89,258)** | **–** |
| Provisions for doubtful debts | 18,689 | 1,845 | 20,534 | **(13,677)** | **6,857** |
| Other accrued expenses | 111,762 | (101,120) | 10,642 | **12,714** | **23,356** |
| **Deferred corporate income tax assets** | 1,491,690 | 1,271,730 | 2,763,420 | **(82,058)** | **2,681,362** |
| | | | | | |
| **Tax effect of taxable temporary differences** | | | | | |
| Dynamic provisions | (202,360) | – | (202,360) | – | **(202,360)** |
| Property and equipment | (354,724) | (26,964) | (381,688) | **95,101** | **(286,587)** |
| **Deferred corporate income tax liabilities** | (557,084) | (26,964) | (584,048) | **95,101** | **(488,947)** |
| **Deferred corporate income tax assets, net** | 934,606 | 1,244,766 | 2,179,372 | **13,043** | **2,192,415** |

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

## 15. Other assets and liabilities

Other assets comprise at 31 December:

| | *2017* | *2016* |
|---|---|---|
| Other deferred expenses | **442,734** | 294,652 |
| Rent prepayment | **356,529** | 342,216 |
| Accounts receivable on guarantees and letters of credits | **314,607** | 379,996 |
| Prepayments for acquisition of property and equipment | **255,801** | 2,213 |
| State duties | **171,963** | 146,418 |
| Inventory | **69,469** | 71,766 |
| Currency transactions assets | **53,415** | – |
| Other | **307,712** | 203,505 |
| | **1,972,230** | 1,440,766 |
| | | |
| Less – allowance for impairment *(Note 20)* | **(100,577)** | (244,068) |
| | **1,871,653** | 1,196,698 |

*(In thousands of tenge, unless otherwise is stated)*

## 15. Other assets and liabilities (continued)

As at 31 December other liabilities comprise:

| | *2017* | *2016* |
|---|---|---|
| Liabilities on payment systems transfer | **412,006** | 130,498 |
| Deferred commission income | **281,116** | 364,709 |
| Currency transactions liabilities | **195,339** | 152,065 |
| Taxes other than corporate income tax payable | **118,497** | 99,591 |
| Premiums accrued | **116,000** | – |
| Accrued administrative expenses | **58,195** | 106,496 |
| Accrued expenses on unused vacations | **57,119** | 132,305 |
| Liabilities on contributions to Kazakhstan Deposit Insurance Fund | **30,513** | 41,401 |
| Professional services payable | **28,072** | 26,235 |
| Advance payment received on forward contracts | **23,529** | 500,540 |
| Fee and commission expenses accrued | **13,953** | 51,785 |
| Insurance payables | **13,309** | 24,666 |
| Accounts payable for acquisition of property and equipment | **503** | – |
| Other | **117,330** | 126,586 |
| | **1,465,481** | 1,756,877 |

## 16. Amounts due to credit institutions

As at 31 December amounts due to credit institutions comprise:

| | *2017* | *2016* |
|---|---|---|
| Current accounts | **11,457,552** | 661,002 |
| Term deposits and loans | **6,454,589** | 14,615,319 |
| Repurchase agreements | **–** | 28,232,564 |
| | **17,912,141** | 43,508,885 |

At 31 December 2017, term deposits and loans from credit institutions comprised loans received from "DAMU" Entrepreneurship Development Fund JSC in the amount of KZT 2,689,210 thousand (31 December 2016 – KZT 1,681,839 thousand) as part of the government programs to support small and medium-sized businesses by the banking sector. The loans are denominated in KZT, bear interest rates of 4.5%-8.5% per annum and mature in 2018-2023.

As at 31 December 2017, term deposits and loans from credit institutions also include a loan received from the NBRK in the amount of KZT 3,750,843 thousand (31 December 2016 – KZT 3,760,491 thousand) for financing projects in priority sectors of economy, without any industry restrictions. The loan is denominated in tenge, it has an interest rate of 14% per annum and matures in 2019.

As at 31 December 2017 and 2016, current accounts, as well as term deposits and loans, include cash placed by the Parent for a total of KZT 882,638 thousand and KZT 885,780 thousand, respectively *(Note 30)*.

