JSC Kazkommertsbank

Annual Report for 2016

July 2017

Address of the Management

Due to continued complicated macroeconomic situation, devaluation of national currency, changes to regulation and tightened up competition the year 2016 became another ambiguous year for the whole banking sector of Kazakhstan in general and for Kazkommertsbank in particular.

Adopted in August 2015 resolution of the Government of the Republic of Kazakhstan and the National Bank of Kazakhstan on transition to the floating KZT exchange rate to compensate negative implications on the budget driven in turn by downturn of commodity prices resulted into weakening of local currency from KZT187 per US Dollar in August 2015 to KZT310-340 throughout 2016. Banking sector balance sheet demonstrated a substantial excess of FX liabilities vs assets and lack of hedging instruments. This resulted into a sharp growth of exchange rate and subsequent rise in interest expense all over the market.

In addition to that, high funding cost and limited liquidity further worsened by outflow of customer accounts away from banking sector, high interest rates on deposits in KZT and lack of access to international capital markets resulted into contraction of lending to real economy. In turn, the rise in cost of funding driven by dried up liquidity in interbank market potentially gives rise to systemic risks, particularly related to ability of market participants to meet taken obligations.

Besides, measures undertaken by the National Bank of Kazakhstan to strengthen Kazakhstani financial system led to tightening prudential requirements, particularly requirements on capital adequacy. This put shareholders and founders of banks to decide on additional capital injections. Stabilization and strengthening of the banking system via capital injection and M&A considerations became even more sensitive due to increased competition of current players and newcomers from neighboring China and Russia.

In this circumstances decision made by shareholders of certain banks to combine efforts via M&As look reasonable and discussions initiated by shareholders of KKB and JSC “Halyk Bank Kazakhstan” (further “Halyk Bank”) and are in line with the market trends.

On 02 March 2017 there was a Memorandum of Understanding on potential purchase of controlling stake in Kazkommertsbank by JSC «Halyk Bank Kazakhstan» signed by the Government of the Republic of Kazakhstan, the National Bank of Kazakhstan, KKB, Halyk Bank, JSC «BTA Bank» and Kenges Rakishev as a majority shareholder of KKB.

The main purpose of the Memorandum is to outline the framework and terms for entering into a deal on purchase of shares of KKB, as well as actions required by each of the parties under the Memorandum.

On 15 June two sale and purchase agreements have been signed between Mr. Rakishev and Halyk Bank and JSC NWF «Samruk-Kazyna» and Halyk Bank. According to terms of the above-mentioned agreements Mr. Rakishev and Samruk-Kazyna are to sell common shares of Kazkommertsbank held by them for KZT1.00 each.

For 12 months of 2017 total assets of the Bank decreased by 4.5% to KZT 4,866 billion compared to year end 2015. Capital adequacy ratio was 13.1% according to the methodology applied by NBK. Net income for 12 months 2016 amounted to KZT 508 million.

Net interest income before provisions increased by 8.7% to KZT 203.4 billion compared to KZT 187.1 billion for 12 months of 2015. Net non-interest income decreased by KZT 99.7 billion compared to 12 months of 2015 and amounted to KZT 15 billion for 12 months of 2016 mainly due to increase in expenses on revaluation of assets classified as held for sale for KZT 50 billion as well as due to decrease in gains on financial assets and liabilities at fair value through profit and loss for KZT 66 billion.

Net fee and commission income decreased by 0.2% for 12 months of 2016 to KZT 28.4 billion. Provisions on loans to customers represented 13.2% of gross loans as at 31 December 2016. Allowance for provisions amounted to KZT 68.9 billion for 12 months of 2016 compared to KZT 176.8 billion for 12 months of 2015. Non-performing loans according to NBK methodology were 7.4% as at 1 January 2017.

For 12 months of 2016 the Bank recorded income tax expense of KZT 25.4 billion compared to KZT 17.5 billion for the same period in 2015.

Corporate loans amounted to KZT 3,454.4 billion as at 31 December 2016 compared to KZT 3,476 billion as of 31 December 2015. Corporate deposits amounted to KZT 1,475.4 billion as at 31 December 2016 compared to KZT 1,854 billion as at 31 December 2015. The share of corporate deposits in the Bank's total customer accounts decreased to 50.6% from 55.8% as at the end of 2015.

Retail loans (net) amounted to KZT 302.3 billion as at 31 December 2016 compared to KZT 353.7 billion as at 31 December 2015. Retail deposits amounted to KZT 1,440.1 billion as at 31 December 2016 compared to KZT 1,470.2 billion as at 31 December 2015. The share of retail deposits in total customer accounts was 49.4% compared to 44.2% as at 31 December 2015.

2. Information on Kazkommertsbank

2.1. Kazkommertsbank's profile

MISSION – Kazkommertsbank seeks to improve the quality of life, giving people ample opportunities by providing financial and banking services which help people implement their plans and achieve their aspirations, benefitting themselves, their families, companies, businesses, the society and the country.

VISION – Kazkom is a Kazakhstani financial sector leader with strong positions in innovations, digital and virtual banking, offering wide range of services.

The Bank holds a Certificate of Registration № 4466-1910-AO issued by the Ministry of Justice of the Republic of Kazakhstan and its headquarter is registered at the following address: Republic of Kazakhstan, 050060, Almaty, 135 zh Gagarin Ave., contact phone number: +7 (727) 2-58-56-70, 258-51-85, fax: +7 (727) 258-52-29. Web-site: http://www.qazkom.kz.

Kazkommertsbank's history of development

The current Kazkommertsbank (further "the Bank") starts its history in 12 July 1990 as open-end joint stock company Medeu Bank operating subject to the Law of Kazakh Soviet Social Republic. Since sovereign independence gained by KazakhstanMedeu bank went through the re-registration as OJSC «Kazkommertsbank» and obtained a license of the National Bank of Kazakhstan № 48 dated 21 October 1991 for banking operations. 21 October 1991 is considered an official birthday of the Bank.

In April 1994 the Bank merged with another commercial bank – «Astana Holding». Since 1994 the Bank took part in various special programs designed and sponsored by the National Bank of Kazakhstan and the Ministry of Finance of the Republic of Kazakhstan, as well as different international financial institutions – such as World bank, European Bank for Reconstruction and Development (EBRD), Islamic Development Bank, Kreditanstalt fur Wiederaufbau and Asian Development Bank.

In 1995 Kazkommertsbank as an official advisor to the Government of the Republic of Kazakhstan took active part in economically and politically important process of restructuring and privatization of energy sector companies.

