JSC HALYK BANK

Separate Financial Statements
and Independent Auditors' Report
For the year ended 31 December 2017

JSC Halyk Bank

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Statement of Management's Responsibilities For the Preparation and Approval of the Separate Financial Statements For the year ended 31 December 2017

Management is responsible for the preparation of the separate financial statements that present fairly the financial position of JSC Halyk Bank ("the Bank") as at 31 December 2017, and the results of its operations, cash flows and changes in equity of the Bank for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's separate financial position and financial performance; and
- making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the separate financial position of the Bank, and which enable them to ensure that the separate financial statements of the Bank comply with IFRS;
- maintaining accounting records in compliance with the Republic of Kazakhstan legislation;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- preventing and detecting fraud and other irregularities.

These separate financial statements of the Bank for the year ended 31 December 2017 were approved by the Management Board on 7 March 2018.

On behalf of the Management Board:

Umut B. Shayakhmetova	**Pavel A. Cheussov**
Chairperson of the Board	**Chief Accountant**
7 March 2018	7 March 2018
Almaty, Kazakhstan	Almaty, Kazakhstan

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Halyk Bank

Opinion

We have audited the separate financial statements of JSC Halyk Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of JSC Halyk 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 ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 10 to the separate financial statements, which describes the planned merger of JSC Kazkommertsbank ("KKB") and JSC Halyk Bank. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revenue recognition and calculation of the effective interest rate on individually assessed impaired loans	
As disclosed in Note 24 to the separate financial statements, interest income on individually assessed impaired loans for	We tested automated controls over the calculation of the effective interest rate in the

the year ended 31 December 2017 amounted to KZT 26,343 million. The recognition of interest income using the effective interest rate method on individually assessed impaired loans is complex and reliant on the quality of underlying source data, which is subject to significant judgements, such as the timing and amount of expected cash flows. Due to the complexity involved, we have identified the risk of accuracy and completeness of the source data used in the calculation of interest income on individually assessed impaired loans using the effective interest rate method as a key audit matter.	banking system with the involvement of IT specialists. We tested the arithmetical accuracy of the interest income accrual and its compliance with the requirements of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") by re-performing a sample of calculations and comparing the results to accounting records. On a sample basis, we tested the completeness and accuracy of the underlying source data, used as inputs into the interest income calculation, including, the timing and amount of expected cash flows, effective interest rates used and the carrying value of the impaired loan. We found no material exceptions in these tests.
Impairment of loans to customers assessed on a collective basis As at 31 December 2017, the Bank reported total gross loans of KZT 2,728,910 million, of which KZT 735,397 million was subject to collectively assessed impairment, which accounts for 27% of total gross loans. As at 31 December 2017, the amount of allowance for impairment losses resulting from this assessment comprised KZT 79,849 million. Management is required to exercise significant judgement in determining as the amount and timing of recognition of loan impairment provisions. Because of the significance of this judgement and the volume of loans assessed on a collective basis, we identified the loan impairment provisions, assessed on a collective basis, as a key audit matter. For loans assessed on a collective basis, there is a risk of errors in the calculation of provision rates due to the judgemental nature of source data used in the models, such as collateral values and statistics for recoveries of loans in loss given defaults estimates and inaccurate allocation of loans by days in arrears for probability of default calculations. Refer to Notes 3 and 30 to the separate financial statements for the description of the Bank's policy on the calculation of allowance for impairment on a collective basis and disclosure of gross carrying amounts	 We obtained an understanding of the management's process of impairment assessment on loans to customers assessed on a collective basis. We critically assessed the appropriateness of the collective provisioning methodology in accordance with IAS 39 requirements as well as the key assumptions and data inputs, including probability of default and loss given default rates, used in the model, with reference to our understanding of the business, and accounting standard requirements. We tested the accuracy and completeness of source data included within the models, such as collateral values, statistics for recoveries of loans and allocation of loans by days in arrears, along with allocation of loans to portfolio of loans with similar risk characteristics. We have recalculated the collective loan loss provision models on a sample basis. We evaluated the adequacy and completeness of disclosures in the separate financial statements relating to the loans to customers in accordance with IFRS requirements. We found no material exceptions in these tests.

and related allowance balances, respectively.

Classification and impairment of loans to customers assessed on an individual basis

The amount of allowance on individually significant loans is dependent on the accuracy of the classification of these loans as "impaired" or "unimpaired" in the provisioning system of the Bank, which is subject to significant judgement and manual adjustment.

Moreover, the allowance for loan losses on loans to customers assessed on an individual basis is calculated using a discounted cash flow analysis and involves a high level of subjectivity and reliance on assumptions used in relation to cash flows from a borrower's business activity and sale of pledged collateral.

Due to the significance of the allowance for loans, assessed on an individual basis and the degree of subjectivity involved in estimating expected cash flows, we identified as a key audit matter the risk that impaired loans may be incorrectly classified as unimpaired and thus impact the provisioning level.

Refer to Note 30 to the separate financial statements for the description of impairment indicators on individually significant loans and disclosure of gross carrying amounts and related allowances for such loans.

We obtained an understanding and evaluated the loan loss provisioning process, particularly over the capture, monitoring and reporting of loans to customers, including classification, along with any manual inputs as part of the process.

For a sample of loans classified as "unimpaired" we examined the existence of various impairment indicators required by IAS 39, such as delinquency of interest or principal, restructuring events and certain financial performance indicators, in order to evaluate whether the loans have been appropriately classified.

For the specific loan loss provision, on a sample basis we tested the appropriateness of the amount of provision recognised as at the reporting date in accordance with the requirements of IAS 39, including reviewing the Bank's documented credit assessment of the borrowers, challenging assumptions around future cash flow projections and the valuation of collateral held, agreeing key assumptions to supporting documents and re-performing the calculations of impairment losses.

We found no material exceptions in these tests.

Other matters

As described in Note 2 to the separate financial statements, the Bank also prepares consolidated financial statements. These separate financial statements should be read in conjunction with the consolidated financial statements, which were authorized for issue by the Management Board on 7 March 2018.

Other Information – Annual Report

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the separate financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters.

Zhangir Zhilysbayev
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate
No.MF-0000116
dated 22 November 2012

Mark Smith
Engagement partner
Chartered Accountant
Institute of Chartered Accountants of Scotland
License № M21857
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Deloitte, LLP

Deloitte, LLP
State license on auditing in the Republic of Kazakhstan
№ 0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

7 March 2018
Almaty, Republic of Kazakhstan

JSC Halyk Bank

Statement of Financial Position
As at 31 December 2017
(Millions of Kazakhstani Tenge)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	5, 34	1,204,162	1,591,531
Obligatory reserves	6	62,843	63,355
Financial assets at fair value through profit or loss	7	135	327,312
Amounts due from credit institutions	8, 34	82,466	44,800
Available-for-sale investment securities	9	791,741	470,947
Investments in subsidiaries	10, 34	254,490	90,564
Dividends to be received from subsidiaries		9,000	-
Precious metals		2,023	1,684
Loans to customers	11, 34	2,463,618	2,195,810
Property and equipment	12	78,468	79,817
Assets held for sale	14	42,408	3,058
Intangible assets	13	4,144	5,116
Current tax assets	20	59	-
Other assets	15, 34	23,999	16,131
Total assets		**5,019,556**	**4,890,125**
LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to customers	16, 34	3,619,888	3,490,616
Amounts due to credit institutions	17, 34	193,693	156,401
Financial liabilities at fair value through profit or loss	7	5,339	2,841
Debt securities issued	18, 34	389,209	585,217
Provisions	19	840	380
Deferred tax liability	20	8,086	22,459
Current tax liability	20	2,363	3,198
Other liabilities	21	15,905	12,819
Total liabilities		**4,235,323**	**4,273,931**
EQUITY			
Share capital	22	147,358	147,358
Share premium reserve		1,880	1,880
Treasury shares		(106,620)	(106,616)
Retained earnings and other reserves		741,615	573,572
Total equity		**784,233**	**616,194**
TOTAL LIABILITIES AND EQUITY		**5,019,556**	**4,890,125**

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2018
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 14 to 84 form an integral part of these separate financial statements.

JSC Halyk Bank

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	24, 34	356,457	318,832
Interest expense	24, 34	(165,806)	(159,479)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	24	**190,651**	**159,353**
Impairment charge	19	(23,127)	(23,185)
NET INTEREST INCOME		**167,524**	**136,168**
Fee and commission income	25, 34	59,113	55,247
Fee and commission expense	25, 34	(12,983)	(10,962)
Fees and commissions, net		46,130	44,285
Net loss from financial assets and liabilities at fair value through profit or loss	26	(6,802)	(11,533)
Net realized (loss)/gain from available-for-sale investment securities		(19)	552
Net foreign exchange gain	27	20,650	17,956
Dividends received from subsidiaries	34	16,378	9,166
Other income		1,436	2,120
OTHER NON-INTEREST INCOME		**31,643**	**18,261**
Operating expenses	28, 34	(69,855)	(55,046)
Impairment loss of assets held for sale	14	-	(28)
Provisions	19	(453)	(71)
NON-INTEREST EXPENSES		**(70,308)**	**(55,145)**
INCOME BEFORE INCOME TAX EXPENSE		**174,989**	**143,569**
Income tax expense	20	(20,737)	(20,044)
NET INCOME		**154,252**	**123,525**
Attributable to:			
Common shareholders		154,252	123,525
		154,252	**123,525**
Basic earnings per share (in Kazakhstani Tenge)	29	14.03	11.29
Diluted earnings per share (in Kazakhstani Tenge)	29	14.03	11.28

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2018
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 14 to 84 form an integral part of these separate financial statements.

JSC Halyk Bank

Statement of Profit or Loss and other comprehensive income
For the year ended 31 December 2017
(Millions of Kazakhstani Tenge, Except for Earnings per Share which is in Tenge)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Net income		154,252	123,525
Other comprehensive income, net of tax			
Items not to be subsequently reclassified to profit or loss:			
(Loss)/gain resulting on revaluation of property and equipment (2017 and 2016 – net of tax – KZT Nil, KZT 98 million)		(3)	195
Items to be subsequently reclassified to profit or loss:			
Gain on revaluation of available-for-sale investment securities (2017, 2016 – net of tax – KZT Nil)		13,775	3,189
Reclassification adjustment relating to available-for-sale investment securities disposed of in the year (2017, 2016 – net of tax – KZT Nil)		19	(552)
Other comprehensive income for the year		13,791	2,832
Total comprehensive income for the year		**168,043**	**126,357**
Attributable to:			
Common shareholders		168,043	126,357
		168,043	**126,357**
Basic earnings per share (in Kazakhstani Tenge)	29	14.03	11.29
Diluted earnings per share (in Kazakhstani Tenge)	29	14.03	11.28

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2018
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 14 to 84 form an integral part of these separate financial statements.

JSC Halyk Bank

Statement of Changes in Equity
For the year ended 31 December 2017
(Millions of Kazakhstani Tenge)

	Share capital Common shares	Share premium reserve	Treasury shares	Revaluation reserve of available-for-sale investment securities*	Property revaluation reserve*	Retained earnings*	Total equity
31 December 2016	147,358	1,880	(106,616)	(14,156)	14,239	573,489	616,194
Net income	-	-	-	-	-	154,252	154,252
Other comprehensive income/(loss)	-	-	-	13,794	(3)	-	13,791
Total comprehensive income/(loss)	**-**	**-**	**-**	**13,794**	**(3)**	**154,252**	**168,043**
Treasury shares purchased	-	-	(4)	-	-	-	(4)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	(633)	633	-
31 December 2017	**147,358**	**1,880**	**(106,620)**	**(362)**	**13,603**	**728,374**	**784,233**

(Millions of Kazakhstani Tenge)

	Share capital				Treasury shares					
	Common shares	**Non-convertible preferred shares**	**Convertible preferred shares**	**Share premium reserve**	**Common shares**	**Preferred shares**	**Revaluation reserve of available-for-sale investment securities***	**Property and equipment revaluation reserve***	**Retained earnings***	**Total**
31 December 2015	83,627	50,494	13,237	1,976	(39,920)	(66,694)	(16,793)	14,364	449,982	490,273
Net income	-	-	-	-	-	-	-	-	123,525	123,525
Other comprehensive income	-	-	-	-	-	-	2,637	195	-	2,832
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**2,637**	**195**	**123,525**	**126,357**
Treasury shares purchased	-	-	-	-	(2)	-	-	-	-	(2)
Dividends – preferred shares	-	-	-	-	-	-	-	-	(338)	(338)
Exchange of preferred shares to common shares	63,731	(50,494)	(13,237)	(96)	(66,694)	66,694	-	-	-	(96)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	(320)	320	-
31 December 2016	**147,358**	**-**	**-**	**1,880**	**(106,616)**	**-**	**(14,156)**	**14,239**	**573,489**	**616,194**

* These amounts are included within Retained earnings and other reserves in the statement of financial position.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2018
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 14 to 84 form an integral part of these separate financial statements.

JSC Halyk Bank

Statement of Cash Flows
For the year ended 31 December 2017
(Millions of Kazakhstani Tenge)

	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received from financial assets at fair value through profit or loss	-	87
Interest received from cash equivalents and amounts due from credit institutions	12,992	11,300
Interest received on available-for-sale investment securities	12,606	13,090
Interest received from loans to customers	258,513	232,365
Interest paid on amounts due to customers	(128,373)	(106,702)
Interest paid on amounts due to credit institutions	(3,486)	(5,411)
Interest paid on debt securities issued	(35,565)	(46,299)
Fee and commission received	58,814	54,398
Fee and commission paid	(12,559)	(10,962)
Payments to financial derivatives	(3,587)	(4,109)
Other income received	1,436	2,245
Operating expenses paid	(63,742)	(49,789)
Cash flows from operating activities before changes in net operating assets	**97,049**	**90,213**
Changes in operating assets and liabilities:		
Decrease/(increase) in operating assets:		
Obligatory reserves	512	(4,306)
Financial assets at fair value through profit or loss	329,322	(133,577)
Amounts due from credit institutions	(37,278)	19,645
Precious metals	(131)	997
Loans to customers	(258,095)	(89,846)
Assets held for sale	(9,181)	-
Other assets	(19,051)	(6,972)
Increase/(decrease) in operating liabilities:		
Amounts due to customers	153,676	712,529
Amounts due to credit institutions	40,553	630
Financial liabilities at fair value through profit or loss	2,497	1,535
Other liabilities	7,687	(2,738)
Cash inflow from operating activities before income tax	307,560	588,110
Income tax paid	(36,004)	(15,162)
Net cash inflow from operating activities	**271,556**	**572,948**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase and prepayments for property and equipment and intangible assets	(5,319)	(10,769)
Proceeds on sale of property and equipment and intangible assets	579	4,632
Proceeds on sale of available-for-sale investment securities	37,300	41,635
Purchase of available-for-sale investment securities	(307,355)	(216,618)
Investments to share capital of subsidiaries	(194,095)	(3,684)
Dividends received from subsidiaries	16,378	9,166
Net cash outflow from investing activities	**(452,512)**	**(175,638)**

Statement of Cash Flows
For the year ended 31 December 2017 (Continued)
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of compensation for exchange of preferred shares to common shares		-	(96)
Purchase of treasury shares		(4)	(2)
Dividends paid – preferred shares		-	(338)
Proceeds on debt securities issued		-	22,036
Redemption and repayment of debt securities issued	18	(183,910)	(43,561)
Net cash outflow from financing activities		**(183,914)**	**(21,961)**
Effect of changes in foreign exchange rate on cash and cash equivalents		(22,499)	26,855
Net change in cash and cash equivalents		(387,369)	402,204
CASH AND CASH EQUIVALENTS, beginning of the year	5	**1,591,531**	**1,189,327**
CASH AND CASH EQUIVALENTS, end of the year	5	**1,204,162**	**1,591,531**

During the year ended 31 December 2017 there were non-cash transfers, which were excluded from the statement of cash flows and disclosed in Notes 14 and 22.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2018
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 14-16 84 form an integral part of these separate financial statements.