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

## 17. Amounts due to customers

Loans to customers comprised the following at 31 December:

| | *2017* | *2016* |
|---|---|---|
| Time deposits | **47,526,715** | 61,581,621 |
| Current accounts | **35,423,122** | 28,900,722 |
| | **82,949,837** | 90,482,343 |
| | | |
| Term deposits held as security against guarantees and letters of credit | **183,886** | 310,160 |

*(In thousands of tenge, unless otherwise is stated)*

## 17. Amounts due to customers (continued)

As at 31 December 2017, the Bank's ten largest customers accounted for KZT 32,963,951 thousand or 39.7% of total amounts due to customers (31 December 2016 – KZT 25,498,640 thousand or 28.2%).

Included in time deposits are deposits of individuals of KZT 24,661,498 thousand (31 December 2016 – KZT 34,291,933 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.

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

| | *2017* | *2016* |
|---|---|---|
| Private enterprises | **55,288,874** | 52,720,027 |
| Individuals | **27,660,963** | 37,762,316 |
| | **82,949,837** | 90,482,343 |

A breakdown of customer accounts by sectors is as follows:

| | *2017* | *2016* |
|---|---|---|
| Individuals | **27,660,963** | 37,762,316 |
| Non-credit financial institutions | **14,483,502** | 23,533,066 |
| Construction | **9,465,654** | 5,689,085 |
| Oil and gas production | **9,279,562** | 861,570 |
| Wholesale trading | **7,541,646** | 8,610,480 |
| Metallurgy | **2,484,183** | 98,788 |
| Transport and communications | **1,838,430** | 1,421,970 |
| Production of construction materials | **1,786,329** | 3,233,760 |
| Energy | **1,320,312** | 1,215,640 |
| Retail trading | **1,093,188** | 1,089,857 |
| Mining industry | **1,039,555** | 502,270 |
| Entertainment | **908,641** | 39,909 |
| Chemical industry | **333,970** | 266,799 |
| Investments in real estate | **281,710** | 257,786 |
| Machinery and equipment production | **262,296** | 137,078 |
| Agriculture | **181,387** | 273,068 |
| Food industry | **160,458** | 126,535 |
| Consumer goods industry | **56,870** | 95,157 |
| Education | **49,375** | 137,963 |
| Research and development | **18,759** | 42,170 |
| Other | **2,703,047** | 5,087,076 |
| | **82,949,837** | 90,482,343 |

## 18. Debt securities issued

Debt securities issued comprise:

| | *2017* | *2016* |
|---|---|---|
| Debt securities issued at KASE | **20,750,124** | 20,750,124 |
| Less unamortised discount | **(871,215)** | (1,392,579) |
| **Debt securities issued** | **19,878,909** | 19,357,545 |

As at 31 December 2017 and 2016, 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.

## 19. Subordinated debt

As of 31 December 2017, the subordinated debt of the Bank comprise loans received from the Parent in the amount of KZT 14,476,889 thousand (31 December 2016 – KZT 13,623,698 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)*

## 20. Other impairment and provisions

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

| | *Other assets* | *Guarantees and letters of credit* | *Other provisions* | *Total* |
|---|---|---|---|---|
| **At 31 December 2015** | 131,808 | 395,824 | 431,951 | 959,583 |
| Charge/(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 |
| | | | | |
| Charge/(reversal) for the year | **32,617** | **7,666** | – | **40,283** |
| Write-offs | **(38,698)** | – | – | **(38,698)** |
| Reclassification *(Note 9)* | **(137,297)** | – | – | **(137,297)** |
| Effect from changes in exchange rates | **(113)** | **(47)** | – | **(160)** |
| **At 31 December 2017** | **100,577** | **19,695** | – | **120,272** |

Allowances for impairment of other assets are deducted from the related assets *(Note 15)*.

## 21. Share capital

As at 31 December 2017 and 2016 authorised and outstanding common shares in the amount of 2,735,700 shares are issued and fully paid by the Parent at placement value of KZT 10 thousand per one common share.

No dividends were declared or paid during 2017 and 2016.

In accordance with the Resolution of the NBRK No.137 dated 27 May 2013, starting from 1 January 2013 the Bank calculated dynamic provisions associated with a risk of future losses on a loan portfolio. As at 31 December 2017, dynamic provisions calculated in accordance with the NBRK requirements amounted to KZT 1,011,802 thousand (31 December 2016 – KZT 1,011,802 thousand).