Throughout 1996, the Bank was making efforts to achieve its key goal at that time: to meet international banking standards. Thus, Kazkommertsbank became one of the first Kazakhstani banks to be given a complete international audit report (prepared by Deloitte & Touche). In 1996, Kazkommertsbank became the first bank in Central Asia to be assigned an international rating by the agency Thomson BankWatch-BREE. This was another landmark event of the year.

In April 1997, Kazkommertsbank was one of the first Kazakhstani banks to enter into a Twinning Program with the French bank CCF (Credit Commerciale de France). The program was funded by the European Bank for Reconstruction and Development (EBRD) and aimed at rapid institutional development. In 1999, the Twinning Program was completed, and the Bank began to operate on the Eurobond market.

In 1997, the Bank was approved as a borrower by Euler Hermes, a German provider of trade-related credit insurance solutions; previously, the German company had recognized only the Government of the Republic of Kazakhstan as a borrower. This was an important achievement for the entire banking sector of Kazakhstan. In 1997, the Bank also received its first international syndicated loan.

In May 1998, the Bank was the first Kazakhstani corporate issuer to issue Eurobonds worth US$ 100 million with a maturity of three years.

In 2001, the Bank was the first institution in the country to take out a long-term loan from an international financial institution, the German bank DEG. The loan was taken out directly (i.e. it was not backed by the government), and the loan tenor totaled seven years.

Since 2002, CB Moskommertsbank (LLC), the former Interregional Bank for Development of Entrepreneurship, has been an agent and a strategic partner of Kazkommertsbank in the Russian Federation. In May 2005, Kazkommertsbank was appointed as fiduciary manager of a 60.04% stake in Moskommertsbank's share capital. In February 2007, the Bank acquired a 52.11% stake in the institution, and in 2008 it increased its shareholding to 100%.

In 2003, the EBRD and Kazkommertsbank signed an Agreement on acquisition of a stake in the shareholders' equity; the EBRD subsequently acquired 15% of the Bank's issued common shares.

In April 2005, Kazkommertsbank became the first bank in the CIS to be included in the new Dow Jones CDX.EM Diversified Index .

In June 2005, the EBRD authorized Kazkommertsbank to independently manage SME lending as part of the EBRD's special program.

In July 2005, Kazkommertsbank and ABN AMRO reached an agreement under which ABN AMRO was to sell its pension asset management company and an 80.01% stake in ABN AMRO–KaspiyMunaiGas Accumulative Pension Fund (now JSC Grantum APF) to Kazkommertsbank.

In December 2005, Kazkommertsbank signed a syndicated loan agreement totaling US$ 1.3 billion. This was the largest transaction of this type not only in Kazakhstan, but also in the entire region comprising Central and Eastern Europe and the CIS. Established international publications such as Trade Finance and Global Trade Review simultaneously called it "the deal of year 2005".

In March 2006, Kazkommertsbank won in the "Best Emerging Markets Banks (Kazakhstan)" category for the eighth year in a row, according to the annual survey conducted by the Global Finance international magazine. Besides, the Bank won in the "Best Trade Finance Bank" and "World's Best Foreign Exchange Bank" categories. At the same time, Kazkommertsbank was also titled the "Best Bank in Kazakhstan" by other international financial affairs publications such as Euromoney and The Banker.

In November 2006, Kazkommertsbank became the first bank in the CIS which successfully closed its Initial Public Offering (IPO) in the form of GDRs (45.7 million) on London Stock Exchange (LSE).

In April 2007, Kazkommertsbank launched a new KAZKOM trademark. The new brand helped make the Bank closer and more comprehensible to retail customers. In 2011, the Brand Finance consultancy and The Banker magazine evaluated the Kazkommertsbank brand at US$ 389 million; thus, it became the most valuable brand among all Kazakhstani banks and was ranked 280th in the ranking of the world's most valuable banking brands.

In December 2007, Kazkommertsbank's subsidiary in Tajikistan with a share capital of US$ 10 million was registered by the Ministry of Justice of the Republic of Tajikistan. In 2008, the bank received licenses for banking operations in Tajikistan.

In December 2007, a new Head Office of Kazkommertsbank opened in the vicinity of the Regional Financial Centre of Almaty City. The event was attended by the head of state, who participated in a symbolic launch of a local information network.

In July 2008, Alnair Capital Holding, a Kazakhstani company which belongs to a private Arab investment fund, became the Bank's large shareholder. In 2009, the fund increased its stake in Kazkommertsbank to 28.6%.

In October 2008, the Government of the Republic of Kazakhstan selected Kazkommertsbank as a strategic partner to implement measures for supporting the real sector of the country's economy. In January 2009, Kazkommertsbank and its major shareholders signed agreements with NWF Samruk-Kazyna on the implementation of the Memorandum of Understanding on the main conditions of the Bank's participation in the Government Stabilization Program to support the real sector of the economy. In May 2009, NWF Samruk-Kazyna acquired a 21.2% stake in the Bank as part of the Government Stabilization Program. In 2009, a mortgage loan refinancing program was launched with support from NWF Samruk-Kazyna and the state. In 2012, Kazkommertsbank completed a three-year government refinancing program, which made mortgage cheaper for over 7.7 thousand borrowers.

In April 2011, Kazkommertsbank launched a data center in Almaty with support from IBM Corporation. The center is based on the IBM Power Systems server platform. The new data center is one of the three centers located more than 1,200 kilometers away from each other; they will be integrated into a disaster-proof solution enabling operation of the Bank's information systems even in case of a natural disaster.

In May 2011, Kazkommertsbank became one of the first Kazakhstani banks to issue Eurobonds worth US$ 300 million, which was a debut placement on the post-crisis debt capital market.

In November 2012, the number of registered users of Homebank.kz, KKB's Internet banking platform for individuals, reached 400,000.

In December 2014, Kazkommertsbank and Mr. Kenges Rakishev announced that a preliminary agreement on purchasing the shares of JSC BTA Bank from NWF Samruk-Kazyna had been reached. In December 2014, the General Shareholders' Meeting of the Bank approved the integration model for Kazkommertsbank and BTA Bank.

In June 2015, the Bank received 250 billion tenge as a deposit from the Distressed Assets Fund.

In June 2015, it was announced that the purchase of shares of BTA Bank from NWF Samruk-Kazyna and the simultaneous transfer of assets and liabilities between the two banks had been completed. The National Bank of Kazakhstan revoked BTA Bank's banking license, which was followed by BTA Bank's deconsolidation from KKB's financial statements.

In December 2015, Mr. Kenges Rakishev became a controlling shareholder of Kazkommertsbank directly or indirectly controlling 56.75% of issued and outstanding common shares of the Bank.

In October 2016 Kazkommertsbank made a re-branding and a result a new retail brand is QAZKOM.