1. Principal activities

JSC Halyk Bank (the "Bank") provides retail and corporate banking services in the Republic of Kazakhstan. The primary state registration of the Bank with the authorities of justice of the Republic of Kazakhstan was made on 20 January 1994. The Bank operates under license No. 1.2.47/230/38/1 for carrying out banking and other operations and activities on the securities market, renewed by the National Bank of the Republic of Kazakhstan ("NBRK") on 8 November 2016. The Bank is a member of the obligatory deposit insurance system provided by JSC Kazakhstan Fund for Deposits Guarantee.

The Bank's primary business includes originating loans and guarantees, attracting deposits, trading in securities and foreign currencies, executing transfers, cash and payment card operations and rendering other banking services to its customers. In addition, the Bank acts as the non-exclusive agent of the Government of the Republic of Kazakhstan in channelling various budgetary payments and pensions through its nationwide branch network.

The Bank has a primary listing with the Kazakhstan Stock Exchange ("KASE"). In addition, the Bank's Global Depository Receipts ("GDRs") and Eurobonds are primary listed on the London Stock Exchange.

The Bank is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2017, the Bank operated through its head office in Almaty and its 22 regional branches, 122 sub-regional offices and 345 cash settlement units (31 December 2016 – 22,122 and 365, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 40 Al-Farabi Avenue, Almaty, A26M3K5, Kazakhstan.

As at 31 December 2017, the number of the Bank's full-time equivalent employees was 8,562 (31 December 2016 - 8,385).

The separate financial statements of the Bank for the year ended 31 December 2017 were authorised for issue by the Management Board on 7 March 2018.

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these separate financial statements.

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2016, the oil price decreased significantly, which led to a significant decrease in the national export revenue. On 20 August 2015, the Government and the NBRK announced a transition to a new monetary policy based on a free floating tenge exchange rate, and cancelled the currency corridor. As a result, the tenge depreciated significantly against major foreign currencies. During September-December 2015 and January-February 2016, the dollarization level in the Kazakh economy kept growing, which resulted in significant shortage of tenge liquidity in the banking system, record levels of interest rates on the money market and suspension in lending activity. In February 2016, the NBRK introduced the base rate of 17% ± 2% and adopted an inflation targeting policy. These measures by the NBRK reduced both the tenge shortage in the system and average inflation levels.

As at 31 December 2017, the base rate set by the NBRK was 10.25% ± 1% (12% ± 1% as at 31 December 2016). During the year ended 2017, the decrease of the base rate decelerated. Due to relatively high cost of funding during 2017, the demand for new loans continued to be relatively low, while KZT liquidity in the banking system demonstrated excess levels, including on the back of dedollarisation of the client deposit base. Short-term notes of the NBRK remain the key instrument to withdraw excess tenge liquidity from the system. Compared to the end of 2016, the operating environment for the year ended 31 December 2017, has not changed significantly.

Management of the Bank is monitoring developments in the current environment and taking measures it considers necessary in order to support the sustainability and development of the Bank's business in the foreseeable future. However, the impact of further economic developments on the future operations and financial position of the Bank is at this stage difficult to determine.

(Millions of Kazakhstani Tenge)

Ownership

As at 31 December 2017 and 2016, the Bank was owned by the following shareholders, which own individually more than 5% of the issued shares of the Bank:

	Total shares owned	Stake in total shares in circulation	Common shares owned	Stake in common shares in circulation
JSC HG Almex	8,086,451,772	73.5%	8,086,451,772	73.5%
Unified Accumulative Pension Fund Joint Stock Company	716,281,746	6.5%	716,281,746	6.5%
GDR holders	1,852,878,720	16.9%	1,852,878,720	16.9%
Other	339,855,536	3.1%	339,855,536	3.1%
Total shares in circulation	**10,995,467,774**	**100.0%**	**10,995,467,774**	**100.0%**

	Total shares owned	Stake in total shares in circulation	Common shares owned	Stake in common shares in circulation
JSC HG Almex	8,086,451,772	73.5%	8,086,451,772	73.5%
Unified Accumulative Pension Fund Joint Stock Company	716,281,746	6.5%	716,281,746	6.5%
GDR holders	1,853,975,480	16.9%	1,853,975,480	16.9%
Other	338,830,184	3.1%	338,830,184	3.1%
Total shares in circulation	**10,995,539,182**	**100.0%**	**10,995,539,182**	**100.0%**

2. Basis of presentation

Statement of compliance

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

These separate financial statements are the separate financial statements of the parent JSC Halyk Bank. The subsidiaries are not consolidated in these separate financial statements. Investments in subsidiaries were accounted for at cost. These separate financial statements should be read in conjunction with the consolidated financial statements of JSC Halyk Bank and its subsidiaries, which were authorized for the issue by Management Board of the Bank on 7 March 2018.

The consolidated financial statements are available at the head office of JSC Halyk Bank, registered at the following address: 40 Al-Farabi Avenue, Almaty, A26M3K5, Kazakhstan.

These separate financial statements have been prepared assuming that the Bank is a going concern, as the Bank have the resources to continue in operation for the foreseeable future. In making this assessment, the management have considered a wide range of information in relation to present and future economic conditions, including projections of cash flows, profit and capital resources.

These separate financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

The separate financial statements have been prepared under the historical cost convention except for certain financial instruments that are accounted for at fair value and certain property and equipment which are carried at revalued cost less depreciation and impairment as described in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these separate financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 30.

Functional currency

Items included in the separate financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The functional currency of the Bank is KZT. The presentation currency of the separate financial statements is KZT.

3. Significant accounting policies

Investments in subsidiaries

A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by the Bank. Investments in subsidiaries are recorded in these separate financial statements at cost less impairment loss, if any.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reverse repo agreements with original maturities within three months.

Obligatory reserves

Obligatory reserves represent funds in correspondent accounts with the NBRK and cash which are not available to finance the Bank's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the cash flow statement.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net foreign exchange gain/(loss).

Amounts due from credit institutions

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Bank accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities are classified as at fair value through profit or loss where the financial asset or financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or financial liability other than a financial asset or financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset or financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in "Net gain from financial assets and liabilities at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to customers granted by the Bank are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Loans and receivables are included within loans to customers, amounts due from credit institutions and other assets in the statement of financial position.

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or investments held to maturity, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition available-for sale investment securities are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognized in the statement of profit or loss. Dividends declared are included in "Other income" in the statement of profit or loss.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the reporting date.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be classified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When the financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the statement of profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Repurchase and reverse repurchase agreements and securities lending

The Bank enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Bank as an element of its treasury management.

Repos are treated as secured financing transactions. Securities sold under repos 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 reverse repos are recorded as amounts due from credit institutions, loans to customers or cash and cash equivalents as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of repo agreements using the effective interest method.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in Kazakhstan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. 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. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the statement of financial position. Gains and losses resulting from these instruments are included in "Net gain from financial assets and liabilities at fair value through profit or loss" in the statement of profit or loss.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the statement of profit or loss. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Over–the–counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position. Additionally, derivative instruments expose the Bank to counterparty non-performance risk. Certain instruments also pose liquidity risk due to absence of net-settlement provisions between counterparties.

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future and are customized contracts transacted in the over–the–counter market. The Bank has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating interest rate in return for paying or receiving, respectively, a fixed interest rate. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. The Bank's currency swaps are mostly gross–settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Bank purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Bank provide the Bank with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options written by the Bank provide the purchaser the opportunity to purchase from or sell to the Bank the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market, credit, and liquidity risks (see also Note 30).

Amounts due to customers and credit institutions

Amounts due to customers and credit institutions are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the statement of profit or loss.

Debt securities issued

Debt securities issued represent bonds issued by the Bank, which are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method.

Allowances for impairment of financial assets

The Bank assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the impairment loss is recognized in the statement of profit or loss.

The factors the Bank evaluates in determining the presence of objective evidence of an occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The allowances are based on the Bank's own loss experience and management's judgment as to the level of losses that will probably be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets are written off against the allowance for impairment losses where such items are determined to be uncollectible, including through repossession of collateral. The Bank requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held in the banks, government securities and other assets. When the borrowers do not repay as scheduled, the Bank can take possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Bank, and after the Bank has sold all available collateral. The decision to write off bad debt against the allowance for impairment losses for all major assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the statement of profit or loss.

Loans and receivables are assessed individually for impairment, except for insignificant loans and receivables that have been assessed collectively. Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether impairment should be recognized due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, loan utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and receivables is disclosed in more detail in Notes 11, 19 and 30.

Available-for-sale investment securities

For listed and unlisted equity investments classified as available-for-sale investment securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. If an available-for-sale investment security is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in the profit or loss statement, is transferred from equity to the profit or loss statement. In respect to AFS equity securities, impairment losses previously recognized in the profit or loss statement are not reversed through the profit or loss statement. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and are accumulated under the heading of investment revaluation reserve. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously monitors renegotiated loans to ensure that they are performing 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 effective interest rate. Renegotiated term is evidence of impairment for loans assessed for impairment on an individual basis, for which deterioration of the financial position is observed.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss in the year of recovery.

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 derecognized 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.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

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

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Bank, the Bank derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

Taxation

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred 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 income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity.

Deferred tax assets and deferred tax liabilities are offset and reported net in the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Kazakhstan has various operating taxes that are assessed on the Bank's activities. These taxes are recorded as taxes other than income tax.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment except for the buildings and construction which are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

	Years
Buildings and construction	20-100
Vehicles	5-7
Computers and banking equipment	5-10
Other	7-10

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses.

Buildings and construction held for use in supply of services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such buildings and construction is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the statement of profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and construction is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and construction is charged to the statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not subject to amortization.

Amortisation is recognised on a straight-line basis over their estimated useful lives:

	Years
Software	10
Licensing agreements for the right to use the software	10
Other	10

Assets held for sale

A non-current asset and the liability directly associated with non-current assets are classified as held for sale ("disposal group") if it is highly probable that the net asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the statement of profit or loss as loss of assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

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 obligation can be made. Recorded amounts as at the statement of financial position date represent the Bank's best estimate of the expenditure required to settle the liability. The expense relating to any provision is presented in the statement of profit or loss net of any recoveries.

Retirement and other benefit obligations

The Bank does not have any pension arrangements other than the state pension system of Kazakhstan, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in operating expenses in the statement of profit or loss. The Bank contributes social tax to the budget of Kazakhstan and other countries where the Bank operates for its employees. In addition, the Bank has no post-retirement benefits.

Equity

The Bank classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Bank after the deduction of liabilities. The components of a compound financial instrument issued by the Bank are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

Share capital

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognized as share premium reserve. Effective 13 May 2003, upon change in law concerning "Joint Stock Companies", the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares

When the Bank acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the Bank are cancelled. Repurchased shares are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium.

Dividends

Dividends are recognized as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the separate financial statements are authorized for issue.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Bank's statement of financial position include:

- Available-for-sale reserve which comprises changes in fair value of available-for-sale investment securities;
- Property revaluation reserve which comprises revaluation reserve of land and building.

Contingencies

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

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees for loans issued to customers are (together with related direct costs) recognized as an adjustment to the effective yield of the loans. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

Foreign currency translation

The separate financial statements are presented in KZT, which is the functional currency of the Bank. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions into functional currency are recognized in the statement of profit or loss as net foreign exchange gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net foreign exchange gain or loss. The market exchange rate at 31 December 2017 was KZT 332.33 to USD 1 (31 December 2016 – KZT 333.29).

Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these separate financial statements:

- Amendments to IAS 7 *Disclosure Initiative;*
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses;*
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

Amendments to IAS 7 *Disclosure Initiative*

The Bank has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Bank's liabilities arising from financing activities consist of debt securities issued and a reconciliation between the opening and closing balances is provided in Note 18. Consistent with the transition provisions of the amendments, the Bank has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 18, the application of these amendments has had no impact on the Bank's separate financial statements.

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

The Bank has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Bank's separate financial statements as the Bank already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Bank has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Bank (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Bank's separate financial statements.

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[1];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[2];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

From 1 January 2018, the Bank started applying IFRS 9 Financial Instruments. This standard suggests changes in classification principles of financial instruments and replacement of "incurred losses" model applied by IAS 39 with "expected losses" model.

Classification and measurement

For financial assets accounting IFRS 9 provides for 3 classification categories:

- instruments estimated at amortised value;
- instruments estimated at fair value, which changes are reflected in other comprehensive income;
- Instruments estimated at fair value, which changes are reflected in profit or loss statement for the reporting period.

In accordance with IFRS 9 recommendations the Bank uses the following financial assets management business models:

- Retention of an asset to obtain the cash flows stipulated by the contract. This business model suggests financial asset management aims to realize cash flows by receiving principal and interest payments over the life of the financial instrument. Within the framework of this business model, holding a financial asset to maturity is a priority, but early disposal is not prohibited.
- Retention of an asset with a view for obtaining contractual cash flows and sale of financial assets. This business model assumes that the management of financial assets is aimed at both obtaining contractual cash flows and sale of financial assets. Within the framework of this business model, the receipt of cash from the sale of a financial asset is a priority, which is characterized by a greater frequency and volume of sales compared to "holding an asset to receive contractual cash flows" business model.
- Retention of an asset for other purposes. Within the framework of this business model, financial assets can be managed with the following purposes:
  - management with a view to selling cash flows through the sale of financial assets;
  - liquidity management to meet daily funding needs;
  - a portfolio, which management and performance is measured on a fair value basis;
  - a portfolio, which matches the definition of held for trading. Financial assets are deemed to be held for trading if they were acquired mainly with a view to subsequent disposal in the near future (up to 180 days), gaining short-term profit, or represent derivative financial instruments (except for a financial guarantee or derivative financial instrument that was designated as a hedging instrument).