## 22. 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. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2017, 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)*

## 22. 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 2017. 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:

| | *2017* | *2016* |
|---|---|---|
| **Credit related commitments** | | |
| Undrawn loan commitments | **14,140,401** | 10,017,949 |
| Guarantees | **8,821,830** | 8,850,512 |
| Letters of credit | **31,034** | – |
| | **22,993,265** | 18,868,461 |
| **Operating lease commitments** | | |
| Not later than 1 year | **1,086,330** | 1,335,663 |
| From 1 to 5 years | **1,894,485** | 3,356,202 |
| Over 5 years | **37,430** | 129,761 |
| | **3,018,245** | 4,821,626 |
| Less: provisions for guarantees and letters of credits *(Note 20)* | **(19,695)** | (12,076) |
| **Commitments and contingencies (before deducting collateral)** | **25,991,815** | 23,678,011 |
| Less: cash held as security against guarantees and letters of credit *(Note 17)* | **(183,886)** | (310,160) |
| **Commitments and contingencies** | **25,807,929** | 23,367,851 |

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)*

## 23. Net fee and commission income

Net fee and commission income comprise:

| | *2017* | *2016* |
|---|---|---|
| Transfer operations | **890,438** | 831,839 |
| Cash transactions | **488,426** | 478,698 |
| Guarantees issued | **328,643** | 335,788 |
| Foreign currency transactions | **186,304** | 222,980 |
| Settlement transactions | **122,108** | 114,482 |
| Online banking | **38,371** | 36,195 |
| Letter of credit issued | **5,640** | 793 |
| Other | **221,858** | 179,210 |
| **Fee and commission income** | **2,281,788** | 2,199,985 |
| | | |
| Settlement transactions | **(352,585)** | (290,105) |
| Transfer operations | **(281,241)** | (300,039) |
| Custodian services | **(25,711)** | (35,036) |
| Agency services | **–** | (15,353) |
| Letters of credit and guarantees issued | **(4,859)** | (10,253) |
| Other | **(892)** | (3,713) |
| **Fee and commission expense** | **(665,288)** | (654,499) |
| **Net fee and commission income** | **1,616,500** | 1,545,486 |

## 24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

| | *2017* | *2016* |
|---|---|---|
| Salaries and bonuses | **(3,861,389)** | (3,276,553) |
| Social security contributions | **(387,289)** | (370,806) |
| **Personnel expenses** | **(4,248,678)** | (3,647,359) |
| | | |
| Lease | **(1,239,119)** | (1,513,852) |
| Security | **(411,554)** | (455,550) |
| Information services | **(309,580)** | (262,368) |
| Licences | **(293,751)** | (433,145) |
| Telecommunication services | **(195,443)** | (185,122) |
| Marketing and advertising | **(174,699)** | (157,012) |
| Contributions to Kazakhstan Deposit Insurance Fund | **(151,760)** | (157,083) |
| Repair and maintenance of property and equipment | **(141,969)** | (123,237) |
| Business trip expenses | **(74,884)** | (59,139) |
| Vehicles | **(60,252)** | (54,419) |
| Encashment | **(52,964)** | (65,121) |
| Office supplies | **(35,262)** | (27,813) |
| Legal and advisory services | **(34,698)** | (28,235) |
| Membership fees | **(20,627)** | (23,973) |
| Representation | **(9,325)** | (4,316) |
| Insurance | **(5,475)** | (7,125) |
| Translation services | **(4,079)** | (3,782) |
| Other | **(60,693)** | (99,930) |
| **Other operating expenses** | (3,276,134) | (3,661,222) |

*(In thousands of tenge, unless otherwise is stated)*

## 25. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the net earnings/(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.

The following reflects data on earnings/(loss) and shares used in the basic and diluted earnings/(loss) per share computations:

| | *2017* | *2016* |
|---|---|---|
| Net earnings/(loss) for the year attributable to the shareholder of the Bank | **1,888,476** | (6,504,012) |
| Weighted average number of common shares for basic and diluted earnings/(loss) per share computation | **2,735,700** | 2,735,700 |
| Basic and diluted earnings/(loss) per share (in tenge) | **690.31** | (2,377.46) |

As at 31 December 2017 and 2016, the Bank did not have any financial instruments diluting earnings/(loss) per share.

The carrying amount of one common share calculated in accordance with the methodology indicated in the Listing Rules of Kazakhstan Stock Exchange as at 31 December 2017 and 2016 is presented below:

| | *31 December 2017* | | | *31 December 2016* | | |
|---|---|---|---|---|---|---|
| ***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** | **14,607,812** | **5,339.70** | 2,735,700 | 13,363,990 | 4,885.03 |

## 26. 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.

*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.

## 26. Risk management (continued)

### Introduction (continued)

*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).

*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 statement of financial position.