2.2. Subsidiaries of the Bank

Kazkommertsbank is a parent company of banking/financial group (further the "Group") which in turn consists of the following subsidiaries consolidated in the Group's financial statements:

Name	Country of operation	Per cent of participation/voting shares			Area of operation/activity
		As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	
JSC «Kazkommerts Securities»	Republic of Kazakhstan	100%	100%	100%	Brokerage house
Kazkommerts International B.V.	Netherlands	100%	100%	100%	SPV, fund raising from international capital/debt market
Kazkommerts Finance II B.V.	Netherlands	100%	100%	100%	SPV, fund raising from international capital/debt market
CJSC «Kazkommertsbank Tajikistan»	Tajikistan	100%	100%	100%	Commercial bank
CB «Moskommertsbank» (JSC)	Russia	100%	100%	100%	Commercial bank
«KUSA KKB-1» LLP	Republic of Kazakhstan	100%	100%	100%	Distressed assets management
«KUSA KKB-2» LLP	Republic of Kazakhstan	100%	100%	100%	Distressed assets management
«KUSA KKB-3» LLP	Republic of Kazakhstan	100%	100%	-	Distressed assets management
JSC «BTA Securities»	Republic of Kazakhstan	100%	100%	-	Brokerage house
«AlemCard» LLP	Republic of Kazakhstan	100%	100%	-	Processing Center, banking cards
«Titan Inkassatsiya» LLP	Republic of Kazakhstan	100%	100%	-	Cash Collection
JSC «Kazkommert Life» Life Insurance Company	Republic of Kazakhstan	100%	100%	100%	Life Insurance
JSC «KazkommertsPolicy» Insurance Company	Republic of Kazakhstan	99.97%	99.97%	100%	Insurance
JSC Savings Pension Fund «Grantum»	Republic of Kazakhstan	-	82.52%	82.52%	Pension Fund
JSC «Grantum Asset Management»	Republic of Kazakhstan	-	-	100%	Pension assets management
«Processing Company» LLP	Republic of Kazakhstan	-	100%	100%	Processing Center, banking cards
Kazkommerts Capital II B.V.	Netherlands	-	-	100%	SPV, raising funds from international capital/debt market
Kazkom Realty LLP	Republic of Kazakhstan	-	-	100%	Distressed assets management
OJSC «Kazkommertsbank Kyrgyzstan»	Kyrgyz Republic	-	-	95.75%	Commercial bank
JSC «BTA Bank» and its related subsidiaries	Republic of Kazakhstan	-	-	47.42%	Commercial bank

JSC «Kazkommerts Securities» is a joint stock company operating subject to the Law of the Republic of Kazakhstan since 1997. The primary activity of the company is operations with securities, including brokerage and dealing transactions, investment and corporate finance advising, service on arrangement of securities issuance, distribution and underwriting of securities, purchase and sale of securities as an agent. Following re-registration from open joint stock company to joint stock company the license №0401201207 and № 0403200439 both dated 17 May 2006 for broker-dealing activity and investment portfolio management accordingly have been issued by the National Bank of Kazakhstan.

Kazkommerts International B.V. is a limited liability company (B.V.) which operates subject to the Law of the Netherlands. The main activity of company is raising funds for the Bank from international capital markets. The Company has been registered under the license № 24278506 on 01 October 1997 by the Chamber of Commerce of the Netherlands to raise funding including issuance of debt and other securities as well as enter into agreement in that respect.

Kazkommerts Finance II B.V. is a limited liability company (B.V.) which operates subject to the Law of the Netherlands. The main activity of company is raising funds for the Bank from international capital markets. The Company has been registered under the license № 24317181 dated 13 February 2001 by the Chamber of Commerce of the Netherlands to conduct certain types of banking operations and other activity.

CJSC «Kazkommertsbank Tajikistan». The Bank has obtained a permit №93 from the National Bank of Kazakhstan on 06 September 2007 to open a daughter bank in Tajikistan. On 24 January 2008 CJSC «Kazkommertsbank Tajikistan» has obtained a license for banking operations in local and foreign currencies № 33/1, issued by the National Bank of Tajikistan. The main activity of the subsidiary is of commercial nature, including operations with foreign currency, lending and documentary business.

Commercial bank «Moskommertsbank» (a Joint-Stock Company), hereinafter referred to as MKB, was established in 2010 by means of reorganization of Commercial Bank Moskommertsbank (a Limited Liability Company) created in 2001. MKB was assigned all its rights and obligations regarding all its lenders and debtors, including liabilities challenged by parties. MKB operates under the laws of the Russian Federation in accordance with banking license No. 3365 dated December 17, 2014 and license No. 3365 for banking operations with the private sector dated December 17, 2014. MKB also has licenses of a professional securities market participant for brokerage operations No. 177-11190-100000 dated April 18, 2008, for depository activities No. 177-11200-000100 dated April 18, 2008, and for dealer operations No. 177-11192-010000 dated April 18, 2008. MKB's operations are regulated by the Central Bank of the Russian Federation (hereinafter referred to as the CBR).

MKB provides a wide range of banking products and services for individuals, corporate customers and financial institutions. The Bank's primary business comprises retail banking, SME lending and the corporate sector.

KUSA KKB-1 LLP, KUSA KKB-2 LLP and KUSA KKB-3 LLP are limited liability partnerships created to purchase the bank's non-performing (distressed) assets and manage them in accordance with the Law of the Republic of Kazakhstan on the Introduction of Amendments to Certain Laws regarding the Regulation of Banking Activities and Financial Institutions with Respect to Risk Mitigation adopted in December 2011.

JSC "BTA Securities" a company that renders services related to issuance and placement of securities, financial advisory services, brokerage services, fiduciary management and mutual fund management services. In 2015, as part of integration of BTA Bank and Kazkommertsbank, the entire shareholding in BTA Securities was transferred to Kazkommertsbank.