In accordance with IFRS 9, financial assets are classified as follows:

- bank loans and contingent liabilities classified as assets at amortised cost are contained within the framework of a business model which aims to receive cash flows exclusively for repayment of unpaid interest and principal stipulated by loan agreement;
- balances on correspondent accounts, interbank loans/deposits, repo transactions are classified, as a rule, as assets, estimated at amortised cost, since they are managed within the framework of a business model, which aims to receive cash flows stipulated by the contract;
- debt securities may be classified into any of the three classification categories, taking into account the selected business model and compliance with the SPPI criterion;
- equity securities are generally classified as instruments at fair value through profit or loss.

Financial assets are segmented by stages in accordance with the following approach:

- Stage 1: There is no significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the next 12 months;
- Stage 2: Significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the life of a financial asset;
- Stage 3: Financial asset is in default or has signs of impairment.

Impairment

Calculation of financial assets impairment was made taking into account the following factors:

- In order to calculate the expected credit losses, the Bank performs loan assessment on an individual basis and on a group basis depending on general credit risk features.
- Expected credit losses represent estimates of expected credit losses weighted at probability of a default and calculated as present value of all expected losses in amounts due. Calculations are based on justified and verified information, which may be received without any significant costs or efforts. Calculation of the present value of the expected future cash flows of the secured financial asset reflects the cash flow that may result from foreclosure, less the cost of obtaining and selling collateral, regardless of whether the recovery is probable or not. The allowance is based on the Bank's own experience in assessing losses and management assumptions about the level of losses likely to be recognised on assets in each category of a credit risk, based on debt servicing capabilities and borrower's credit track record.
- Impairment for treasury operations (investments in debt securities, reverse repurchase transactions, interbank loans and deposits, correspondent account transactions, accounts receivable under treasury transactions) is calculated taking into account the counterparty's rating, probability of default, duration of a transaction and the extent of loss in case of a default.
- Assets classified at fair value through profit or loss are not subject to impairment under IFRS 9.
- The estimated credit losses for treasury operations are estimated on an individual basis (except for individual claims in the form of receivables).

The most significant impact on the Bank's separate financial statements on implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model. The transitional impact of IFRS 9 will be recognised in the opening equity as at 1 January 2018. Management has estimated that on adoption of IFRS 9, the Bank will continue to exceed the minimum capital requirement ratios as prescribed the National Bank of Kazakhstan.

The actual impact of adopting IFRS 9 as at 1 January 2018 has not been finalised as the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank receives formal approval from the banking regulator in Kazakhstan and finalises its first separate financial statements that include the date of initial application.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management intends to use the full perspectively method of transition to IFRS 15.

Apart from providing more extensive disclosures on the Bank's revenue transactions, the management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Bank.

IFRIC 22 ***Foreign Currency Transactions and Advance Consideration***

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The management of the Bank does not anticipate that the application of this IFRIC will have a material impact on the Bank's separate financial statements.

IFRIC 23 ***Uncertainty over Income Tax Treatments***

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

The management of the Bank does not anticipate that the application of this IFRIC will have a material impact on the Bank's separate financial statements as the Bank currently uses the approach to recognition of uncertain tax position, which is consistent with IFRIC 23.

Amendments to IFRS 9 ***Prepayment Features with Negative Compensation***

The narrow-scope amendments remedy an unintended consequence to the notion of 'reasonable additional compensation'. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

In addition to that, the IASB considered the accounting for financial liabilities that are modified or exchanged that do not lead to derecognition and as a result included in the Basis for Conclusion two paragraphs on that matter. In those paragraphs the Board observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed it will lead to an immediate gain or loss in profit or loss.

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The management does not anticipate that the application of these amendments will have a material impact on the Bank's separate financial statements.

Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures*

The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The management does not anticipate that the application of these amendments will have a material impact on the Bank's separate financial statements, as the Bank does not have any other long-term interests in associates and joint ventures, except for the equity investments accounted for using the equity method.

Annual Improvements to IFRSs 2014-2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Bank. The package also includes amendments to IFRS 12 which is mandatorily effective for the Bank in the current year – see the details of application in section Amendments to IFRSs affecting amounts reported in the financial statements.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.

The management of the Bank does not anticipate that the application of the amendments in the future will have any impact on the Bank's separate financial statements as the Bank is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Bank does not have any associate or joint venture that is an investment entity.

Annual Improvements to IFRSs 2015-2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All amendments are effective for annual periods beginning on or after 1 January 2019.

The management does not anticipate that the application of these amendments will have a material impact on the Bank's separate financial statements.

4. Significant accounting estimates

The preparation of the Bank's separate financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables as a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses will require the Bank to make provisions which, if significantly different, could have a material impact on its future statement of profit or loss and its statement of financial position.

The Bank uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has 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 past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and 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.

Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience.

In determining the impairment allowance for loans and receivables, management makes the following assumptions: migration rates for collectively assessed loans are estimated based on a constant rate of historic loss migration for the past 12 months; the projected cash flows for repayment from the sale of pledged property take into account the possible expenses and period to sell, which are based on collateral realization statistics.

(Millions of Kazakhstani Tenge)

The allowances for impairment of financial assets in the separate financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The carrying amount of the allowance for impairment losses of loans to customers as at 31 December 2017 is KZT 265,292 million (31 December 2016 is KZT 273,757 million).

Valuation of financial instruments

As described in Note 33, the Bank uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 33 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Bank's management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Property and equipment carried at revalued amounts

Buildings and construction are measured at revalued amounts. The latest appraisal was in 2016. Details of the valuation techniques used are set out in Note 12.

Taxation

Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar periods proceeding the year of review.

As at 31 December 2017, Management of the Bank believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Bank's reported net income.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2017	31 December 2016
Cash on hand	113,008	146,336
Recorded as loans and receivables in accordance with IAS 39:		
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	103,022	164,959
Short-term deposits with OECD based banks	125,386	418,526
Overnight deposits with OECD based banks	36,584	79,992
Correspondent accounts with NBRK	688,893	749,839
Short-term deposits with NBRK	55,028	-
Short-term deposits with Kazakhstan banks	29,377	-
Correspondent accounts with non-OECD based banks	17,070	18,360
Short-term deposits with non-OECD based banks	35,740	13,519
Overnight deposits with non-OECD based banks	54	-
	1,204,162	**1,591,531**

(Millions of Kazakhstani Tenge)

Interest rates and currencies in which interest earning cash equivalents are denominated are as follows:

	31 December 2017		31 December 2016	
	KZT	**Foreign currencies**	**KZT**	**Foreign currencies**
Short-term deposits with OECD based banks	-	1.5% -1.8%	-	0.7%-1.5%
Overnight deposits with OECD based banks	-	1.4%-1.5%	-	0.5%-0.7%
Short-term deposit with NBRK	9.3%	-	-	-
Short-term deposits with Kazakhstan banks	9.0%-10.0%	-	-	-
Short-term deposits with non-OECD based bank	9.5%	1.5%-9.0%	-	0.7%-13.0%
Overnight deposits with non-OECD based banks	-	1.7%-1.8%	-	-

Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2017 and 2016, are as follows:

	31 December 2017		31 December 2016	
	Carrying amount of loans	**Fair value of collateral**	**Carrying amount of loans**	**Fair value of collateral**
Treasure bills of the Ministry of Finance	28,305	28,287	-	-
Notes of NBRK	1,072	1,071	-	-
	29,377	**29,358**	-	-

6. Obligatory reserves

Obligatory reserves comprise:

	31 December 2017	31 December 2016
Recorded as loans and receivables in accordance with IAS 39:		
Due from the NBRK allocated to obligatory reserves	62,843	63,355
	62,843	**63,355**

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the NBRK and used for calculation of the minimum reserve requirement.

7. Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	31 December 2017	31 December 2016
Financial assets held for trading:		
Derivative financial instruments	135	77,738
Notes of NBRK	-	249,574
	135	**327,312**

(Millions of Kazakhstani Tenge)

Financial liabilities at fair value through profit or loss comprise:

	31 December 2017	31 December 2016
Financial liabilities held for trading:		
Derivative financial instruments	5,339	2,841

Interest rates on financial assets at fair value through profit or loss are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective financial assets:

	31 December 2017	31 December 2016
Notes of NBRK	-	13.2%

Derivative financial instruments comprise:

	31 December 2017			31 December 2016		
	Notional Amount	Asset	Fair value Liability	Notional Amount	Asset	Fair value Liability
Foreign currency cont-racts						
Swaps	103,880	85	5,337	227,971	77,654	2,833
Spots	8,956	21	2	3,583	13	8
Forwards	4,085	29	-	1,754	71	-
		135	**5,339**		**77,738**	**2,841**

As at 31 December 2017 and 2016, the Bank used quoted market prices from independent information sources for all of its financial assets recorded at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on observable market data.

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2017	31 December 2016
Recorded as loans and receivables in accordance with IAS 39:		
Term deposits	63,817	16,428
Loans to credit institutions	9,820	23,110
Deposit pledged as collateral for derivative financial instruments	8,829	5,262
	82,466	**44,800**

Interest rates and maturities of amounts due from credit institutions are presented as follows:

	31 December 2017		31 December 2016	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Term deposits	1.5%-9.3%	2018-2024	0.7-9.5%	2017-2019
Loans to credit institutions	3.5%-4.0%	2019-2021	8.2%	2017
Deposit pledged as collateral for derivative financial instruments	1.1%-1.8%	2046	0.2-1.8%	2017

(Millions of Kazakhstani Tenge)

9. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	31 December 2017	31 December 2016
Treasury bills of the Ministry of Finance of Kazakhstan	265,310	135,343
Treasury Bills of the USA	231,617	89,846
Notes of NBRK	183,446	116,002
Bonds of JSC Development Bank of Kazakhstan	60,162	37,640
Corporate bonds	42,366	84,354
Treasury Bills of Hungary	7,987	7,762
Bonds of foreign organizations	853	-
	791,741	**470,947**

As at 31 December 2017 and 2016, investments available-for-sale including Treasury bills of the Ministry of Finance of Kazakhstan at fair value of KZT 92,719 million and KZT 15,201 million, respectively, were pledged under repurchase agreements with other banks (Note 17).

Interest rates and maturities of available-for-sale investment securities are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective securities.

	31 December 2017		31 December 2016	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	4.4%	2018-2045	5.7%	2018-2027
Treasury bills of the USA	0.8%	2018	0.4%	2017
Notes of NBRK	8.3%	2018	12.2%	2017
Bonds of JSC Development Bank of Kazakhstan	5.1%	2022-2032	4.4%	2022-2026
Corporate bonds	4.6%	2018-2023	5.0%	2017-2023
Treasury bills of Hungary	3.2%	2023	3.2%	2023
Bonds of foreign organizations	3.0%	2020	-	-

10. Investments in subsidiaries

	Holding, % 31 December 2017	31 December 2016	Country	Industry
JSC Kazkommertsbank*	74.72	-	Kazakhstan	Banking
JSC Halyk-Leasing	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	Kazakhstan	Telecommunications
OJSC Halyk Bank Kyrgyzstan	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	Kazakhstan	Broker and dealer activities
LLC Halyk Collection	100	100	Kazakhstan	Cash collection services
JSC Halyk-Life	100	100	Kazakhstan	Life insurance
JSC Kazakhinstrakh	100	100	Kazakhstan	Insurance
OJSC NBK-Bank	100	100	Russia	Banking
JSC Halyk Bank Georgia	100	100	Georgia	Banking
LLC Halyk Project	100	100	Kazakhstan	Management of doubtful and loss assets
JSC Altyn Bank (SB of JSC Halyk Bank)**	100	100	Kazakhstan	Banking

**See Note 14

(Millions of Kazakhstani Tenge)

Subsidiaries	31 December 2017	31 December 2016
JSC Kazkommertsbank*	189,938	-
LLC Halyk Project	17,577	13,412
JSC Halyk Finance	11,240	11,240
JSC Kazakhinstrakh	10,797	10,797
JSC Halyk-Leasing	9,548	9,548
OJSC NBK-Bank	5,095	5,095
JSC Halyk Bank Georgia	4,050	4,050
JSC Halyk-Life	3,125	3,125
OJSC Halyk Bank Kyrgyzstan	1,644	1,652
LLC Halyk Collection	859	859
JSC Kazteleport	617	617
JSC Altyn Bank	-	30,169
	254,490	**90,564**

* On 5 July 2017, the Bank completed acquisition of 96.81% of ordinary shares in KKB, including 86.09% from Mr.K.Rakishev and 10.72% from JSC "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna"). The Bank acquired these 96.81% ordinary shares in KKB for KZT 2.

On 10 July 2017, to comply with the legislative requirements of the Republic of Kazakhstan, the Bank made a tender offer to the shareholders of KKB for the purchase of outstanding common shares (including global depositary receipts ("GDR"), the underlying assets of which are common shares of KKB) and preference shares (including GDRs, the underlying assets of which are preference shares of KKB).

On 12 July 2017, the Bank realised its pre-emptive right and purchased 1,296,698,676 ordinary shares of KKB for a total of KZT 185 billion, increasing its stake in the issued capital of KKB to 98.79%.

As at 29 August 2017, the Bank completed its transactions for the purchase of KKB's 13,687,609 ordinary shares at KZT 142.67 per share, 31,311 preference shares at KZT 71.55 per share, 3,081,552 GDR representing such KKB's issued ordinary shares at USD 0.86 per GDR and 14,655,549 GDR representing such KKB's issued preference shares at USD 0.43 per GDR. Total consideration paid for KKB shares amounted to KZT 4,940 million.

On November 15, 2017, KKB placed 700,171,633 ordinary shares for a total of KZT 65.2 billion, which were acquired by JSC HG ALMEX, after agreement with the NBRK. Following the results of the transaction on purchase and sale of ordinary shares, the share of JSC HG ALMEX in KKB is equal to 25.05%.

On 8 December 2017, the Board of Directors of the Bank approved integration scenario of the Bank and KKB, which suggests voluntary reorganisation of the Bank and KKB by merging KKB into the Bank. The integration is expected to be completed in the second half of 2018, after performing all the necessary procedures, including the receipt of the required approvals from regulatory authorities.

As at 31 December 2017, the Bank held 74.72% of KKB's outstanding ordinary shares and 23.55% of KKB's outstanding preference shares.

(Millions of Kazakhstani Tenge)

11. Loans to customers

Loans to customers comprise:

	31 December 2017	31 December 2016
Recorded as loans and receivables in accordance with IAS 39:		
Originated loans to customers	2,728,348	2,469,389
Overdrafts	562	178
	2,728,910	2,469,567
Less – Allowance for loan impairment losses (Note 19)	(265,292)	(273,757)
Loans to customers	**2,463,618**	**2,195,810**

The average interest rate on loans to customers is calculated as interest income from loans to customers divided by monthly average balances of loans to customers. For the years ended 31 December 2017 and 2016 average interest rate on loans was 13.0% and 12.8%, respectively.