*(In thousands of tenge, unless otherwise is stated)*

## 26. Risk management (continued)

### Credit risk (continued)

*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 9* "Loans to customers" and *Note 22* "Contractual commitments and contingencies".

*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.

| *2017* | *Note* | *Neither past due nor impaired individually* | *Past due but not impaired individually* | *Individually impaired* | *Total* |
|---|---|---|---|---|---|
| Cash (excluding cash on hand) | 6 | **37,189,981** | – | – | **37,189,981** |
| Trading securities | 7 | **22,547,605** | – | – | **22,547,605** |
| Amounts due from credit institutions | 8 | **5,489,775** | – | – | **5,489,775** |
| Loans to customers | 9 | | | | |
| Corporate lending | | **19,463,153** | **122,862** | **11,562,998** | **31,149,013** |
| Lending to small business | | **12,298,806** | **1,012,398** | **2,995,225** | **16,306,429** |
| Consumer lending | | **26,000,850** | **3,056,590** | – | **29,057,440** |
| Mortgage lending | | **4,190,359** | **898,728** | – | **5,089,087** |
| Investment securities: | | | | | |
| - available-for-sale | 10 | **577,362** | – | – | **577,362** |
| - held-to-maturity | 10 | – | – | – | – |
| Other financial assets | | **693,426** | – | **100,577** | **794,003** |
| Total | | **128,451,317** | **5,090,578** | **14,658,800** | **148,200,695** |

| *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 | 8 | 572,329 | – | – | 572,329 |
| Loans to customers | 9 | | | | |
| Corporate lending | | 13,672,537 | 179,595 | 15,922,311 | 29,774,443 |
| Lending to small business | | 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 | 10 | – | – | – | – |
| - held-to-maturity | 10 | 653,228 | – | – | 653,228 |
| Other financial assets | | 589,385 | – | 166,166 | 755,551 |
| Total | | 155,245,632 | 5,823,251 | 20,203,495 | 181,272,378 |

*(In thousands of tenge, unless otherwise is stated)*

## 26. Risk management (continued)

### Credit risk (continued)

*Credit quality per class of financial assets (continued)*

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.

*Ageing analysis of past due but not individually impaired loans per class of financial assets*

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Less than 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
| **Loans to customers** | | | | | |
| Corporate lending | – | – | – | 122,862 | 122,862 |
| Lending to small business | 2,945 | – | – | 1,009,453 | 1,012,398 |
| Consumer lending | 655,024 | 167,622 | 131,948 | 2,101,996 | 3,056,590 |
| Mortgage lending | 76,879 | 141,670 | 29,458 | 650,721 | 898,728 |
| **Total** | 734,848 | 309,292 | 161,406 | 3,885,032 | 5,090,578 |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Less than 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
| **Loans to customers** | | | | | |
| Corporate lending | – | – | – | 179,595 | 179,595 |
| Lending to small business | 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 |

See *Note 9* 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 include 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 and probability 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.

*(In thousands of tenge, unless otherwise is stated)*

## 26. Risk management (continued)

### Credit risk (continued)

*Collectively assessed allowances (continued)*

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 of the following information: historical losses on the portfolio, current economic conditions, the expected delay between the time a loss is likely to have been uncured 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.

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

| | *2017* | | | |
|---|---|---|---|---|
| | *Kazakhstan* | *CIS and other non OECD countries* | *OECD countries* | *Total* |
| **Assets** | | | | |
| Cash and cash equivalents | **40,805,264** | **660,960** | **1,906,636** | **43,372,860** |
| Trading securities | **22,547,605** | – | – | **22,547,605** |
| Amounts due from credit institutions | **5,176,168** | **16,614** | **296,993** | **5,489,775** |
| Loans to customers | **72,400,168** | **117,462** | – | **72,517,630** |
| Investment securities: | | | | |
| - available-for-sale | **577,362** | – | – | **577,362** |
| - held-to-maturity | – | – | – | – |
| Other monetary assets | **643,041** | **40,621** | **9,764** | **693,426** |
| | **142,149,608** | **835,657** | **2,213,393** | **145,198,658** |
| **Liabilities** | | | | |
| Amounts due to credit institutions | **17,012,478** | **899,663** | – | **17,912,141** |
| Amounts due to customers | **80,935,538** | **1,817,338** | **196,961** | **82,949,837** |
| Debt securities issued | **19,878,909** | – | – | **19,878,909** |
| Subordinated debt | – | **14,476,889** | – | **14,476,889** |
| Other monetary liabilities | **709,951** | **29,899** | **11,743** | **751,593** |
| | **118,536,876** | **17,223,789** | **208,704** | **135,969,369** |
| **Net assets/(liabilities)** | **23,612,732** | **(16,388,132)** | **2,004,689** | **9,229,289** |