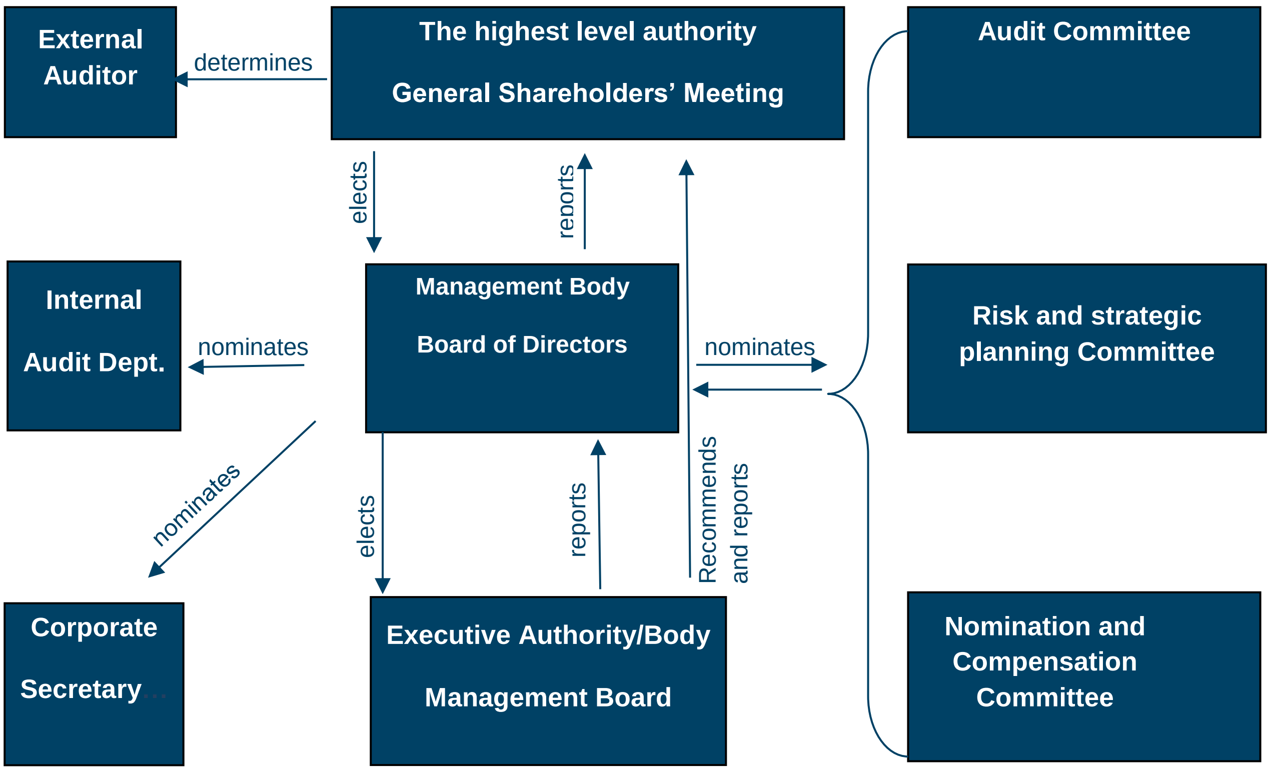
AlemCard LLP was established in 2002. Prior to 2012, payment card services and processing were the main areas of the company's business. In 2012, the company concluded a 10-year fiduciary management agreement on the Samal Towers business center. In 2015, as part of integration of BTA Bank and Kazkommertsbank, the entire shareholding in AlemCard LLP was transferred to Kazkommertsbank.

Titan-Inkassatsia LLP was established in 2002. The company's business consists primarily in providing cash-in-transit services in Kazakhstan for legal entities and individuals. In 2015, as part of integration of BTA Bank and Kazkommertsbank, the entire shareholding in Titan-Inkassatsia LLP was transferred to Kazkommertsbank.

JSC Life Insurance Company Kazkommerts Life is a joint-stock company operating under the laws of the Republic of Kazakhstan. Life insurance is the company's primary business. The company has license No. 2.2.42 for life insurance (reinsurance) services dated February 22, 2016 issued by the NBRK.

JSC Insurance Company Kazkommerts-Policy is a joint-stock company operating under the laws of the Republic of Kazakhstan since 1996. The company's primary business includes insurance of property and cargoes, car insurance, vehicle owners' civil liability insurance, insurance of other civil liabilities and reinsurance. The company has license No. 2.1.13 for insurance and reinsurance services dated December 11, 2015 issued by the NBRK.

2.3. Structure of the Bank in terms of management and authorities



The Board of Directors of the Bank is a supervisory body, which is in charge of strategic planning and control over the financial activity and standing of the Bank as well as the risk management system. The Board of Directors ensures and delivers decisions and policies adopted by the general shareholders' meeting. Subject to the Code there is a differentiation of roles of Chairman of the Board of Directors and Chairman of the Management Board: Chairman of the Board of Directors arranges for a work of the Board of Directors, Chairman of the Management Board ensures day-to-day operation of the Bank. Board of Directors' meetings shall be held when there is a need but not less than once in a month.

3. Major events post reporting period

In January:

- ✓ JSC «KazkommertsSecurities» – an investment and brokerage subsidiary of JSC «Kazkommertsbank» – has been awarded as a best underwriter in Kazakhstan based on results of activity in 2015 by Cbonds agency.
- ✓ JSC «Kazkommertsbank» has refinanced the largest number of applications and continued to lead in terms of disbursed/utilized amounts under the program. Out of 4 452 applications received from borrowers willing to refinance their mortgage indebtedness towards JSC «Kazkommertsbank», JSC «BTA Bank» and «BTA Ipoteka», the Bank approved 3 102 applications and 1 933 mortgage loans amounted to KZT8.6 bln have been refinanced by the Bank.
- ✓ British-Kazakh Chamber of Commerce awarded JSC «Kazkommertsbank» for the "Best M&A deal of 2015 in CIS and successful integration of leading banks» as a result of successfully arranged зintegration process.

In February:

- ✓ On 02 February 2016 JSC «Kazkommertsbank» announced on completion of the sale of 608,374,602,366 common shares representing 99.4187% of JSC «BTA Bank». Such shares have been sold to Mr. Rakishev – 299,211,380,223 shares (or 49.18% of total shares of JSC "BTA Bank" on sale), Mr. Subkhanderdin – 299,211,380,223 shares (or 49.18% of total shares of JSC "BTA Bank" on sale), minority shareholders of JSC "Kazkommertsbank" – 9,951,841,920 shares (or 1.64% of total shares of JSC "BTA Bank" on sale). Upon sale of the mentioned shares of JSC "BTA Bank", the Bank ceased to be a shareholder of JSC "BTA Bank". Shares of JSC "BTA Bank" have been sold subject to the offer made to shareholders of the Bank at a price of KZT0.00001 per common share.
- ✓ JSC «Kazkommertsbank» and Visa arranged for a fist hackathon, devoted to technological projects in banking. More than 50 teams of independent IT-programmers and students of respective universities/colleges participated in the hachathon. The HackTeam that presented the project using iBeacon technologies for car loans and automatic scoring has won. The prize was a trip to USA with visits to Google, Facebook, Twitter, Stanford University and University of California.
- ✓ Visa and JSC «Kazkommertsbank» first in Kazakhstan launched contactless payments via Android-smart phones with chip. The project is based on Host Card Emulation (HCE) technologies that lets with a help of specially designed mobile application to create a digital duplication of payment card (or several cards) and use NFC-aerial of a smartphone to make contactless payments.
- ✓ JSC «KazkommertsSecurities», a subsidiary of JSC «Kazkommertsbank», as a result 17th annual research by Global Finance international magazine has been awarded the «Best investment bank in Kazakhstan 2016»

In March:

- ✓ JSC «Kazkommertsbank» has developed and offered to its clients a multi-currency deposit product which enabled the clients to convert funds between KZT, USD and Euro.