As at 31 December 2017, the Bank had a concentration of loans of KZT 590,622 million to the ten largest borrowers that comprised 21% of the Bank's total gross loan portfolio (31 December 2016 – KZT 510,762 million, 21%) and 79% of the Bank's total equity (31 December 2016 – 83%).

As at 31 December 2017, an allowance for impairment amounting to KZT 52,075 million was made against these loans (31 December 2016 – KZT 50,233).

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2017	31 December 2016
Loans collateralized by pledge of real estate or rights thereon	843,608	861,160
Loans collateralized by guarantees	693,459	590,999
Consumer loans issued within the framework of payroll projects*	446,823	405,196
Loans collateralized by cash	307,604	237,263
Loans collateralized by pledge of corporate shares	112,183	133,988
Loans collateralized by mixed types of collateral	62,013	10,330
Loans collateralized by pledge of inventories	29,111	44,241
Loans collateralized by pledge of vehicles	25,325	42,331
Loans collateralized by pledge of agricultural products	7,413	6,311
Loans collateralized by pledge of equipment	5,028	5,363
Unsecured loans	196,343	132,385
	2,728,910	2,469,567
Less - Allowance for loan impairment losses (Note 19)	(265,292)	(273,757)
Total loans to customers	**2,463,618**	**2,195,810**

*These loans are collateralized by cash to be received in the future from the employees of companies within the framework of salary projects.

(Millions of Kazakhstani Tenge)

Loans are granted to the following sectors:

	31 December 2017	%	31 December 2016	%
Retail loans:				
- consumer loans	447,819	16%	410,599	17%
- mortgage loans	149,425	5%	164,884	7%
	597,244		575,483	
Services	507,227	19%	408,482	17%
Wholesale trade	291,545	11%	339,619	14%
Real estate	172,678	6%	143,104	6%
Construction	156,934	6%	169,159	7%
Retail trade	153,036	6%	154,817	6%
Metallurgy	141,916	5%	23,243	1%
Agriculture	111,544	5%	117,971	5%
Transportation	107,671	4%	101,132	4%
Financial services	88,275	3%	86,208	3%
Energy	80,270	3%	64,174	3%
Mining	61,964	2%	58,762	2%
Oil and gas	60,507	2%	30,787	1%
Communication	49,349	2%	58,045	2%
Food industry	36,542	1%	30,736	1%
Hotel industry	29,859	1%	32,098	1%
Chemical industry	29,741	1%	28,051	1%
Machinery	24,224	1%	19,725	1%
Light industry	9,435	0%	8,478	0%
Other	18,949	1%	19,493	1%
	2,728,910	**100%**	**2,469,567**	**100%**

As at 31 December 2017, the amount of accrued interest on loans comprised KZT 136,078 million (31 December 2016 – KZT 139,240 million).

During the years ended 31 December 2017 and 2016, the Bank received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 2017 and 2016, such assets of KZT 9,848 million and KZT 2,726 million, respectively, are included in assets held for sale.

As at 31 December 2017 and 2016, loans to customers included loans of KZT 144,188 million, KZT 149,024 million, respectively, which terms were renegotiated.

12. Property and equipment

The movements in property and equipment are as follows:

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/ initial cost:						
31 December 2016	65,153	759	22,648	-	13,944	102,504
Additions	1	-	559	120	2,242	2,922
Disposals	(452)	(14)	(866)	(120)	(806)	(2,258)
Impairment	(2)	-	-	-	-	(2)
31 December 2017	64,700	745	22,341	-	15,380	103,166
Accumulated depreciation:						
31 December 2016	73	547	14,394	-	7,673	22,687
Charge for the year	915	85	821	-	1,870	3,691
Disposals	(6)	(14)	(863)	-	(797)	(1,680)
31 December 2017	982	618	14,352	-	8,746	24,698
Net book value:						
31 December 2017	**63,718**	**127**	**7,989**	**-**	**6,634**	**78,468**

(Millions of Kazakhstani Tenge)

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/ initial cost:						
31 December 2015	48,631	770	20,692	13,977	11,322	95,392
Additions	3,044	-	3,589	6,016	2,223	14,872
Disposals	(4,562)	(8)	(1,611)	(3)	(594)	(6,778)
Write-off at revaluation	(1,520)	-	-	-	-	(1,520)
Revaluation	585	-	-	-	-	585
Impairment	(47)	-	-	-	-	(47)
Transfers*	19,022	(3)	(22)	(19,990)	993	-
31 December 2016	65,153	759	22,648	-	13,944	102,504
Accumulated depreciation:						
31 December2015	779	457	14,573	-	7,307	23,116
Charge for the year	820	100	1,444	-	906	3,270
Disposals	(6)	(8)	(1,599)	-	(566)	(2,179)
Write-off at revaluation	(1,520)	-	-	-	-	(1,520)
Transfers*	-	(2)	(24)	-	26	-
31 December 2016	73	547	14,394	-	7,673	22,687
Net book value:						
31 December 2016	65,080	212	8,254	-	6,271	79,817

*During 2016, the Bank finished the construction of its property and moved its Head Office to 40 Al-Farabi Avenue, Almaty.

The Bank's revaluation policy requires the entire asset class of buildings and construction to be revalued every three years. In the event of specific market or property indicators the Bank may opt to perform revaluations more regularly.

The Bank has its buildings and properties revalued during 2016 by an independent appraiser Business Partner LLP. The independent appraiser used three approaches to identify the fair value of the property and equipment - the income approach with the income capitalization method and the comparative approach, using market information to identify the fair value of buildings and structures under active market conditions, and the cost approach when no active market existed for items subject to revaluation.

As at 31 December 2017, the fair value measurements of the Bank's buildings and construction, are categorized into Level 2 and Level 3, in amount of KZT 63,381 million and KZT 337 million, respectively (31 December 2016: KZT 65,046 million and KZT 34 million, respectively). Description of measurement hierarchy is disclosed in Note 33.

As at 31 December 2017, total amount of fair value of buildings and construction was KZT 63,718 million. As at 31 December 2017, the carrying amount of property and equipment that would have been recognized had the assets been carried under the cost model is KZT 62,842 million.

As at 31 December 2016, total amount of fair value of buildings and construction was KZT 65,080 million. As at 31 December 2017, the carrying amount of property and equipment that would have been recognized had the assets been carried under the cost model is KZT 62,524 million.

(Millions of Kazakhstani Tenge)

13. Intangible assets

	Software	Licensing agreements on the rights to use software	Other intangible assets	Total
Revalued/initial cost:				
31 December 2015	10,029	2,110	3	12,142
Additions	1,100	1,152	335	2,587
Disposals	(50)	-	(235)	(285)
31 December 2016	11,079	3,262	103	14,444
Additions	403	104	945	1,452
Disposals	(14)	-	(1)	(15)
Transfers	796	-	(796)	-
31 December 2017	12,264	3,366	251	15,881
Accumulated depreciation				
31 December 2015	7,231	497	1	7,729
Charge for the year	1,150	497	-	1,647
Disposals	(48)	-	-	(48)
31 December 2016	8,333	994	1	9,328
Charge for the year	2,423	-	-	2,423
Disposals	(14)	-	-	(14)
31 December 2017	10,742	994	1	11,737
Net Book Value				
31 December 2016	**2,746**	**2,268**	**102**	**5,116**
31 December 2017	**1,522**	**2,372**	**250**	**4,144**

14. Assets held for sale

After the default of certain counterparties on loans to customers, the Bank recognized the property pledged as collateral for the loans as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan was initiated.

Assets held for sale comprised the following:

	31 December 2017	31 December 2016
Assets classifies as held for sale related to investments in subsidiary JSC Altyn Bank	29,984	-
Real estate	5,859	507
Land plots	4,757	2,551
Movable property	1,808	-
	42,408	**3,058**

On 7 June 2017, the Bank signed an agreement with China CITIC Bank Corporation Limited and China Shuangwei Investment Co., Ltd. on the sale of 60% in share capital of JSC Altyn Bank. To implement the agreements reached, the parties, among other things, will have to obtain necessary approvals from the competent authorities of the Republic of Kazakhstan and meet other conditions customary for such transactions.

Additional approvals from People's Republic of China regulatory authorities were obtained and the Management expects that all outstanding regulatory approvals will be provided in Q2 2018.

According to the decision of the Bank's management, investments in JSC Altyn Bank have been reclassified into an asset held for sale in accordance with IFRS 5 as at 31 December 2017.

In November 2016, the Bank performed an independent valuation of its assets held for sale. Based on the result of the valuation the Bank recognized an impairment loss of KZT 28 million.

(Millions of Kazakhstani Tenge)

During 2017 and 2016, the Bank transferred certain land plots from assets held for sale to investment property of subsidiary – LLC Halyk Project.

Despite the Bank actively marketing these assets for sale, the majority have not been sold within a short timeframe. However, the management remains committed to the sale of these assets. As the assets are carried at a price not exceeding the current fair value less costs to sell, they continued to be classified as held for sale at the end of 2017 and 2016.

The fair value of the Bank's non-current assets held for sale was determined by independent appraisers. The following methods were used for the estimation of its fair value: income approach, comparative approach and cost based method. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during 2017.

Details of the Bank's assets held for sale and information about the fair value hierarchy as at 31 December 2017 and 2016 are as follows:

	Level 2	Level 3
31 December 2016		
Land plots	-	2,551
Real estate	507	-
31 December 2017		
Land plots	-	4,757
Real estate	5,859	-
Movable property	-	1,808

15. Other assets

Other assets comprise:

	31 December 2017	31 December 2016
Other financial assets recorded as loans and receivables in accordance with IAS 39:		
Debtors on banking activities	9,798	7,635
Accrued other commission income	1,919	1,619
Debtors on non-banking activities	389	455
	12,106	9,709
Less – Allowance for impairment (Note 19)	(4,150)	(4,289)
	7,956	**5,420**
Other non-financial assets:		
Prepayments for investment property*	11,816	7,559
Prepayments for property and equipment	1,716	771
Inventory	918	965
Advances for taxes other than income tax	518	421
Other investments	45	45
Other	1,030	950
	16,043	10,711
	23,999	**16,131**

*During 2017 and 2016, the Bank made prepayments for investment property, which subsequently will be transferred to subsidiary.

(Millions of Kazakhstani Tenge)

16. Amounts due to customers

Amounts due to customers include the following:

	31 December 2017	31 December 2016
Recorded at amortized cost:		
Term deposits:		
Individuals	1,410,944	1,417,470
Legal entities	1,129,789	1,154,597
	2,540,733	2,572,067
Current accounts:		
Legal entities	848,042	696,918
Individuals	231,113	221,631
	1,079,155	918,549
	3,619,888	**3,490,616**

As at 31 December 2017, the Bank's ten largest groups of related customers accounted for approximately 37% of the total amounts due to customers (31 December 2016 – 35%), where each group of related customers represents customers related to each other within that group.

Management believes that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realize its liquid assets to enable repayment.

An analysis of customer accounts by sector is as follows:

	31 December 2017	%	31 December 2016	%
Individuals and entrepreneurs	1,642,057	45%	1,639,101	47%
Oil and gas	588,510	17%	695,474	20%
Metallurgy	284,958	8%	53,319	2%
Government	247,438	7%	86,162	3%
Healthcare and social services	118,225	3%	61,184	2%
Wholesale trade	112,006	3%	151,640	4%
Transportation	110,215	3%	177,961	5%
Other consumer services	84,040	2%	144,957	4%
Financial services	75,043	2%	155,510	4%
Construction	65,921	2%	72,594	2%
Communication	60,997	2%	38,882	1%
Education	45,643	1%	35,342	1%
Energy	35,197	1%	29,987	1%
Insurance and pension funds activity	13,339	0%	13,281	0%
Other	136,299	4%	135,222	4%
	3,619,888	**100%**	**3,490,616**	**100%**

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2017	31 December 2016
Recorded at amortized cost:		
Loans under repurchase agreements	90,046	15,009
Loans from JSC Entrepreneurship Development Fund DAMU	43,491	36,552
Loans from JSC Development Bank of Kazakhstan	21,379	21,372
Correspondent accounts	21,290	32,545
Loans and deposits from Kazakhstan banks	11,102	4,294
Loans from JSC National Managing Holding KazAgro	3,870	38,534
Loans from other financial institutions	2,132	2,237
Loans and deposits from OECD based banks	383	5,858
	193,693	**156,401**

(Millions of Kazakhstani Tenge)

On 3 July 2017 the Bank made an early repayment of KazAgro's debt of KZT 31,873 million, due to the exclusion of a number of loans from the KazAgro financing program.

As at 31 December 2017, loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") included a long-term loan of KZT 43,280 million (31 December 2016 - KZT 36,367 million) at a 1.0%-2.0% interest rate maturing in 2035 with an early recall option. The loan was received in accordance with the Government program ("the Program") to finance small and medium enterprises ("SME") operating in certain industries. According to the loan agreement between DAMU and the Bank, the Bank is responsible to extend loans to SME borrowers, eligible to participate in the Program, up to 10 years at a 6.0% interest rate.

As at 31 December 2017, loans from JSC Development Bank of Kazakhstan ("DBK") included long-term loans of KZT 16,000 million (31 December 2016 – KZT 16,000 million) at a 1.0%-2.0% interest rate maturing in 2034-2035, to finance corporate enterprises operating in manufacturing industries, as well as a long-term loan of KZT 5,300 million (31 December 2016 – KZT 5,300 million) at a 1.0% interest rate maturing in 2035, to finance the purchase of cars by the Bank's retail customers. According to the loan agreement between DBK and the bank, the Bank is responsible to extend loans to corporate borrowers, eligible to participate in the Program, up to 10 years at a 6.0% interest rate, and to retail borrowers – up to 5 years at a 4.0% interest rate.

As at 31 December 2017, loans from JSC National Managing Holding KazAgro ("KazAgro") included a long-term loan of KZT 3,865 million at a 3.0% interest rate maturing in 2022 (31 December 2016 - KZT 38,483 million). The loan was received for restructuring/refinancing of loan/leasing debts of the Bank's borrowers operating in agricultural sector, originating before 1 January 2014 in connection with working capital loans, loans for the purchase of fixed assets, loans for construction-and-assembling works and loans for leasing of agriculture and technology equipment. Restructuring/refinancing of loan/leasing obligations is provided at an interest rate of 6.0% - 7.0% interest rate for the period not later than 31 December 2022.

The management of the Bank believes that there are no other similar financial instruments and due to its specific nature, the loans from DAMU, KazAgro and DBK represent separate segments in SME lending. As a result, the loans from DAMU, KazAgro and DBK were received in an orderly transaction and as such have been recorded at fair value at the recognition date.