| | *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 |

*(In thousands of tenge, unless otherwise is stated)*

## 26. 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. In order to limit this risk the management ensured availability of different funding sources in addition to the existing minimal amount of bank deposits. Management also controls 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 term deposits of physical persons by maturities based on this proposal in the table below:

| | *2017* | | | | |
|---|---|---|---|---|---|
| ***Financial liabilities*** | ***Less than 3 months*** | ***From 3 to 12 months*** | ***From 1 to 5 years*** | ***Over 5 years*** | ***Total*** |
| Amounts due to credit institutions | **11,724,228** | **807,295** | **6,395,349** | **665,630** | **19,592,502** |
| Amounts due to customers | **51,086,549** | **22,843,978** | **10,365,328** | **449,088** | **84,744,943** |
| Debt securities issued | **800,750** | **800,750** | **20,891,445** | **–** | **22,492,945** |
| Subordinated debt | **427,562** | **1,306,271** | **20,583,817** | **–** | **22,317,650** |
| Other financial liabilities | **751,593** | **–** | **–** | **–** | **751,593** |
| **Total undiscounted financial liabilities** | **64,790,682** | **25,758,294** | **58,235,939** | **1,114,718** | **149,899,633** |

| | *2016* | | | | |
|---|---|---|---|---|---|
| ***Financial liabilities*** | ***Less than 3 months*** | ***From 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 |

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)*

## 26. 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 17).*

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.

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
| Commitments and contingencies | **1,993,086** | **4,563,375** | **16,129,928** | **3,325,121** | **26,011,510** |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | From 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 |

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 2017 and 2016.

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| *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** | **0.0418** | – | 100 | 0.0004 | – |
| Tenge | **(100)** | **(0.0418)** | – | (100) | (0.0004) | – |

*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.

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 parameters are held constant. The negative amount in the table reflects a potential net reduction in profit or loss or equity, while a positive amount reflects a net potential increase.

*(In thousands of tenge, unless otherwise is stated)*

## 26. Risk management (continued)

### Market risk (continued)

*Currency risk (continued)*

| | 2017 | | | |
|---|---|---|---|---|
| **Currency** | **Change in exchange rates in %** | **Effect on profit before tax** | **Change in exchange rates in %** | **Effect on profit before tax** |
| US dollar | **10.00%** | **1,250,979** | **(10.00%)** | **(1,250,979)** |
| Euro | **13.50%** | **64,403** | **(9.50%)** | **(45,320)** |
| Russian rouble | **16.00%** | **(2,041,267)** | **(16.00%)** | **2,041,267** |
| GBP | **15.00%** | **2,460** | **(15.00%)** | **(2,460)** |

| | 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 |

*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 |
|---|---|
| **2017** | **(2,354,776)** |
| 2016 | (1,770,508) |

### 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)*

## 27. 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 2017* | *Date of measurement* | *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 2017 | 22,547,605 | – | – | 22,547,605 |
| Investment securities available-for-sale | 31 December 2017 | 577,362 | – | – | 577,362 |
| **Assets for which fair values are disclosed** | | | | | |
| Cash and cash equivalents | 31 December 2017 | – | 43,372,860 | – | 43,372,860 |
| Amounts due from credit institutions | 31 December 2017 | – | 5,489,775 | – | 5,489,775 |
| Loans to customers | 31 December 2017 | – | – | 77,486,947 | 77,486,947 |
| Other financial assets | 31 December 2017 | – | – | 693,426 | 693,426 |
| **Liabilities measured at fair value** | | | | | |
| Derivative financial liabilities | 31 December 2017 | 5,724 | – | – | 5,724 |
| **Liabilities for which fair values are disclosed** | | | | | |
| Amounts due to credit institutions | 31 December 2017 | – | 16,269,179 | – | 16,269,179 |
| Amounts due to customers | 31 December 2017 | – | 81,592,986 | – | 81,592,986 |
| Debt securities issued | 31 December 2017 | 18,757,089 | – | – | 18,757,089 |
| Subordinated debt | 31 December 2017 | – | 14,476,889 | – | 14,476,889 |
| Other financial liabilities | 31 December 2017 | – | – | 751,593 | 751,593 |

| *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 for which fair values are 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 for which fair values are 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 |