In April:

- ✓ Magzhan Auezov has stepped down as a Chairman and member of the Board of Directors of JSC Kazkommertsbank, as well as a member of the Board of Directors of JSC «KazkommertsPolicy» followed by his nomination/approval to a position of the Chairman of the Association of Financiers of Kazakhstan.
- ✓ Kazkommertsbank concluded a strategic partnership agreement with Kazpost, a national postal and financial service operator. Under this agreement, a project has been launched to integrate service networks and standardize fees for cash withdrawal using banking cards.
- ✓ On 20 April 2016 Mr. Rakishev has entered into agreement with Mr. Nurzhan Subkhanderdin and CAIC to buy common stock back that were held by them. Under the terms of the frame agreement Mr. Rakishev has purchased from CAIC 115,486,789 common shares what resulted into direct shareholding of Mr. Rakishev to grow up from 28.67% to 43.15%. Taking into account indirect holding via JSC «Qazaq Financial Group», total shareholding controlled by Mr. Rakishev amounted to 71.23%.
- ✓ Shareholders of JSC «Kazkommertsbank» on extraordinary general shareholders meeting held in Almaty approved election of new independent non-executive directors to the Board of Directors – Nurlan Abduov and Rashit Makhat.
- ✓ Managerial staff appointments have been made to the Board of directors and Management Board of Kazkommertsbank. Marc Holtzman has been appointed a Chairman of the Management Board, Abay Iskandirov has been appointed as a First Deputy Chairman of the Management Board.

In May:

- ✓ JSC «Kazkommertsbank» has launched the service on money transfer via its ATM network. As a result, all clients can use their card accounts to transfer money to other person and even those who hold no banking card.

- ✓ JSC «Kazkommertsbank» entered into an agreement with subsidiary bank CB «Moskommertsbank» on purchase of additional issue of targeted ordinary shares of MKB in the amount of 1 400 000 units. Price per share is RUB 1,000.
- ✓ JSC «Kazkommertsbank» has launched an automatic SMS notification for holders of the cards left occasionally in ATMs. The left card can be returned without applying or visiting the Bank's outlet.
- ✓ Majority shareholder and Chairman of the Board of Directors of Kazkommertsbank, Kenges Rakishev presented a renewed strategy of the Bank. The main feature of such strategy is large-scale reform of client servicing model largely focused on tailor made client approach in making services simple, friendly

and quick. Such strategy assumes increased return in core business and shift in focus from corporate segment to SME and retails.

In June:

- ✓ JSC «Kazkommertsbank» began issuance of co-branding payment cards Miras Card developed for students of Miras University in Shymkent.
- ✓ KazkommertsNews a corporate magazine of Kazkommertsbank acknowledged the best client magazine in 2016 by IX Central-Asian corporate mass media contest held within XII International PR-forum.
- ✓ JSC «Kazkommertsbank» issued first in Kazakhstan electronic bank guarantee to take part in the process of state attend the tender within the strategy on expanding innovative services for clients. This service is available for clients via outlets and Onlinebank.kz, a distant channel of servicing legal entities.
- ✓ As at 10 June 2016 Mr. Rakishev completed the deal on purchase of common stock announced on 06 May 2016 subject to clause 3 Article 25 of the Law «On Joint Stock Companies». According to submitted applications and processed orders minority shareholders jave sold 648,120 common shares of the Bank at KZT211.4978 per share.

In July:

- ✓ JSC «Kazkommertsbank» intends in cooperation with Aktobe municipality increase business activity of the region within the frame of the joint memorandum signed by Chairman of the Management Board Mr. Marc Holtzman and the Governor of the region Mr. Berdibek Saparbayev.
- ✓ JSC «Kazkommertsbank» together with Diebold first in Kazakhstan launched installment of ATMs with full cycle of acceptance and withdrawal of cash enabling the completely automated turnover of cash in the Bank's ATMs.
- ✓ 27 July 2016 JSC «Kazkommertsbank» repaid subordinated Eurobond issued back in July 2006 with issuance amount of US$200 million.

In August:

- ✓ JSC «Kazkommertsbank» has developed and offered to its corporate clients a service enabling to open a deposit via Onlinebank.kz.

In September:

- ✓ JSC «Kazkommertsbank» and Diners Club have launched a respective franchise in Kazakhstan. JSC Kazkommertsbank became an exclusive acquirer of Diners Club cards in Kazakhstan, as well as all cards issued by global network Discover Global Network including cards Discover Network, Diners Club and PULSE. The Bank became an exclusive issuer of Diners Club in Kazakhstan.

In October:

- ✓ Standard&Poor's upgraded long-term credit rating of JSC Kazkommertsbank to «B–» from «CCC+» as a result of assumption of business perspectives. National scale rating was up to «kzB+» from «kzB-». Short-term rating has been affirmed at «C». Rating upgrade was driven by improved capitalization arising out of the net profit the Bank reported in the first six months of 2016.
- ✓ JSC Kazkommertsbank at its 25 anniversary presented a renewed retail brand QAZKOM. All prevuiously used names: in Kazakh language – Қазком, in Russian - Казком, in English– Kazkom – are changed by one using Latin and Kazakh alphabet to QAZKOM. The new format of banking outlet supposed to be the standard of quality and simplicity under the new brand has been presented to clients and stakeholders.

In November:

- ✓ 22 November 2016.International Business edition BNE IntelliNews named JSC «Kazkommertsbank» «the most profitable bank in Kazakhstan» based on results of first six months of 2016.
- ✓ 29 November 2016 the Bank advises on repayment of senior unsecured Eurobonds issued in November 2006 with initial issuance amount of US$500 million.

In December:

- ✓ QAZKOM maintains a status of major bank issuer of banking cards and intends to dominate on issuances of every new third card with credit limit. As at the end of 3rd quarter of 2016 out of 47.7 thousand credit cards issued by Kazakh banks the share of QAZKOM exceeded 17 thousand or stood at 36% vs 15% at the beginning of the year.
- ✓ JSC «Kazkommertsbank» announced on preferred shares dividends in the amount of KZT1,675,585,066.55 being paid to shareholders.