Interest rates and maturities of amounts due to credit institutions are presented as follows:

	31 December 2017		31 December 2016	
	Interest rate, %	Maturity, Year	Interest rate, %	Maturity, Year
Loans under repurchase agreements	9.3%-9.5%	2018	11.0%-11.1%	2017
Loans from JSC Entrepreneurship Development Fund DAMU	1.0%-2.0%	2018-2035	2.0%	2017-2035
Loans from JSC Development Bank of Kazakhstan	1.0%-2.0%	2034-2035	1.0%-2.0%	2034-2035
Loans and deposits from Kazakhsta banks	1.0%-8.5%	2018	-	-
Loans from JSC National Managing Holding KazAgro	3.0%	2022	3.0%	2019-2022
Loans from other financial institutions	10.0%	2023	10.0%	2023
Loans and deposits from OECD based banks	3.1%	2018	2.6%-6.5%	2017-2023

(Millions of Kazakhstani Tenge)

Fair value of assets pledged (Note 9) and the carrying value of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 December 2017 and 2016, are as follows:

	31 December 2017		31 December 2016	
	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	92,719	90,046	15,201	15,009
	92,719	**90,046**	**15,201**	**15,009**

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2017 and 2016 are disclosed below:

	Investments available-for-sale (Note 9)
As at 31 December 2017:	
Carrying amount of transferred assets	92,719
Carrying amount of associated liabilities	90,046
As at 31 December 2016:	
Carrying amount of transferred assets	15,201
Carrying amount of associated liabilities	15,009

Loans under repurchase agreements are used by the Bank to provide current cash flows in KZT within the Bank's operating activities. The Bank regularly uses this type of instrument to attract short-term liquidity and plans to continue raining funds through loans under repurchase agreements when the needs arise.

The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

In accordance with the contractual terms of the loans from certain OECD based banks, the Bank is required to maintain certain financial ratios, particularly with regard to capital adequacy. Certain of the Bank's outstanding financing agreements include covenants restricting the Bank's ability to create security interests over its assets. Should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements.

The Bank's management believes that as at 31 December 2017 and 2016, the Bank was in compliance with the covenants of the agreements with the banks counterparties.

18. Debt securities issued

Debt securities issued comprise:

	31 December 2017	31 December 2016
Unsubordinated debt securities issued:		
USD denominated bonds	162,672	359,620
KZT denominated bonds	226,537	225,597
Total debt securities outstanding	**389,209**	**585,217**

On 3 May 2017, the Bank repaid in full at maturity its 10-year 7.25% coupon rate USD 638,029,000 Eurobond issue.

(Millions of Kazakhstani Tenge)

On 9 November 2016, the Bank made a voluntary prepayment of subordinated bond issued in accordance with the legislation of the Republic of Kazakhstan with initial maturity in 2018, bearing a coupon of 13%.

On 25 April 2016, the Bank made a repayment of KZT 4,000 million 10-year subordinated reverse inflation indexed local bond issued in accordance with the legislation of the Republic of Kazakhstan, bearing a coupon of 15% minus inflation rate.

The coupon rates and maturities of the debt securities issued follow:

	31 December 2017		31 December 2016	
	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year
Unsubordinated debt securities issued:				
USD denominated bonds	7.3%	2018-2021	7.3%	2017-2021
KZT denominated bonds	7.5%	2024-2025	7.5%	2024-2025

As at 31 December 2017, accrued interest on debt securities issued was KZT 9,531 million (as at 31 December 2016 – KZT 11,899 million).

In accordance with the terms of the USD denominated bonds, the Bank is required to maintain certain financial covenants particularly with regard to its capital adequacy, limitations on transactions at less than fair market value and payment of dividends. Furthermore, the terms of the USD denominated bonds include covenants restricting the Bank's ability to create security interests over its assets. Should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements. The Bank's management believes that as at 31 December 2017 and 2016, the Bank was in compliance with the covenants of the agreements the Bank has with the trustees and holders of the notes.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Bank's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Bank's separate statement of cash flows as cash flows from financing activities.

			Non-cash changes		
	1 January 2017	Financing cash flows	Foreign exchange movement	Changes in amortised cost	31 December 2017
Debt securities issued	585,217	(183,910)	(9,730)	(2,368)	389,209

(Millions of Kazakhstani Tenge)

19. Allowances for impairment losses and provisions

The movements in accumulated impairment of available-for-sale investment securities, the allowances for impairment of interest earned and other assets were as follows:

	Loans to customers (Note 11)	Other assets (Note 15)	Total
31 December 2015	(296,651)	(4,507)	(301,158)
Additional provisions recognized	(146,169)	(5,989)	(152,158)
Recoveries	123,417	5,556	128,973
Write-offs	43,978	351	44,329
Foreign exchange differences	1,668	300	1,968
31 December 2016	**(273,757)**	**(4,289)**	**(278,046)**
Additional provisions recognized	(155,810)	(4,025)	(159,835)
Recoveries	132,715	3,993	136,708
Write-offs	33,687	322	34,009
Foreign exchange differences	(2,127)	(151)	(2,278)
31 December 2017	**(265,292)**	**(4,150)**	**(269,442)**

During the years ended 31 December 2017 and 2016 the Bank wrote off loans for KZT 33,687 million and KZT 43,978 million, respectively, without this being considered as forgiveness of the loan, therefore, for tax purposes, such write-offs are not subject to corporate income tax.

Provision represents provisions against letters of credit and guarantees issued. The movements in provisions were as follows:

	2017	2016
At the beginning of the year	(380)	(309)
Provisions	(889)	(230)
Recoveries of provisions	436	159
The difference from the revaluation of foreign currency	(7)	-
At the end of the year	**(840)**	**(380)**

20. Taxation

The Bank is subject to income tax in the Republic of Kazakhstan.

The income tax expense comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Current tax charge	35,110	34,498
Deferred income tax benefit relating to origination and reversal of temporary differences	(14,373)	(14,454)
Income tax expense	**20,737**	**20,044**

Deferred income tax expense relating to the following temporary difference:

	Year ended 31 December 2017	Year ended 31 December 2016
Fair value of derivatives and investments available for sale	(13,560)	(18,916)
Property and equipment, accrued depreciation	(330)	2,847
Unused tax losses of the prior year recognised in the current year	-	3,531
Loans to customers, allowance for impairment losses	-	(1,906)
Other	(483)	(10)
Income tax expense	**(14,373)**	**(14,454)**

(Millions of Kazakhstani Tenge)

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2017 and 2016. Income on state and other qualifying securities is tax exempt.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on Kazakhstan statutory rate of 20% with the reported income tax expense is as follows:

	Year ended 31 December 2017	**Year ended 31 December 2016**
Income before income tax expense	174,989	143,569
Statutory tax rate	20%	20%
Income tax expense at the statutory rate	34,998	28,714
Tax-exempt interest income and other related income on state and other qualifying securities	(12,496)	(8,611)
Tax-exempt income on dividends	(3,334)	(1,833)
Non-deductible expenditures:		
- charity	328	127
- general and administrative expenses	202	107
- other provisions	114	-
Other	925	1,540
Income tax expense	**20,737**	**20,044**

Deferred tax assets and liabilities comprise:

	31 December 2017	**31 December 2016**
Tax effect of deductible temporary differences:		
Bonuses accrued	1,756	1,287
Fair value of derivatives	1,104	1,466
Vacation pay accrual	326	282
Deferred tax asset	3,186	3,035
Tax effect of taxable temporary differences:		
Property and equipment, accrued depreciation	(7,428)	(7,758)
Loans to customers, allowance for impairment	(3,804)	(3,804)
Fair value of derivatives and investments available for sale	-	(13,922)
Other	(40)	(10)
Deferred tax liability	(11,272)	(25,494)
Net deferred tax liability	**(8,086)**	**(22,459)**

The Bank has offset deferred tax assets and liabilities on the statement of financial position where a right of offset existed. The amounts presented after offset comprise:

	31 December 2017	**31 December 2016**
Deferred tax liability	(8,086)	(22,459)
Net deferred tax liability	**(8,086)**	**(22,459)**

(Millions of Kazakhstani Tenge)

Kazakhstan has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; 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.

Commercial legislation of the Republic of Kazakhstan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on Management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the separate financial statements.

In Kazakhstan tax years remain open to review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

Management believes that the Bank is in compliance with the tax law affecting its operations; however, the risk that relevant authorities could take differing positions with regard to interpretive issues remains.

Movements in net deferred tax liability:

	2017	2016
Net deferred tax liability at the beginning of the year	22,459	36,815
Deferred income tax benefit relating to origination and reversal of temporary differences	(14,373)	(14,454)
Credited to other comprehensive income at the date of property and equipment revaluation	-	98
Net deferred tax liability at the end of the year	**8,086**	**22,459**

Current tax assets and liabilities comprose:

	31 December 2017	31 December 2016
Current tax refund receivable	59	-
Current income tax payable	(2,363)	(3,198)
Current tax liability	**(2,304)**	**(3,198)**

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21. Other liabilities

Other liabilities comprise:

	31 December 2017	31 December 2016
Other financial liabilities:		
Salary payable	9,636	7,773
Payable for general and administrative expenses	955	526
Creditors on bank activities	900	394
Creditors on non-banking activities	799	731
Other	212	158
	12,502	9,582
Other non-financial liabilities:		
Taxes payable other than income tax	1,794	2,090
Other prepayments received	1,609	1,147
	3,403	3,237
Total other liabilities	**15,905**	**12,819**

22. Equity

The number of shares authorized, issued and fully paid as at 31 December 2017 and 2016 were as follows:

31 December 2017	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	25,000,000,000	(12,311,142,941)	12,688,857,059	(1,693,389,285)	10,995,467,774

31 December 2016	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	25,000,000,000	(12,311,142,941)	12,688,857,059	(1,693,317,877)	10,995,539,182

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Common	Non-convertible preferred	Convertible preferred	Common	Non-convertibe preferred	Convertibe preferred
31 December 2015	10,911,065,220	20,600,049	538,399	43,707	(5,044)	2,081
Purchase of treasury shares	(79,830)	-	-	(2)	-	-
Exchange of preferred shares to common shares	84,553,792	(20,600,049)	(538,399)	(2,963)	5,044	(2,081)
31 December 2016	**10,995,539,18**	**-**	**-**	**40,742**	**-**	**-**
Purchase of treasury shares	(71,408)	-	-	(4)	-	-
31 December 2017	**10,995,467,77**	**-**	**-**	**40,738**	**-**	**-**

Common shares

As at 31 December 2017 and 2016, share capital comprised KZT 147,358 million. As at 31 December 2017, the Bank held 1,693,389,285 of the Bank's common shares as treasury shares at KZT 106,620 million (31 December 2016 –1,693,317,877 common shares at KZT 106,616 million).

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Each common share outstanding is entitled to one vote and dividends. Treasury shares are not entitled to any vote or dividend.

Dividends paid for the previous financial years were as follows:

	Paid in 2017 for the year ended 31 December 2016	Paid in 2016 for the year ended 31 December 2015
Dividend paid per one preferred share, (convertible and non-convertible), tenge	Absent in circulation	16.00
Dividend paid per one common share	Not paid	Not paid

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

23. Financial commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	31 December 2017	31 December 2016
Guarantees issued	195,329	157,810
Commercial letters of credit	58,782	26,499
Commitments to extend credit	2,359	2,730
Financial commitments and contingencies	256,470	187,039
Less: cash collateral against letters of credit	(36,322)	(10,034)
Less: provisions (Note 19)	(840)	(380)
Financial commitments and contingencies, net	**219,308**	**176,625**

Guarantees issued represent bank guarantees issued by the Bank by order of its clients, and which are in effect as at the reporting date. As at 31 December 2017, the ten largest guarantees accounted for 65% of the Bank's total financial guarantees (31 December 2016 – 77%) and represented 16% of the Bank's total equity (31 December 2016 – 20%).

Commercial letters of credit represent letters of credit issued by the Bank by order of its clients, and under which as at the reporting date, the payment has not yet been made. As at 31 December 2017, the ten largest unsecured letters of credit accounted for 66% of the Bank's total commercial letters of credit (31 December 2016 – 62%) and represented 3% of the Bank's total equity (31 December 2016 – 3%).

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary. The Bank typically requires collateral support unless it is determined to be not necessary through review of the credit risk of the borrower or analysis of other deposit accounts held by the Bank. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Capital commitments

As at 31 December 2017 and 2016, the Bank had commitments for capital expenditures in respect of construction in progress for KZT nil.

Operating lease commitments

There were no material operating lease commitments under irrevocable operating leases outstanding as at 31 December 2017 and 2016.

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24. Net interest income

	Year ended 31 December 017	Year ended 31 December 2016
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired assets	155,691	141,305
- interest income on collectively assessed assets	119,682	102,836
- interest income on impaired assets	26,343	32,020
Interest income on available-for-sale investment securities	49,380	16,733
Interest income on financial assets at fair value through profit or loss	5,361	25,938
Total interest income	356,457	318,832
Interest income on loans to customers	288,256	265,255
Interest income on amounts due from credit institutions and cash and cash equivalents	13,460	10,906
Total interest income on financial assets recorded at amortized cost	301,716	276,161
Interest income on financial assets at fair value through profit or loss	5,361	25,938
Interest income on available-for-sale investment securities	49,380	16,733
Total interest income	356,457	318,832
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost	(165,806)	(159,479)
Total interest expense	(165,806)	(159,479)
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest expense on amounts due to customers	(127,660)	(107,871)
Interest expense on debt securities issued	(34,652)	(45,971)
Interest expense on amounts due to credit institutions	(3,494)	(5,637)
Total interest expense on financial liabilities recorded at amortized cost	(165,806)	(159,479)
Net interest income before impairment charge	**190,651**	**159,353**

25. Fees and commissions

Fee and commission income was derived from the following sources:

	Year ended 31 December 2017	Year ended 31 December 2016
Bank transfers – settlements	14,464	14,350
Payment cards maintenance	12,725	11,115
Cash operations	11,004	10,248
Servicing customers' pension payments	7,348	6,953
Bank transfers – salary projects	6,603	6,912
Letters of credit and guarantees issued	4,128	3,773
Maintenance of customer accounts	1,700	1,367
Other	1,141	529
	59,113	**55,247**

Fee and commission expense comprised the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Payment cards	(5,380)	(3,737)
Deposit insurance	(5,287)	(5,304)
Foreign currency operations	(753)	(551)
Bank transfers	(658)	(590)
Commission paid to collectors	(342)	(427)
Other	(563)	(353)
	(12,983)	**(10,962)**

(Millions of Kazakhstani Tenge)

26. Net loss from financial assets and liabilities at fair value through profit or loss

Net loss on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Net loss on operations with financial assets and liabilities classified as held for trading:		
Realized net loss on derivative operations	(3,587)	(4,109)
Unrealized net loss on derivative and trading operations	(3,215)	(7,424)
Total net loss on operations with financial assets and liabilities classified as held for trading	**(6,802)**	**(11,533)**

27. Net foreign exchange gain

Net foreign exchange gain comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Dealing, net	15,853	14,606
Translation differences, net	4,797	3,350
Total net foreign exchange gain	**20,650**	**17,956**

28. Operating expenses

Operating expenses comprised:

	Year ended 31 December 2017	Year ended 31 December 2016
Salaries and other employee benefits	33,081	28,306
Depreciation and amortization expenses	6,113	4,917
Taxes other than income tax	4,450	2,987
Professional services	4,287	434
Collection expenses	4,287	3,999
Information services	2,375	2,072
Security	2,367	1,656
Repair and maintenance	2,326	1,904
Communication	1,903	1,537
Rent	1,699	1,525
Charity	1,641	635
Utilities	1,579	1,360
Stationery and office supplies	794	702
Advertisement	642	560
Loss on investments in subsidiaries	472	-
Business trip expenses	428	292
Social events	134	74
Transportation	108	108
Hospitality expenses	59	59
Impairment and write off of property and equipment and intangible assets	-	47
Other	1,110	1,872
	69,855	**55,046**

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29. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the Bank by the weighted average number of participating shares outstanding during the year.