During 2017 and 2016 the Bank 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)*

## 27. Fair value 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.

| | *2017* | | | *2016* | | |
|---|---|---|---|---|---|---|
| | *Carrying value* | *Fair value* | *Unrecognised gain/ (loss)* | *Carrying value* | *Fair value* | *Unrecognised gain/ (loss)* |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | **43,372,860** | **43,372,860** | – | 41,362,254 | 41,362,254 | – |
| Amounts due from credit institutions | **5,489,775** | **5,489,775** | – | 572,329 | 572,329 | – |
| Loans to customers | **72,517,630** | **77,486,947** | **4,969,317** | 63,238,078 | 67,398,982 | 4,160,904 |
| Held-to-maturity investment securities | – | – | – | 653,228 | 559,919 | (93,309) |
| Other financial assets | **693,426** | **693,426** | – | 755,551 | 836,113 | 80,562 |
| **Financial liabilities** | | | | | | |
| Amounts due to credit institutions | **17,912,141** | **16,269,179** | **1,642,962** | 43,508,885 | 43,660,871 | (151,986) |
| Amounts due to customers | **82,949,837** | **81,592,986** | **1,356,851** | 90,482,343 | 89,228,596 | 1,253,747 |
| Debt securities issued | **19,878,909** | **18,757,089** | **1,121,820** | 19,357,545 | 18,700,909 | 656,636 |
| Subordinated debt | **14,476,889** | **14,476,889** | – | 13,623,698 | 13,623,698 | – |
| Other financial liabilities | **751,593** | **751,593** | – | 448,666 | 448,666 | – |
| **Total unrecognised change in unrealized fair value** | | | **9,090,950** | | | 5,906,554 |

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 value of unquoted instruments, loans to customers, customer deposits, amounts due from financial institutions, deposits of banks and other financial institutions, other financial assets and liabilities is 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* | |
|---|---|---|
| | *2017* | *2016* |
| **At 1 January** | – | 7,539,881 |
| Net expenses on transactions with financial instruments at fair value through profit or loss | – | (1,260,281) |
| Execution of the transaction | – | (6,279,600) |
| **As at 31 December** | – | – |

*(In thousands of tenge, unless otherwise is stated)*

## 27. Fair value 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:

| | *2017* | | | *2016* | | |
|---|---|---|---|---|---|---|
| | *Realised gains/ (losses)* | *Unrealised gains/ (losses)* | *Total* | *Realised losses* | *Unrealised gains/ (losses)* | *Total* |
| Gains or expenses recognised in profit or loss, total | – | – | – | (1,260,281) | – | (1,260,281) |

As at 31 December 2017 and 2016, the Bank had no financial instruments of Level 3 measured at fair value.

## 28. 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.

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.

| | | | | *Related amounts not offset in the statement of financial position* | |
|---|---|---|---|---|---|
| ***At 31 December 2016*** | *Gross amount of recognized financial assets* | *Gross amount of recognised financial liabilities offset in the statement of financial position* | *Net amount of financial assets presented 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** |

*(In thousands of tenge, unless otherwise is stated)*

## 29. 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 26* "Risk management" for the Bank's contractual undiscounted repayment obligations.