MAJOR EVENTS POST REPORTING DATE

In January:

- ✓ 05 January 2017 – QAZKOM extended KZT32 mln as a one-off material aid to families suffered from residential building collapse took place in Shakhan village of Karaganda region.
- ✓ 11 January 2017 – preceding the World University Winter Games in Kazakhstan JSC «Kazkommertsbank» and largest issue and acquirer of Japanese payment cards –JCB Co., Ltd. – initiated issuance of JCB cards in Kazakhstan.
- ✓ 16 January 2017 – JSC Kazkommerts Securities an investment and brokerage house of Kazkommertsbank was awarded the best underwriter in Kazakhstan in 2016 by «Cbonds» financial information agency.
- ✓ 20 January 2017 - JSC «Kazkommertsbank» and Mr. Rakishev announce on launch of preliminary negotiations with JSC «Halyk Bank of Kazakhstan » with regard to potential sale of shares of Kazkommertsbank.
- ✓ 25 January 2017 – JSC Kazkommertsbank within the concept «QAZKOM – open bank» opens further opportunities and access to banking products in regions and announces on joint project with JSC «KazPost». Currently within partnership with JSC «KazPost» QAZKOM clients can open deposits «Svobods», «Luchshiy», «Pension», and place funds to current, card and deposit accounts in 2688 regional outlets of JSC «Kazpost».
- ✓ 31 January 2017 – QAZKOM won in the special nomination «Breakthough of the Year » – within the contest «Success guaranteed», held by DAMU fund among participants of programs on guaranteeing.

In February:

- ✓ 01 February 2017 – QAZKOM as a major operator of five new special programs of «DAMU» Entrepreneurship Development Fund started lending to small and medium businesses in Almaty and Astana.
- ✓ 13 February 2017 - the Bank repaid Eurobonds issued in February 2007 for EUR 750 mln our of own funds.

In March:

- ✓ 02 March 2017 - the Bank entered into non-binding Memorandum of Understanding on potential purchase by JSC «Halyk Bank Kazakhstan» of controlling stake in the Bank. Parties to the Memorandum are the Government of the Republic of Kazakhstan, the National Bank of Kazakhstan, JSC «Kazkommertsbank», JSC «Halyk Bank Kazakhstan », JSC «BTA Bank» and Mr. Kenges Rakishev.

In April:

- ✓ On 05 Aprila 2017 – JSC «Kazkommerts Securities» a brokerage subsidiary of Kazkommertsbank announced on 03 April 2017 on initial offering and placement on KASE of 11th issue of coupon notes of JSC «Kazakh Mortgage company» for the total amount of KZT5.8 bln. Yield to maturity which is 3 years to go is 10.75% pa.
- ✓ According to the international survey «*Global Banking & Finance Review Awards» – 2016 JSC Kazkommertsbank* is awarded a winner in two nominations: «Best corporate Bank in Kazakhstan – 2016» and «Best internet bank in Kazakhstan – 2016» by «*Global Banking and Finance Review».*

In May:

✓ «Assist» group of companies successfully completed technical integration with JSC «Kazkommertsbank». From now on, the companies willing to accept on-line payments in Kazakhstan are offered the whole line of services and payment solutions of «Assist», offered to enterprises of e-commerce.

4. Operational business

4.1. Analysis of major markets where the Bank operates

World economic environment and volatility in 2016 continued to be reflected in the major development in Kazakh economy. Commodity prices continued to fluctuate throughout the year and despite the fact that at the end of December 2016 vs December 2015 Brent oil price was up by 55%, copper price increased by 17%, steel was up by 38%, aluminum by 14%, grain prices being down by 13%[1] the implication to Kazakh economy was moderate.

2016 GDP increased in real terms by 1% compared to 1.2% in 2015 having reached KZT 45.7 trln. in current prices. Construction (growth 7.9%), agriculture (5,5%), processing industry (0,7%), transport (3.7%) were the major contributors to GDP dynamic.

From January to December 2016 CPI was 8.5% driven by predominantly food prices being up by 9.7%. In December 2015 inflation on annual terms accelerated to 13.6% vs 7.4% in December 2014, monthly increase was 1.2%.

Throughout 2016 fluctuation in commodity prices influenced the situation in currency market as well as dynamic of national currencies of main trading partners of Kazakhstan. Exchange rate in 2016 fluctuated within the range of KZT327.66-383.91 per US Dollar. The highest volatility was at the beginning of the year driven by oil price having a down trend.[2].

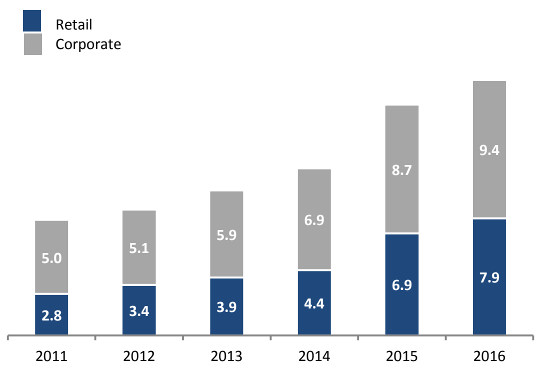
Average world Brent oil price for 2016 was US $44 per barrel (in 2015 – average US $52.4 per barrel), while January minimum was US$ 27.8 per barrel, and for the end of the year it was US$56.8 per barrel.

For 2016 state budget deficit contracted compared to 2015 by 19.4% and stood at 1.6% to GDP. According to results of 2016 total foreign debt of the government amounted to US$13.9 bln, having reduced by 9% vs 2015.

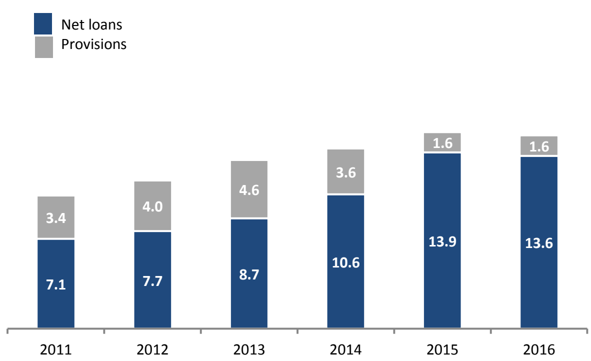
As at 01 January 2017 in Kazakhstan there were 33 banks and 8 institutions providing selective banking services including 3 mortgage companies.

During the course of 2016 banking sector assets were up by KZT1.8 trln or by 7.5% and amounted to KZT25.6 trln. According to results of 2016 the loan portfolio of the banking sector amounted to KZT15.5 trln having contracted since the beginning of the year by 0.3%. Customer accounts have grown by 10.7% up to KZT17.3 trln.