According to Kazakhstan legislation on Joint Stock Companies, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preferred shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2017	Year ended 31 December 2016
Basic earnings per share		
Net income for the year attributable to equity holders of the parent	154,252	123,525
Less: Dividends paid on preferred shares	n/a	(338)
Earnings attributable to common shareholders	154,252	123,187
Weighted average number of common shares for the purposes of basic earnings per share	10,995,509,891	10,911,025,653
Basic earnings per share (in Kazakhstani Tenge)	14.03	11.29
Diluted earnings per share		
Earnings used in the calculation of basic earnings per share	154,252	123,187
Add: Dividends paid on convertible preferred shares	n/a	9
Less: Amounts payable to convertible preferred shareholders upon conversion*	n/a	(96)
Earnings used in the calculation of total diluted earnings per share	154,252	123,100
Weighted average number of common shares for the purposes of basic earnings per share	10,995,509,891	10,911,025,653
Weighted average number of common shares that would be issued for the convertible preferred shares	n/a	1,475
Weighted average number of common shares for the purposes of diluted earnings per share	10,995,509,891	10,911,027,128
Diluted earnings per share (in Kazakhstani Tenge)	14.03	11.28

*In 2016, the Bank performed an exchange of preferred shares and preferred shares convertible into common shares to common shares.

As required by KASE rules for listed companies the book value of one share per each class of shares as at 31 December 2017 and 2016, is disclosed as follows:

			31 December 2017
Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share, in KZT
Common	10,995,467,774	780,089	70.95
		780,089	

			31 December 2016
Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share, in KZT
Common	10,995,539,182	611,078	55.58
		611,078	

Equity attributable to common shares is calculated as the difference between total equity, total net book value of intangible assets, and amounts attributable to preferred shares.

The management of the Bank believes that it fully complies with the requirement of KASE as at the reporting dates.

30. Financial risk management

Risk management is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk

Credit risk is the risk of loss arising for the Bank when a counterparty is unable to meet its contractual obligations on time or in full.

The risk management division plays an important role in managing and controlling the credit risk. This division is responsible for credit risk identification and evaluation and implementation of control and monitoring measures. The risk management division directly participates in credit decision-making processes and the consideration of internal rules, regulations and loan programs. In addition, the division provides independent recommendations concerning credit exposure minimization measures, controls limits and monitors credit risks, provides relevant reporting to management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee ("ALMC"). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, including banks and brokers, covers on and off-balance sheet exposures, which are reviewed by the Credit Committees and the ALMC. Actual exposures against limits are monitored daily.

The risk, that the counterparty will not meet its obligations, is restricted by the limits covering on and off-balance sheet exposure.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk for off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon counterparties maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the statement of financial position(i.e. the policy based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring). The Bank monitors the term to maturity of off-balance sheet contingencies, as longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Structure and authorities of credit committees

Credit committees, the ALMC, the Management Board and the Board of Directors are credit authorities responsible for the implementation of the Bank's Credit Policy and credit decision-making process.

Head Office Credit Committee ("CC")

The primary goal of the CC is implementation of the Bank's Credit Policy in terms of credit operations and credit applications from corporate customers.

Branch Credit Committee and Branch Network Credit Committee ("BCC", "BNCC")

The primary goal of the BCC and the BNCC is the implementation of the Bank's Credit Policy in terms of granting financial instruments via branches to SME customers.

Delegated credit authority limits for the BCC and the BNCC are established by the Management Board. The BCC makes credit decisions within its limits. If the loan application exceeds the relevant credit limit or the authorities of the BCC, the final decision has to be taken by the BNCC. The procedure of the decision-making by the BNCC involves consideration of a package of documents, including complex analysis and assessments of the potential borrowers conducted by the Bank's experts.

Retail Branch Credit Committee of the Head Office ("RCCHO") and Decision Making Center ("DMC")

The primary goal of the RCCHO and the DMC, which are credit authorities, is the implementation of the Bank's Credit Policy in terms of granting retail financial instruments via branches.

The DMC is comprised of credit underwriters with delegated credit authorities based on a four eyes principle. The DMC makes credit decisions within their authorities and limits established by the Management Board and the RCCHO. The RCCHO is authorized to consider loan applications that exceed relevant credit limits or the authorities of the DMC, as well as other matters within the authorities established by the Management Board.

Along with the process of decision making via the credit decision authorities mentioned above, there is an automated approach of decision making process for potential borrowers whose income can be confirmed by the Independent Government body. This approach takes into account the risk profile of the potential borrower and allows minimizing the credit risk exposure in the decision making process.

Problem loans committee of the Head Office, branches

The primary goal of the problem loans committee of the Head Office, branches is the implementation of the Bank's Credit Policy in terms of management, servicing and maintaining the repayment of the problem loans.

Authorized credit authorities of the Bank's subsidiaries

Consideration and approval of the loan applications in the subsidiaries are performed by the authorized credit authorities in accordance with the internal rules and regulations of the subsidiary. Loan applications exceeding the established limits and authorities have to be approved by the Board of Directors of the subsidiaries with the preliminary consideration by the relevant credit committee according to the Bank's internal rules and regulations.

ALMC

The primary goal of the ALMC is profit maximization and to limit the risks of banking activities related to raising and allocating funds. The main tasks of the ALMC are: liquidity management, interest rate risk management, price risk and other banking risks management.

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The ALMC is also responsible for establishing country and counterparty-banks limits. The ALMC reports to the Board of Directors.

The Management Board

For loan applications exceeding the authorities of the Head Office Credit Committee, the BNCC and the RCCHO, or exceeding the relevant limits of the BNCC and the RCCHO, have to be considered by the Management Board.

The Board of Directors

If the loan applications exceed 5% of the Bank's equity capital or the potential borrower is a related party, such applications have to be considered by the Board of Directors.

Maximum Exposure

The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on (Note 23). The collateral pledged is represented by the carrying amount of a financial instrument for which the collateral was received as security.

			31 December 2017
	Maximum exposure	Net exposure after offset	Collateral pledged
Cash equivalents*	1,091,154	1,091,154	29,377
Financial assets at fair value through profit or loss (less equity securities)	135	135	-
Amounts due from credit institutions	82,466	82,466	-
Available-for-sale investment securities (less equity securities)	791,741	791,741	-
Loans to customers	2,463,618	2,463,618	2,267,275
Other financial assets	7,956	7,956	-
Total financial assets	4,437,070	4,437,070	2,296,652
Commitments and contingencies	255,630	255,630	36,322

			31 December 2016
	Maximum exposure	Net exposure after offset	Collateral pledged
Cash equivalents*	1,445,195	1,445,195	-
Financial assets at fair value through profit or loss (less equity securities)	327,312	327,312	-
Amounts due from credit institutions	44,800	44,800	-
Available-for-sale investment securities (less equity securities)	470,947	470,947	-
Loans to customers	2,195,810	2,195,810	2,063,426
Other financial assets	5,420	5,420	-
Total financial assets	4,489,484	4,489,484	2,063,426
Commitments and contingencies	186,659	186,659	10,034

*Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents in the statement of financial position.

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Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Bank's internal rating system. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Bank, before any impairment losses:

	AA	AA-	A	BBB	<BBB	Not rated	31 December 2017 Total
Cash and cash equivalents	110,970	76,897	43,136	813,833	8,380	37,938	1,091,154
Financial assets at fair value through profit or loss	-	-	63	-	65	7	135
Amounts due from credit institutions	-	-	8,812	4,045	51,495	18,114	82,466
Available-for-sale investment securities	231,617			451,466	104,889	3,769	791,741
Other financial assets	-	-	-	-	-	12,106	12,106
Commitments and contingencies	-	-	-	-	-	256,470	256,470

	AA	AA-	A	BBB	<BBB	Not rated	31 December 2016 Total
Cash and cash equivalents	259,232	256,500	9,029	846,546	56,967	16,921	1,445,195
Financial assets at fair value through profit or loss	149	22	885	326,256	-	-	327,312
Amounts due from credit institutions	-	4,961	285	1,370	21,235	16,949	44,800
Available-for-sale investment securities	89,846	-	-	266,201	114,900	-	470,947
Other financial assets	-	-	-	-	-	9,709	9,709
Commitments and contingencies	-	-	-	-	-	187,039	187,039

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Bank, and this classification is verified by the Risk Management function.

The Bank is considering the following impairment indicators:

- Overdue for more than 90 days;
- Default rating calculated based on rating model described below;
- Restructuring because of deterioration of financial position of the borrower.

The Bank is using an internal rating model to classify loans in different risk categories.

After the occurrence of an impairment event, the model assists in estimating the allowance for loan loss based on a borrowers' financial performance, credit history, quality of accounts receivable, liquidity of the borrower, market risks relating to the borrower, industry of the borrower and other factors. Periodically the required information is inputted into the model by credit analysts. Information input into the system and the estimate of the allowance for loan loss is verified by the Risk management department.

(Millions of Kazakhstani Tenge)

The following classifications are used by the rating model:

- Rating score 1 - superior loan rating, minimal credit risk;
- Rating score 2 - very high quality of loan, very low credit risk;
- Rating score 3 - high quality of loan, low credit risk;
- Rating score 4 - satisfactory quality of loan, insignificant risk;
- Rating score 5 - credit risk can increase at economic variation;
- Rating score 6 - high risk at economic variation;
- Rating score 7 - high risk of default, paying capacity of the borrower depends on favourable economic circumstances;
- Rating score 8 – 10 – very high risk of default/default.

Pools of homogeneous loans – loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Pools of homogeneous loans include assets that had been assessed collectively.

Rating score	31 December 2017	31 December 2016
1-3	53,985	49,883
4	118,566	118,300
5	537,873	461,059
6	522,351	421,288
7	410,973	425,337
8-10	172,697	145,920
Loans to corporate customers that are individually assessed for impairment	1,816,445	1,621,787
Loans to customers that are collectively assessed for impairment	735,962	709,672
Loans to SME customers and retail business that are individually assessed for impairment SME	176,503	138,108
	2,728,910	**2,469,567**
Less – Allowance for loan impairment (Note 19)	(265,292)	(273,757)
Loans to customers	**2,463,618**	**2,195,810**

(Millions of Kazakhstani Tenge)

The following table details the carrying value of financial assets that are impaired and for those that are past due but not impaired:

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		
	Unimpaired financial assets		Impaired financial assets				
	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	31 December 2017 Total
Amounts due from credit institutions	82,466	-	-	-	-	-	82,466
Available-for-sale investment securities	791,741	-	-	-	-	-	791,741
Loans to customers	1,610,970	(15,635)	382,543	(169,808)	735,397	(79,849)	2,463,618
Other financial assets	7,956	-	4,150	(4,150)	-	-	7,956

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		
	Unimpaired financial assets		Impaired financial assets				
	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	31 December 2016 Total
Amounts due from credit institutions	44,800	-	-	-	-	-	44,800
Available-for-sale investment securities	470,947	-	-	-	-	-	470,947
Loans to customers	1,336,855	(15,307)	423,040	(170,669)	709,672	(87,781)	2,195,810
Other financial assets	4,542	-	5,167	(4,289)	-	-	5,420

As at 31 December 2017 the carrying amount of unimpaired overdue loans was KZT 2,468 million (31 December 2016 – KZT 769 million). Maturities of these overdue loans are not greater than 90 days.

Liquidity risk

Liquidity risk is the risk resulting from the inability of the Bank to provide funds for repayment of its obligations in a due time. The Bank's liquidity risk arises when terms of assets on active operations and maturity dates of obligations do not match.

Short-term liquidity needs are managed by the Bank's Treasury function collecting daily cash inflow/outflow forecasts. Long-term liquidity management is performed by ALMC by analyzing longer term liquidity positions and making decisions on managing significant gaps through various available means.

In order to manage liquidity risk, the Bank analyzes the financial assets and liabilities, and obligatory reserves taking into account payment schedules for loans issued to customers. The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the earliest of the contractual maturity date or available maturity date, except for financial assets at fair value through profit or loss in the form of securities, which are included in the column "Less than 1 month" as they are available to meet the Bank's short-term liquidity needs.

(Millions of Kazakhstani Tenge)

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,168,386	35,776	-	-	-	1,204,162
Obligatory reserves	40,469	4,958	13,359	3,903	154	62,843
Financial assets at fair value through profit or loss	135	-	-	-	-	135
Amounts due from credit institutions	13,218	-	23,955	41,130	4,163	82,466
Available-for-sale investment securities	72,083	142,807	230,208	126,771	219,872	791,741
Loans to customers*	114,975	210,342	1,721,625	348,927	67,749	2,463,618
Other financial assets	7,753	203	-	-	-	7,956
	1,417,019	394,086	1,989,147	520,731	291,938	4,612,921
FINANCIAL LIABILITIES:						
Amounts due to customers	1,973,129	247,595	672,133	669,727	57,304	3,619,888
Amounts due to credit institutions	154,811	116	968	3,222	34,576	193,693
Financial liabilities at fair value through profit or loss	243	-	-	5,096	-	5,339
Debt securities issued	4,871	3,785	875	157,801	221,877	389,209
Other financial liabilities	11,503	656	280	32	31	12,502
	2,144,557	252,152	674,256	835,878	313,788	4,220,631
Net position	**(727,538)**	**141,934**	**1,314,891**	**(315,147)**	**(21,850)**	
Accumulated gap	**(727,538)**	**(585,604)**	**729,287**	**414,140**	**392,290**	

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2016 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,585,696	5,835	-	-	-	1,591,531
Obligatory reserves	37,088	3,972	18,368	3,650	277	63,355
Financial assets at fair value through profit or loss	250,119	-	77,193	-	-	327,312
Amounts due from credit institutions	5,386	1,837	12,544	16,546	8,487	44,800
Available-for-sale investment securities	9,971	77,058	177,429	64,255	142,234	470,947
Loans to customers*	144,308	227,415	1,456,222	282,676	85,189	2,195,810
Other financial assets	3,078	2,250	4	33	55	5,420
	2,035,646	318,367	1,741,760	367,160	236,242	4,699,175
FINANCIAL LIABILITIES:						
Amounts due to customers	1,797,624	198,571	749,278	676,152	68,991	3,490,616
Amounts due to credit institutions	52,644	702	3,767	29,011	70,277	156,401
Financial liabilities at fair value through profit or loss	73	99	-	2,669	-	2,841
Debt securities issued	4,917	3,812	197,725	157,874	220,889	585,217
Other financial liabilities	9,083	128	255	91	25	9,582
	1,864,341	203,312	951,025	865,797	360,182	4,244,657
Net position	**171,305**	**115,055**	**790,735**	**(498,637)**	**(123,940)**	
Accumulated gap	**171,305**	**286,360**	**1,077,095**	**578,458**	**454,518**	

* Loans to customers "3 months to 1 year" include loans with non-standard repayment schedule

(Millions of Kazakhstani Tenge)

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Bank possesses a right to unilaterally call back part of long-term loans provided to customers in ten months period after proper notification would be issued by the Bank.