| | *2017* | | | *2016* | | |
|---|---|---|---|---|---|---|
| | *Within one year* | *More than one year* | *Total* | *Within one year* | *More than one year* | *Total* |
| Cash and cash equivalents | **43,372,860** | – | **43,372,860** | 41,362,254 | – | 41,362,254 |
| Trading securities | **22,547,605** | – | **22,547,605** | 69,753,016 | – | 69,753,016 |
| Amounts due from credit institutions | **5,489,775** | – | **5,489,775** | 572,329 | – | 572,329 |
| Loans to customers | **28,972,860** | **43,544,770** | **72,517,630** | 12,390,274 | 50,847,804 | 63,238,078 |
| Investment securities: | | | | | | |
| - available-for-sale | **577,362** | – | **577,362** | – | – | – |
| - held-to-maturity | – | – | – | 20,668 | 632,560 | 653,228 |
| Derivative financial assets | – | – | – | 18,998 | – | 18,998 |
| Property and equipment | – | **2,694,405** | **2,694,405** | – | 3,056,607 | 3,056,607 |
| Intangible assets | – | **1,715,263** | **1,715,263** | – | 1,134,970 | 1,134,970 |
| Current income tax assets | **52,783** | – | **52,783** | 74,834 | – | 74,834 |
| Deferred income tax assets | – | **2,192,415** | **2,192,415** | – | 2,179,372 | 2,179,372 |
| Other assets | **1,315,721** | **555,932** | **1,871,653** | 511,673 | 685,025 | 1,196,698 |
| **Total** | **102,328,966** | **50,702,785** | **153,031,751** | 124,704,046 | 58,536,338 | 183,240,384 |
| | | | | | | |
| Amounts due to credit institutions | **11,949,966** | **5,962,175** | **17,912,141** | 38,396,155 | 5,112,730 | 43,508,885 |
| Amounts due to customers | **73,260,620** | **9,689,217** | **82,949,837** | 83,318,599 | 7,163,744 | 90,482,343 |
| Debt securities issued | **750,124** | **19,128,785** | **19,878,909** | 725,124 | 18,632,421 | 19,357,545 |
| Subordinated debt | **51,889** | **14,425,000** | **14,476,889** | 48,698 | 13,575,000 | 13,623,698 |
| Provisions | **19,695** | – | **19,695** | 12,076 | – | 12,076 |
| Derivative financial liabilities | **5,724** | – | **5,724** | – | – | – |
| Other liabilities | **1,210,596** | **254,885** | **1,465,481** | 1,381,910 | 374,967 | 1,756,877 |
| **Total** | **87,248,614** | **49,460,062** | **136,708,676** | 123,882,562 | 44,858,862 | 168,741,424 |
| **Net position** | **15,080,352** | **1,242,723** | **16,323,075** | 821,484 | 13,677,476 | 14,498,960 |

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.

## 30. 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. Prices and terms of such transactions may differ from prices and terms of 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 "Government-related entities").

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

*(In thousands of tenge, unless otherwise is stated)*

## 30. Related party disclosures (continued)

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

| | 2017 | | | |
|---|---|---|---|---|
| | *Parent* | *Entities under common control* | *Government-related entities* | *Key management personnel* |
| **Cash and cash equivalents as at 1 January** | 639,326 | 89,099 | – | – |
| Receipts on current accounts during the year | 3,198,139,955 | 201,978,494 | – | – |
| Payments from the current accounts during the year | (3,198,118,354) | (201,817,450) | – | – |
| **Cash and cash equivalents, 31 December** | 660,927 | 250,143 | – | – |
| **Loans to customers as at 1 January** | – | – | – | – |
| Loans issued during the year | – | – | – | 251 |
| **Loans to customers at 31 December** | – | – | – | 251 |
| **Held-to-maturity investment securities at 1 January** | – | – | 653,228 | – |
| Accrual of interest income on held-to-maturity investment securities | – | – | 11,716 | – |
| Payment of interest income on held-to-maturity investment securities | – | – | (34,188) | – |
| Reclassification of financial assets from the category of investment securities held to maturity to investment securities available for sale | – | – | (630,756) | – |
| **Held-to-maturity investment securities at 31 December** | – | – | – | – |

| | 2017 | | | |
|---|---|---|---|---|
| | *Parent* | *Entities under common control* | *Government-related entities* | *Key management personnel* |
| **Available-for-sale investment securities as at 1 January** | – | – | – | – |
| Reclassification of financial assets from the category of investment securities held to maturity to investment securities available for sale | – | – | 630,756 | – |
| Accrual of interest on investment securities available-for-sale | – | – | 34,570 | – |
| Payment of interest income on available-for-sale investment securities | – | – | (23,603) | – |
| Revaluation of fair value of available-for-sale investment securities available for sale | – | – | (64,361) | – |
| **Available-for-sale investment securities at 31 December, net of allowance** | – | – | 577,362 | – |
| **Amounts due to credit institutions at 1 January** | 885,780 | 436 | – | – |
| Proceeds during the year | 917,063,310 | 32,502 | 11,545,161 | – |
| Payments during the year | (917,066,452) | (30,426) | (11,545,161) | – |
| **Amounts due to credit institutions at 31 December** | 882,638 | 2,512 | – | – |
| **Amounts due to customers at 1 January** | – | – | – | 2,939 |
| Receipts on current accounts during the year | – | – | – | 17,407 |
| Payments from the current accounts during the year | – | – | – | (14,330) |
| **Amounts due to customers at 31 December** | – | – | – | 6,016 |
| **Subordinated debt as at 1 January** | 13,623,698 | – | – | – |
| Received during the year | – | – | – | – |
| Accrual of interest on subordinated debt | 1,668,015 | – | – | – |
| Payment of interest on subordinated debt | (1,664,824) | – | – | – |
| Effect from changes in exchange rates | 850,000 | – | – | – |
| **Subordinated debt as at 31 December** | 14,476,889 | – | – | – |