Customer Accounts dynamic, KZT trln



Loans to customers dynamic, KZT trln



In 2016 the National Bank of Kazakhstan continued the transition to Basel 3 with regard to capital adequacy and liquidity. Since 2017 capital adequacy ratio was set at 8%. Subject to Basel recommendations, National Bank introduced new ratios on liquidity coverage and net stable funding.

Since 01 January 2016 as one of the measures to dollarize the economy the Regulator adopted certain measures to demotivate issuance of FX loans for more than 12 months to corporate and retail clients having no FX

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[1] Bloomberg data.
[2] 2016 Annual report of the National Bank of Kazakhstan www.nationalbank.kz

proceeds and whose FX risks are not hedged. Such regulation is applicable to FX mortgage loans to individuals having non-FX proceeds within 6 months preceding the application date.

4.2. Market share, marketing and sales

As at the end of 2016, the Bank is one of the leaders of the banking sector of Kazakhstan with market share of 19 in total assets, 23.9% in loan portfolio, 16.6% in deposits. The closest competitors as at the end of the year are Halyk Bank, Tsesna Bank, Sberbank Kazakhstan and Bank CenterCredit.

4.3. Products and services rendered by the Bank

RETAIL BUSINESS

Subject to the revised of long-term development strategy, the Bank pays attention to increased profitability and expansion of retail businessa: multichannel servicing model considered as up-to-date and promising. Wide range of banking services to individuals are being provided through all the available channels. The Bank strives to become a financial advisor and trusted assistant expanding the line of banking products and developing electronic channels and advanced payment technologies.

Below are the major banking products and services offered to individual clients:

	Products/Services
1.	Operations with bank accounts (opening/maintenance/closing) of individual clients including savings accounts
2.	Currency conversion (purchase/sale of non-cash currency)
3.	Transfers: • Transfers from current account of individual clients • Express money transfer with no account opened
4.	Safe depository
5.	Acceptance of payments in favor of providers (legal entities) of services
6.	Currency exchange operations
7.	Operations with banking cards (issuance/re-issuance/termination)
8.	Loans to individuals

Loans to individual clients

Type of Loan	Purpose
Express loans	Collateral free loan for various consumer purposes
Mortgage loan refinancing	Refinancing loans previously extended by KKB and BTA against collateral under the govern mental mortgage refinancing program
Loan against depositor rights (deposit)	Various consumer purposes against collateral in form of deposit
Consumer loans	Consumer loans for various purposes excluding entrepreneurial activity

SME BUSINESS

As of today the Bank services about 180 000 SME clients offering loans, acquiring, cash collection, banking cards, current accounts and etc. JSC Kazkommertsbank is the largest bank-participant to governmental programs aiming to support SME and cooperates in this area with Entrepreneur Development Fund “Damu”, Development Bank of Kazakhstan and Asian Development Bank. Development of banking services and products for SME clients is reflected in various available programs: state support via program «Business Roadmap– 2020», funds provided from pension assets, program on support of industrial and innovative development of Kazakhstan and etc.

The Bank offers the following major products and services for SME clients:

	Product/Services
1	Opening/maintenance/closing bank accounts for SME clients including saving accounts

2	Currency conversion
3	Remote clients' services
4	Funds Transfer
5	Safe depository
6	Cash Collection
7	Documentary operations (letters of credit, documentary collection, guarantees)
8	Operations with governmental securities
9	Issue/re-issue/cancellation of banking cards
10	Custody services
11	Operations with bills of exchange
12	Consulting (subject to agreement)
13	Precious metals
14	Acquiring
15	Deposits
16	Loans to SMEs

Lending to SME

Type of lending	Description/Purpose of loan
Current account overdraft	Working capital facilities
Working capital for business, business investments	Loans for purchasing, repair, construction of fixed assets; working capital facilities; refinancing of previously extended working capital loans/loans for repair, construction fixed assets
Leasing of commercial real estate	One of the instruments to purchase commercial real estate
Leasing of cars produced by MAN	Financial lease of cars
Express loan	Working capital facilities; purchase, repair, construction of fixed assets; refinancing debt in other banks; documentary operations within the set limits except for Quality guarantees
Short-term loan	Lending for up to 30 days
Purchase from the Bank's balance sheet	Loans for purchase of commercial and residential real estate, land plots assumed to Bank's/subsidiaries balance sheet
Bid bonds	Loans for tender participation for further sale of products/rendering services
Business Solution	Loans for purchase, repair and construction of fixed assets; working capital facility; refinancing loans previously extended for purchase, repair, construction of fixed assets and working capital facilities; documentary operations within the set limits except for quality guarantee
Financing against clients' contracts	Financing provided against the contract subject to the purpose of the contract
«Roadmap of Business– 2020»	Loans aimed to reduce a debt burden from borrowers via subsidy or guarantees of JSC BDF «Damu».
Program of «DAMU» Funds (5, 6, 7 tranches)	Working capital facilities, loans to purchase, modernization of fixed assets, refinancing of previously issued loans to borrowers for the above-mentioned purposes
Program of financing industrial and innovative development via financing provided by JSC «Development Bank of Kazakhstan» to second-tier banks (DBK program)	Project finance
Program on providing working capital facilities to entrepreneurs (WCF DBK 12.75%)	Working capital facilities to SMEs and corporate clients
Program on SME financing out of USPF (Pension Fund – 1st and 2nd transhes)	Working capital facilities and refinancing of previously extended loans
Program on regional SME financing (20 Loan Agreements)	Working capital facilities, loans to purchase new and modernization of existing fixed assets, re-financing previously issued loans for the above-mentioned purposes

CORPORATE BUSINESS

The Bank is one of the leaders on rendering services to corporate clients because of wide range of products and IT platforms available all over the Bank's branch network in Kazakhstan. The Bank is focusing on further expansion of its client base and attracting new customers.

Below are the banking products and services offered to corporate clients of the Bank:

	Product/Service
1.	Opening/maintenance/closing bank accounts for corporate clients, including savings accounts (deposits, interests on account balances)
2.	Fund/Money Transfer (local and international)
3.	Cash settlement operations
4.	Currency Conversion
5.	Loans/Financing/Overdrafts
6.	Documentary operations (LGs, LCs)
7.	All types of guarantees including Bid Bonds
8.	Safe services
9.	Pay-roll projects
10.	Corporate cards
11.	Cash collection (collection (city or remote settlement), expedition, acceptance and calculation of banknotes and coins)
12.	Change of banknotes against clients' requests (cash collection with change of bannotes)
13.	Operations with bills of exchange
14.	Onlinebank
15.	E-pay
16.	Cash&Pay terminal
17.	Acquiring
18.	Cash-pooling (auto collection of funds from branch network on one master-account of a Client)
19.	Operations with securities – full range of services with securities

Terms and conditions for banking products and services are being set by internal documents and are available on the Bank's web site.