A significant portion of the Bank's liabilities is represented by customer term deposits, current accounts of corporate and retail customers, bonds.

Management believes that although a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicate that these deposits provide a long-term and stable source of funding for the Bank. Therefore, an essential part of current accounts is considered as stable resources for the purposes of liquidity analysis and management.

A further analysis of the liquidity risk is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities and contingent liabilities based on the remaining contractual payments (including interest payments).

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL AND CONTINGENT LIABILITIES:						
Amounts due to customers	1,974,273	249,776	696,683	696,301	90,302	3,707,335
Amounts due to credit institutions	154,929	116	981	3,586	54,787	214,399
Debt securities issued	4,871	14,745	19,335	239,344	261,562	539,857
Other financial liabilities	11,503	656	280	32	31	12,502
Guarantees issued	195,329	-	-	-	-	195,329
Commercial letters of credit	58,782	-	-	-	-	58,782
Commit-ments to extend credit	2,359	-	-	-	-	2,359
	2,402,046	**265,293**	**717,279**	**939,263**	**406,682**	**4,730,563**
Derivative financial assets	91,195	-	-	25,761	-	116,956
Derivative financial liabilities	91,337	-	-	30,823	-	122,160

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2016 Total
FINANCIAL AND CONTINGENT LIABILITIES:						
Amounts due to customers	1,798,758	200,574	773,817	721,665	110,562	3,605,376
Amounts due to credit institutions	52,666	702	3,774	29,750	99,989	186,881
Debt securities issued	10,702	8,749	223,003	267,863	277,947	788,264
Other financial liabilities	9,083	128	255	91	25	9,582
Guarantees issued	157,810	-	-	-	-	157,810
Commercial letters of credit	26,499	-	-	-	-	26,499
Commitments to extend credit	2,730	-	-	-	-	2,730
	2,058,248	**210,153**	**1,000,849**	**1,019,369**	**488,523**	**4,777,142**
Derivative financial assets	13,967	26,896	166,645	25,822	-	233,330
Derivative financial liabilities	13,867	26,134	89,962	28,470	-	158,433

Market risk

Market risk is a risk that Bank's earnings or equity or its ability to meet business objectives will be adversely affected by changes in market variables such as interest rates, foreign exchange rates, securities prices and other basic variables.

The Bank is exposed to market risks which include the following components:

- Risk of changes in interest rates (interest rate risk);
- Risk of changes in foreign exchange rates (currency risk);
- Risk of changes in securities prices (price risk).

The objective of market risk management is to optimize risk/return, minimize losses in case of adverse events and decrease deviation of factual financial results from the expected one.

Market risk management includes security portfolio management and control of open positions on currencies, interest rates and derivatives. For these purposes ALMC fixes limits on security portfolios, open positions, stop-loss limits and other limitations. Market risk limits are subject to review at least on an annual basis and should be monitored continuously.

Interest rate risk

The Bank is exposed to interest rate risk. Interest rate risk is defined as the risk of interest income decrease, interest expense increase or negative impact on equity resulting from adverse changes of market interest rates.

The Bank determines two types of interest rate risk:

- Interest rate risk related to securities portfolios changes in fair value of which are reflected through equity;
- Interest rate risk resulting from assets and liabilities maturity dates (dates of interest rates repricing) mismatch that are sensitive to the interest rates changes (risk of interest rates changes).

ALMC manages interest rate risks and market risks through the management of the Bank's position on interest rates to reach positive interest margins.

The Bank manages interest rates by determining the Bank's exposure to the interest rate risk using the approach described by the Basel Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Bank's exposure to the interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities.

Sensitivity analysis of interest rate risk

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The Bank assesses the reasonably possible changes in interest rates in tenge and foreign currencies separately, in which financial assets and liabilities are denominated due to the different volatility of interest rates. Particularly, a scenario of interest rates changes in tenge takes into account the dynamics of the NBRK base rate, as an instrument of monetary policy introduced at the end of 2015. In 2016, the Bank has changed its approach of presenting the sensitivity analysis of interest rate risk, by separately allocating the effect of financial assets and liabilities denominated in foreign currencies. In 2017, the Bank reassessed possible changes in interest rates in tenge taking into account the dynamics of the NBRK base rate during 2017 year.

The impact on profit before tax is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2017 and 2016, and the effect of revaluing instruments with fixed rates accounted for at fair value. The management of the Bank believes income tax not to have a substantial effect for the purpose of interest rate risk management.

(Millions of Kazakhstani Tenge)

The impact on income before tax based on asset and liability values as at 31 December 2017 and 2016 is as follows:

	31 December 2017		31 December 2016	
	Interest rate KZT +2% CCY +2%	**Interest rate KZT -2% CCY -2%**	**Interest rate KZT +4% CCY +2%**	**Interest rate KZT -4% CCY -2%**
FINANCIAL ASSETS:				
Loans to customers	1,383	(1,383)	1,558	(1,558)
KZT	-	-	-	-
CCY	1,383	(1,383)	1,558	(1,558)
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	8	(8)	10	(10)
KZT	-	-	-	-
CCY	8	(8)	10	(10)
Net impact on income before tax	**1,375**	**(1,375)**	**1,548**	**(1,548)**

The impact on equity is the effect of the assumed changes in interest rates due to changes in retained earnings and the effect of revaluation of available-for-sale investment securities with fixed rates.

The impact on equity based on asset and liability values as at 31 December 2017 and 2016 is as follows:

	31 December 2017		31 December 2016	
	Interest rate KZT +2% CCY +2%	**Interest rate KZT -2% CCY -2%**	**Interest rate KZT +4% CCY +2%**	**Interest rate KZT -4% CCY -2%**
FINANCIAL ASSETS:				
Loans to customers	1,383	(1,383)	1,558	(1,558)
KZT	-	-	-	-
CCY	1,383	(1,383)	1,558	(1,558)
Available-for-sale investment securities	(36,219)	36,219	(26,235)	26,235
KZT	(8,633)	8,633	(11,607)	11,607
CCY	(27,586)	27,586	(14,628)	14,628
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	8	(8)	10	(10)
KZT	-	-	-	-
CCY	8	(8)	10	(10)
Net impact on equity	**(34,828)**	**34,828**	**(24,667)**	**24,667**

Currency Risk

The Bank is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on the financial performance of the Bank.

The ALMC controls currency risk by management of the open currency position based on the estimations of KZT devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rate fluctuations of national and foreign currencies.

The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to comply with the requirements of the regulatory authority.

The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial position, results of operations and cash flows, which are monitored daily. ALMC sets limits on the level of exposure by currencies within the authority approved by the Board of Directors. These limits also comply with the minimum requirements of the regulator authority

The Bank's principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying values of the Bank's USD denominated monetary assets and liabilities. Currency risk is assessed in relation to the statement of financial position and off-balance sheet positions. Current Bank's sensitivity to fluctuations in exchange rates is acceptable due to the fact that the off balance sheet items significantly neutralize the statement of financial position.

(Millions of Kazakhstani Tenge)

The Bank's exposure to foreign currency exchange rate risk is as follows:

							31 December 2017
	USD	**EUR**	**RUB**	**Other foreign currencies**	**Total foreign currencies**	**KZT**	**TOTAL**
FINANCIAL ASSETS:							
Cash and cash equivalents	976,733	8,353	12,890	46,718	1,044,694	159,468	1,204,162
Obligatory reserves	33,678	590	191	43	34,502	28,341	62,843
Financial assets at fair value through profit or loss	35	-	-	-	35	100	135
Amounts due from credit institutions	45,885	-	32,540	-	78,425	4,041	82,466
Available-for-sale investment securities	462,480	4,147	-	-	466,627	325,114	791,741
Loans to customers	736,458	16,292	1,170	1,750	755,670	1,707,948	2,463,618
Other financial assets	933	144	2	5	1,084	6,872	7,956
	2,256,202	**29,526**	**46,793**	**48,516**	**2,381,037**	**2,231,884**	**4,612,921**
FINANCIAL LIABILITIES:							
Amounts due to customers	2,143,125	34,317	8,860	2,408	2,188,710	1,431,178	3,619,888
Amounts due to credit institutions	17,460	471	131	342	18,404	175,289	193,693
Financial liabilities at fair value through profit or loss	-	-	212	-	212	5,127	5,339
Debt securities issued	162,672	-	-	-	162,672	226,537	389,209
Other financial liabilities	163	62	39	42	306	12,196	12,502
	2,323,420	34,850	9,242	2,792	2,370,304	1,850,327	4,220,631
Net balance sheet position	**(67,218)**	**(5,324)**	**37,551**	**45,724**	**10,733**	**381,557**	**392,290**
Net off balance sheet position	**67,500**	**5,575**	**(37,493)**	**(47,450)**	**(11,868)**	**15,102**	
Net position	**282**	**251**	**58**	**(1,726)**	**(1,135)**	**396,659**	

(Millions of Kazakhstani Tenge)

							31 December 2016
	USD	**EUR**	**RUB**	**Other foreign currencies**	**Total foreign currencies**	**KZT**	**TOTAL**
FINANCIAL ASSETS:							
Cash and cash equivalents	1,477,121	16,655	16,914	8,264	1,518,954	72,577	1,591,531
Obligatory reserves	39,426	577	94	71	40,168	23,187	63,355
Financial assets at fair value through profit or loss	22	-	-	-	22	327,290	327,312
Amounts due from credit institutions	24,712	-	11,581	-	36,293	8,507	44,800
Available-for-sale investment securities	237,814	3,591	-	-	241,405	229,542	470,947
Loans to customers	666,822	7,272	2,742	2,920	679,756	1,516,054	2,195,810
Other financial assets	546	56	1	1	604	4,816	5,420
	2,446,463	28,151	31,332	11,256	2,517,202	2,181,973	4,699,175
FINANCIAL LIABILITIES:							
Amounts due to customers	2,237,690	29,151	4,071	3,512	2,274,424	1,216,192	3,490,616
Amounts due to credit institutions	38,823	658	3	129	39,613	116,788	156,401
Financial liabilities at fair value through profit or loss	-	-	199	-	199	2,642	2,841
Debt securities issued	359,621	-	-	-	359,621	225,596	585,217
Other financial liabilities	556	38	-	-	594	8,988	9,582
	2,636,690	29,847	4,273	3,641	2,674,451	1,570,206	4,244,657
Net balance sheet position	**(190,227)**	**(1,696)**	**27,059**	**7,615**	**(157,249)**	**611,767**	**454,518**
Net off balance sheet position	**192,807**	**1,712**	**(27,150)**	**(9,442)**	**157,927**	**(81,998)**	
Net position	**2,580**	**16**	**(91)**	**(1,827)**	**678**	**529,769**	

(Millions of Kazakhstani Tenge)

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Bank had significant exposure at 31 December 2017 and 2016, and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate with all other variables held constant on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in the statement of profit or loss, while a positive amount reflects a net potential increase. Sensitivity of currency risk is assessed based on balance sheet and off-balance sheet open currency positions. The management of the Bank believes income tax not to have substantial effect for the purpose of currency risk management.

The impact on income before tax and equity, based on asset values as at 31 December 2017 and 2016, was calculated using the currency rate fluctuations analysis. Changes of the possible movement of the currency rate from 30% to 15% in 2017 were associated with the decrease in the volatility of the exchange rate.

The impact on income before tax and equity, based on asset values as at 31 December 2017, was calculated using the annual analysis of the exchange rates volatility based on historical data of the exchange rates dynamics over the last two years; see the details in the following table:

	31 December 2017		31 December 2016	
	+15% KZT/USD	-15% KZT/USD	+30% KZT/USD	-30% KZT/USD
Impact on income before tax	43	(43)	774	(774)

	31 December 2017		31 December 2016	
	+15% KZT/EUR	-15% KZT/EUR	+30% KZT/EUR	-30% KZT/EUR
Impact on income before tax	38	(38)	5	(5)

	31 December 2017		31 December 2016	
	+15% KZT/RUB	-15% KZT/RUB	+30% KZT/RUB	-30% KZT/RUB
Impact on income before tax	9	(9)	(27)	27

Impact on equity:

	31 December 2017		31 December 2016	
	+15% KZT/USD	-15% KZT/USD	+30% KZT/USD	-30% KZT/USD
Impact on equity	43	(43)	774	(774)

	31 December 2017		31 December 2016	
	+15% KZT/EUR	-15% KZT/EUR	+30% KZT/EUR	-30% KZT/EUR
Impact on equity	38	(38)	5	(5)

	31 December 2017		31 December 2016	
	+15% KZT/RUB	-15% KZT/RUB	+30% KZT/RUB	-30% KZT/RUB
Impact on equity	9	(9)	(27)	27

Limitations of sensitivity analysis

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

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

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, where those changes are caused by factors specific to the individual security, its issuer, or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

To limit price risk the Bank determines limits for maximum losses (stop-loss) on each security from trade portfolio to minimize potential losses of trade portfolio.

Price risk assessment is also made on the basis of VaR method through establishment of Expected Shortfall (ES) limits on the level of the expected losses, which the Bank is able to undertake within one day in situation when factual losses may exceed the level of VaR.

Calculation of VaR is based on the following parameters:

- Reporting period – 252 working days;
- Confidence interval – 95%;
- The method of measurement – historical simulation.

The Bank estimates the price risk at 31 December 2017 and 2016, to be not material and therefore quantitative information is not disclosed.

31. Capital risk management

The Bank's objectives when managing capital, which are a broader concept than the "equity" on the face of the statement of financial position, are as follows:

- To comply with the capital requirements set by the NBRK;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined during the annual budgeting process, taking into account the above objectives, and is approved by the Management Board and the Board of Directors. As of the current date, the capital adequacy of the Bank is calculated according to prudential norms set for banks by the Kazakhstan regulatory authority, applying Basel Committee principles and methods. Starting from 1 January 2016, prudential norms regulating the capital calculation applied certain principles and methods prescribed by the Basel III Committee. Prior to 1 January 2016, prudential norms regulating the capital calculation applied starndards and methods prescribed by the Basel II Committee. Risk-weighted assets are calculated according to Kazakhstan regulatory standards.