*(In thousands of tenge, unless otherwise is stated)*

## 30. Related party disclosures (continued)

| | 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 | – | – | – |
| Accrual of interest on subordinated debt | 1,526,350 | – | – | – |
| Payment of interest on subordinated debt | (1,529,035) | – | – | – |
| Effect from changes in exchange rates | 2,087,793 | – | – | – |
| **Subordinated debt as at 31 December** | 13,623,698 | – | – | – |

*(In thousands of tenge, unless otherwise is stated)*

## 30. Related party disclosures (continued)

### Transactions with government-related entities (continued)

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | *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 | **687** | – | **479** | – | 1.820 | 11 | – | – |
| Interest rates | **0.50%-1.00%** | – | **0.10%-2.15%** | – | До 1.00% | Up to 2.15% | – | – |
| **Loans to customers** | | | | | | | | |
| Interest income | – | – | – | **24** | – | – | – | 3,129 |
| Interest rates | – | – | – | **13.00%** | – | – | – | 13.00% |
| **Held-to-maturity investment securities** | | | | | | | | |
| Interest income | – | – | **11,716** | – | – | – | 42,807 | – |
| Interest rates | – | – | **До 10.00%** | – | – | – | 7.1% | – |
| **Investment securities available-for-sale** | | | | | | | | |
| Interest income | – | – | **34,570** | – | – | – | – | – |
| Interest rates | – | – | **Up to 10.00%** | – | – | – | – | – |
| **Amounts due to credit institutions** | | | | | | | | |
| Interest expenses | **(30,627)** | – | **(19,366)** | – | (24,462) | – | (3,625) | – |
| Interest rates | **1.75%-12.17%** | – | **1.00%-14.00%** | – | 1.75%-12.17% | – | 1.00%-14.00% | – |
| **Subordinated debt** | | | | | | | | |
| Interest expense | **(1,668,015)** | – | – | – | (1,526,350) | – | – | – |
| Interest rates | **10.76%-12.72%** | – | – | – | 10.76%-12.72% | – | – | – |

Compensation to key management personnel totalling 7 persons (in 2016 – 6 persons) includes the following:

| | *2017* | *2016* |
|---|---|---|
| Salaries and other short-term benefits | **161,065** | 147,036 |
| Social security contributions | **4,222** | 7,534 |
| **Total key management personnel compensation** | **165,287** | 154,570 |

## 31. Changes in liabilities arising from financing activities

| | *Debt securities issued* | *Subordinated debt* |
|---|---|---|
| **Carrying amount as at 31 December 2015** | 18,867,470 | 11,538,590 |
| Foreign exchange difference | – | 2,087,793 |
| Other | 490,075 | (2,685) |
| **Carrying amount as at 31 December 2016** | 19,357,545 | 13,623,698 |
| Foreign exchange difference | – | **850,000** |
| Other | **521,364** | **3,191** |
| **Carrying amount as at 31 December 2017** | **19,878,909** | **14,476,889** |

"Other" includes amortization of discount on issued debt securities, effect of accrued but not yet paid interest on debt securities issued and subordinated loans. The Bank classifies interest paid as cash flows from operating activities.

*(In thousands of tenge, unless otherwise is stated)*

## 32. 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 2017 and 2016 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.

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).

The Bank's equity is calculated as the sum of tier 1 capital and tier 2 capital net of foreign exchange gains calculated in accordance with requirements of the NBRK.

Investments for the purposes of calculation of the above ratios represent investments into share capital (interest in the share 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:

| | *2017* | *2016* |
|---|---|---|
| Tier 1 capital | **12,480,236** | 11,331,516 |
| Tier 2 capital | **12,117,000** | 13,575,000 |
| Foreign exchange gains subject to deduction from equity | **(390,262)** | – |
| **Equity** | **24,206,974** | 24,906,516 |
| Risk-weighted statutory assets, contingent and possible liabilities, operational and market risk | **99,649,913** | 80,936,267 |
| Ratio k1.1 (min. 5%) | **12.52%** | 14.00% |
| Ratio k1.2 (min. 6%) | **12.52%** | 14.00% |
| Ratio k.2 (min. 7.5%) | **24.29%** | 30.77% |