(Millions of Kazakhstani Tenge)

Currently, regulatory capital is represented by:

- Tier 1 capital, which is required to maintain the normal operating activity of the Bank and absorb losses, as they arise. It consists of Common Equity Tier 1 capital ("CET 1 capital") and Additional Tier 1 capital, which includes common shares issued by the Bank, share premium, retained earnings, other accrued comprehensive income and disclosed reserves and regulatory adjustments (deductions);
- Tier 2 capital, which is required to absorb losses in case of the Bank's liquidation. This part of capital consists of instruments issued by the Bank and deductions.

Risk-weighted assets are split into five different groups, based on the risk level of the investment and its possible impairment, and weighted according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments made to reflect the more contingent nature of the potential losses.

The below table summarizes regulatory the capital composition and capital adequacy ratios of the Bank for the years ended 31 December 2017 and 2016. During these two years, the Bank complied with all of the externally imposed capital requirements to which it is subject to.

	31 December 2017	31 December 2016
Composition of regulatory capital		
CET		
Common shares, net of treasury shares	40,738	40,742
Share premium	1,880	1,880
Retained earnings of prior years	500,793	376,634
Net income for the current period	154,252	123,525
Accumulated disclosed reserves*	73,329	73,329
Property and available-for-sale investment securities revaluation reserves	13,241	83
Less: goodwill and intangible assets	(7,276)	(9,658)
Less: regulatory adjustments	(7,487)	(7,257)
Common Equity Tier 1 (CET 1)	**769,470**	**599,278**
Additional tier 1	-	-
Subordinated debt	-	-
Less: investments in subsidiaries and associates	-	-
Tier 2	-	-
Total regulatory capital	**769,470**	**599,278**
Risk weighted assets	3,584,465	3,113,662
CET 1 capital adequacy ratio	**21.5%**	**19.3%**
Tier 1 capital adequacy ratio	**21.5%**	**19.3%**
Total capital adequacy ratio	**21.4%**	**19.3%**

*As at 31 December 2017 and 2016, accumulated disclosed reserves comprised of KZT 19,568 million dynamic reserve and KZT 53,761 million capital reserve.

Starting from 1 January 2016, prudential norms of the NBRK, which apply certain principles and methods prescribed by Basel III committee, set minimum CET 1 capital, Additional Tier 1 capital and total capital adequacy ratios at 7.5%, 8.5% and 10.0%, respectively, including buffers, which since 1 January 2017 have been raised to the level of 9.5%, 10.5% and 12.0%, respectively.

32. Segment analysis

The Bank is managed and reported on the basis of three main operating segments – corporate banking, small and medium enterprises banking and retail banking. These segments are strategic business units that offer different products and services and are managed separately.

Retail banking represents private banking services to individuals, including private customer current accounts, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, cash and foreign currency related services to individuals.

Corporate banking represents banking services to corporate clients and financial organizations, including current accounts and correspondent accounts, deposits, custody, overdrafts, loans and other credit facilities, documentary operations, including guarantees and letters of credit, interbank operations, as well as cash services and foreign exchange transactions.

SME banking represents banking services to SME clients and individual entrepreneurs, including current accounts, deposits, overdrafts, loans and other credit facilities, documentary operations and guarantees, foreign exchange transactions and trade finance products.

Investment banking represents services on sale and purchase of securities on the market.

Unallocated amounts are account balances and classes of transactions, which are not allocated to particular segment, not initiated by any business function and relate to the current activity of the Bank. Unallocated assets include fixed assets, intangible assets, non-current assets held for sale, cash on hand and other unallocated assets. Unallocated liabilities include deferred tax liabilities and other unallocated liabilities. Unallocated income includes other income from main and nonoperating activities and insurance income. Unallocated expenses include provision on account receivables, operating overhead expenses, insurance expenses and income tax.

The segment information below is based on financial information used for performance evaluation by the Bank's Chairperson of the Management Board, the Bank's chief operating decision maker, in accordance with IFRS 8. The Bank's Management reviews discrete financial information for each segment, including evaluation of operating results, assets and liabilities.

There were no transactions between business segments during the years ended 31 December 2017 and 2016.

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Segment information for the main reportable business segments of the Bank for the years ended 31 December 2017 and 2016, is set out below:

	Retail banking	Corporate banking	SME Banking	Investing banking*	Unallocated amounts	Total
As at 31 December 2017 and for the year then ended						
External revenues	192,255	163,227	48,367	50,700	(515)	454,034
Total revenues	192,255	163,227	48,367	50,700	(515)	454,034
Total revenues comprise:						
-Interest income	107,120	162,424	32,172	54,741	-	356,457
-Fee and commission income	45,446	6,356	7,311	-	-	59,113
-Dividends received from subsidiaries	-	14,917	1,461	-	-	16,378
-Net foreign exchange gain/(loss)	39,689	(20,470)	7,423	(4,041)	(1,951)	20,650
-Other income	-	-	-	-	1,436	1,436
Total revenues	192,255	163,227	48,367	50,700	(515)	454,034
-Interest expense	(77,235)	(48,436)	(5,483)	(34,652)	-	(165,806)
-Impairment charge	(1,864)	(18,351)	(2,812)	-	(100)	(23,127)
-Fee and commission expense	(12,260)	(449)	(240)	(34)	-	(12,983)
-Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	(12,860)	5,445	(1,276)	1,184	705	(6,802)
-Net realized loss from available-for-sale investment securities	-	-	-	(19)	-	(19)
-Operating expenses	(44,828)	(5,485)	(14,523)	(527)	(4,492)	(69,855)
-Provisions	-	(453)	-	-	-	(453)
Segment result	43,208	95,498	24,033	16,652	(4,402)	174,989
Income before income tax expense						174,989
Income tax expense					(20,737)	(20,737)
Net income						**154,252**
Total segment assets	542,945	2,882,539	276,755	791,741	525,576	5,019,556
Total segment liabilities	1,629,712	1,829,632	354,168	389,209	32,602	4,235,323
Other segment items:						
Capital expenditure					(5,319)	(5,319)
Depreciation and amortization expense					(6,113)	(6,113)

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	Retail banking	Corporate banking	SME Banking	Investment banking*	Unallocated amounts	Total
As at 31 December 2016 and for the year then ended						
External revenues	170,300	152,502	42,690	37,946	435	403,873
Total revenues	170,300	152,502	42,690	37,946	435	403,873
Total revenues comprise:						
- Interest income	100,340	147,294	28,527	42,671	-	318,832
- Fee and commission income	42,646	5,934	6,667	-	-	55,247
- Net realized gain from available-for-sale investment securities	-	-	-	552	-	552
- Dividends received from subsidiaries	-	7,319	1,847	-	-	9,166
- Net foreign exchange gain/(loss)	27,314	(8,045)	5,649	(5,277)	(1,685)	17,956
- Other income	-	-	-	-	2,120	2,120
Total revenues	170,300	152,502	42,690	37,946	435	403,873
- Interest expense	(64,849)	(44,213)	(4,446)	(45,971)	-	(159,479)
- Impairment charge	(5,546)	(12,952)	(4,244)	-	(443)	(23,185)
- Fee and commission expense	(10,272)	(421)	(220)	(49)	-	(10,962)
- Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	(52,581)	30,593	(5,246)	11,934	3,767	(11,533)
- Operating expenses	(35,338)	(4,790)	(12,456)	(467)	(1,995)	(55,046)
- Impairment loss of assets held for sale	-	-	-	-	(28)	(28)
- Provisions	-	(53)	(18)	-	-	(71)
Segment result	1,714	120,666	16,060	3,393	1,736	143,569
Income before income tax expense						143,569
Income tax expense					(20,044)	(20,044)
Net income						**123,525**
Total segment assets	514,078	3,169,737	230,791	720,521	254,999	4,890,125
Total segment liabilities	1,628,477	1,728,631	285,760	585,217	45,846	4,273,931
Other segment items:						
Capital expenditure					(10,769)	(10,769)
Depreciation and amortization expense					(4,917)	(4,917)

*Due to material changes in investment banking item for the year ended 31 December 2017, the Bank showed it as a separate segment and recalculated segment results for the year ended 31 December 2016, respectively.

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Geographical information

Information for the main geographical areas of the Bank is set out below as at 31 December 2017 and 2016, and for the years then ended.

	Kazakhstan	OECD	Non OECD	Total
2017				
Total assets	4,389,126	566,376	64,054	5,019,556
External revenues	432,430	20,831	773	454,034
Capital expenditure	(5,319)	-	-	(5,319)
2016				
Total assets	4,050,100	766,347	73,678	4,890,125
External revenues	385,760	10,239	7,874	403,873
Capital expenditure	(10,769)	-	-	(10,769)

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated in the Republic of Kazakhstan.

33. Fair values of financial instruments

IFRS defines fair value as 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.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Management assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Bank considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on its statement of financial position as well as its profit/(loss) could be material.

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The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The tables below summarises the Bank's financial assets and liabilities held at fair value by valuation methodology at 31 December 2017 and 2016, before any allowances for impairment losses:

Financial Assets/Liabilities		Fair value at	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2017	31December 2016				
Non-derivative financial assets at fair value through profit or loss (Note 7)	-	249,574	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss, excluding options (Note 7)	135	1,055	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss, excluding options (Note 7)	-	76,683	Level 3	Future cash flows in USD discounted using LIBOR rate obtained from available sources. Future cash flows in KZT discounted using internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to zero at initial recognition.	KZT implied rate	The greater KZT implied rate – the smaller fair value
Derivative financial liabilities at fair value through profit or loss excluding options (Note 7)	5,339	2,841	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Non-derivative available-for-sale investment securities (Note 9)	791,741	470,947	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable

(Millions of Kazakhstani Tenge)

There were no transfers between Level 1 and 2 during the years ended 31 December 2017 and 2016.

	Financial assets at fair value through profit or loss (Level 3)
31 December 2015	173,804
Settlements*	(94,808)
Loss to profit or loss	(2,313)
31 December 2016	76,683
Settlements*	(80,334)
Gain to profit or loss	3,651
31 December 2017	-

* As at 31 December 2017 and 2016, the settlements include interest and repayment of NBRK swaps.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The following methods and assumptions are used by the Bank to estimate the fair value of financial instruments not carried at fair value.

Amounts due from and to credit institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Amounts due to customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

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The following table sets out the carrying amount and fair values of financial assets and liabilities not carried at their fair values:

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	82,466	67,849	44,800	44,659
Loans to customers	2,463,618	2,471,314	2,195,810	2,062,483
Financial liabilities				
Amounts due to customers	3,619,888	3,591,990	3,490,616	3,624,570
Amounts due to credit institutions	193,693	180,237	156,401	182,748
Debt securities issued	389,209	386,844	585,217	586,680

				31 December 2017
	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Amounts due from credit institutions	-	67,849	-	67,849
Loans to customers	-	-	2,471,314	2,471,314
Financial liabilities				
Amounts due to customers	-	3,591,990	-	3,591,990
Amounts due to credit institutions	-	180,237	-	180,237
Debt securities issued	386,844	-	-	386,844

				31 December 2016
	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Amounts due from credit institutions	-	44,659	-	44,659
Loans to customers	-	-	2,062,483	2,062,483
Financial liabilities				
Amounts due to customers	-	3,624,570	-	3,624,570
Amounts due to credit institutions	-	182,748	-	182,748
Debt securities issued	586,680	-	-	586,680

The carrying amounts of cash and cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

34. Related party transactions

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Terms, conditions and amounts of related party transactions are usually same as those between unrelated parties.

Considering each possible related party not only their legal status is taken into account but also the substance of the relationship between these parties.

(Millions of Kazakhstani Tenge)

As at 31 December 2017 and 2016, the Bank had the following transactions outstanding with related parties:

	31 December 2017		31 December 2016	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Cash and cash equivalents	41,899	1,204,162	30,123	1,591,531
-subsidiaries	41,899		30,123	
Amounts due from credit institutions	48,319	82,466	23,774	44,800
-subsidiaries	48,319		23,774	
Investments in subsidiaries	254,490	254,490	90,564	90,564
-subsidiaries	254,490		90,564	
Loans to customers before allowance for impairment losses	55,043	2,728,910	52,031	2,469,567
-entities with joint control or significant influence over the Bank	793		2,024	
-key management personnel of the Bank or its parent	115		94	
-subsidiaries	54,093		49,883	
-other related parties	42		30	
Allowance for impairment losses	(240)	(265,292)	(492)	(273,757)
-the parent	-		-	
-entities with joint control or significant influence over the Bank	(10)		(20)	
-subsidiaries	(230)		(472)	
Other assets	457	23,999	571	16,131
-subsidiaries	457		571	
Amounts due to customers	152,920	3,619,888	200,311	3,490,616
-the parent	27,238		99,641	
-entities with joint control or significant influence over the Bank	3,172		4,086	
-key management personnel of the Bank or its parent	8,804		9,538	
-subsidiaries	1,965		2,743	
-other related parties	111,741		84,303	
Amounts due to credit institutions	12,893	193,693	7,004	156,401
-subsidiaries	12,893		7,004	
Debt securities issued	94	389,209	294	585,217
-subsidiaries	94		294	

(Millions of Kazakhstani Tenge)

Included in the statements of profit or loss for the years ended 31 December 2017 and 2016, are the following amounts which arose due to transactions with related parties:

	Related party transactions	Year ended 31 December 2017 Total category as per financial statements caption	Related party transactions	Year ended 31 December 2016 Total category as per financial statements caption
Interest income	2,584	356,457	6,629	318,832
-entities with joint control or significant influence over the Bank	120		296	
-key management personnel of the Bank or its parent	10		10	
-subsidiaries	2,449		6,319	
-other related parties	5		4	
Interest expense	(3,527)	(165,806)	(8,701)	(159,479)
-the parent	(2,535)		(6,848)	
-entities with joint control or significant influence over the Bank	(3)		(14)	
-key management personnel of the Bank or its parent	(198)		(404)	
-subsidiaries	(15)		(176)	
-other related parties	(776)		(1,259)	
Fee and commission income	677	59,113	475	55,247
-subsidiaries	677		475	
Fee and commission expense	(252)	(12,983)	(231)	(10,962)
-subsidiaries	(252)		(231)	
Dividends received from subsidiaries	16,378	16,378	9,166	9,166
-subsidiaries	16,378		9,166	
Operating expenses	(126)	(69,855)	(6,117)	(55,046)
-subsidiaries	(126)		(6,117)	

	Related party transactions	Year ended 31 December 2017 Total category as per financial statements caption	Related party transactions	Year ended 31 December 2016 Total category as per financial statements caption
Key management personnel compensation:	1,922	33,081	1,800	28,306
-salaries and other employee benefits	1,922		1,800	