CHANGES TO THE PRODUCT LINE

To support entrepreneurship in regions the Bank entered into loan agreement with JSC EDF «DAMU» to raise funding under the Program of regional financing initiated by the Fund together with local municipalities. The amount of financing raised amounted to KZT 4 bln.

In 2016, the Bank raised for the amount of KZT21 bln from JSC «Development Bank of Kazakhstan» under the Program on working capital financing to large corporate, small and medium enterprises.

Within the frame of the governmental program on business support and development «Business Roadmap 2020», the Bank raised funds from Unified Savings Pension Fund with the amount of KZT 20.9 bln.

JSC Kazkommertsbank has developed and offered to clients services on issuance of tailor-made individual design banking cards. The Bank has also introduced additional cards in form of NFC stickers for contactless payments. In 2016 a joint pilot project with JSC «Zhilstroysberbank» on issuance of Instant cards to employees of JSC «Zhilstroysberbank» has been launched. For convenience of clients when opening a deposit immediately receives a banking card attached to deposit «Welcome to homebank». Cash withdrawals from deposits with no fees became possible subject to direct transfer of deposits to Visa Classic Instant (Welcome to Homebank) with no annual service fee via outlets of the Bank and/or financial portal Homebank.kz. Additionally when opening a deposit at QAZKOM free credit card My!Card is offered. My!Card credit card has been developed for beneficial journeys and gaining bonuses including but not limited to 3% bonus on air flights , 7% when booking via Booking.com, 15% 6in restaurants all over the world and up to 30% in Kazakhstan.

Moreover Qazkom offers credit line to women – Lady' s which is designed and developed for beneficial purchases in stores and boutiques through tailor made bonus offers. Such card also includes 7% bonus on booking via Booking.com, 15% bonus against payments in restaurants all over the world and up to 30% bonus in restaurants in Kazakhstan.

4.4. Business Strategy

A strategy which has been approved by majority shareholders of the Bank in April 2016 due to the sale of shares of Kazkommertsbank is subject to review by new shareholders of the Bank. Such strategy is to be revisited once all the arrangements related to the deal are completed.

5. Financial indicators

5.2 Financial results for 2016

5.2.1 Balance sheet analysis

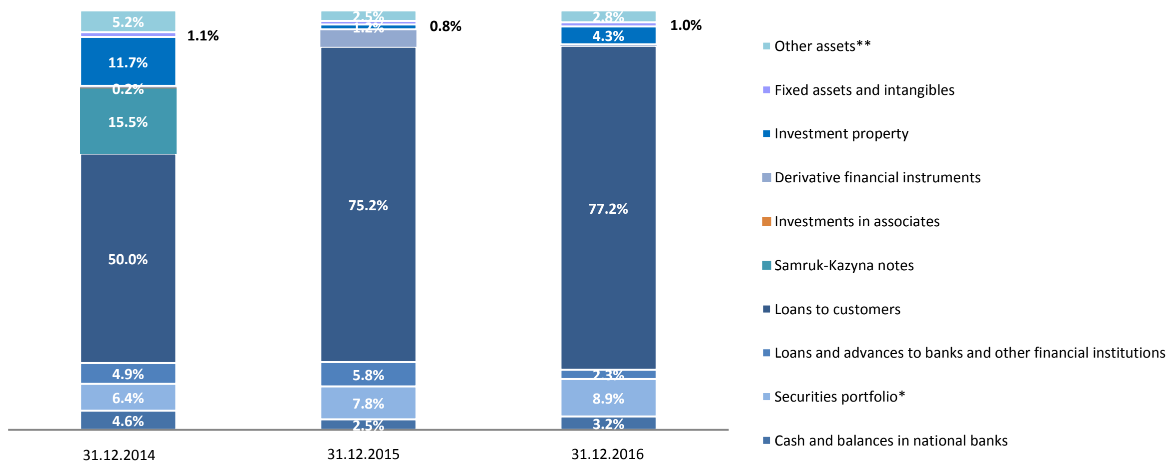
At the end of 2016 Kazkommertsbank was one of the market leaders in terms of assets with market share of 19% as at 31 December 2016 (21.2% in 2015; 15.7% in 2014). The major share in assets was attributable to the loan book. The Bank's market share in loans was 23.9% in 2016 (2015: 25.5%; 2014: 16.1%). Customer deposits have been the major source of funding with the Bank's market share in deposits at 16.6% as at 31 December 2016 (2015: 20.9%; 2014: 15%). The market share in retail deposits was 17.6% (2015: 20.8%; 2014: 15.7%), in corporate deposits – 15.7% (2015: 21%; 2014: 14.5%).

The Bank continued to increase its presence in the financial services market via enlarged and improved product line, improved quality of service.

ASSETS

The Bank's total assets decreased by 4.5% or KZT 229 billion as at 31 December 2016 as compared to the beginning of the year (2016: KZT 4,866 billion, 2015: KZT 5,094 billion, 2014: KZT 4,247 billion) mainly due to decrease in loans and advances to banks and other financial institutions.

Structure of assets as at 31 December 2016, 2015 and 2014



**Securities portfolio include financial assets at fair value through profit or loss, investments available for sale and investments held to maturity.*
***Other assets include deferred tax assets.*

The share of loans to customers in total assets was 77.2% as at 31 December 2016 (2015: 75.2%; 2014: 50.0%), while the share of securities portfolio in amount of KZT 433 billion as at 31 December 2016 was 8.9% (2015: 7.8%; 2014: 6.4%).

Liquid assets of the Bank as at 31 December 2016 decreased by KZT 327 billion compared to the beginning of the year to KZT 226 billion (2015: KZT 553 billion; 2014: KZT 561 billion). Liquid assets include cash and balances with national banks, loans and advances to banks and other financial institutions. The share of liquid assets in total assets as at 31 December 2016 was 4.6% compared to 10.8% in 2015 (2014: 13.2%).

LOANS TO CUSTOMERS

Loan portfolio (net) decreased by 1.9% or KZT 73 billion in 2016 compared to increase by 80.5% or KZT 1,708 billion in 2015 (2016: KZT 3,757 billion; 2015: KZT 3,830 billion; 2014: KZT 2,122 billion).

The Bank continued to participate in various government programs supporting large, small and medium enterprises and refinancing of loans. In 2016 the Bank financed SMEs for KZT 3.5 billion in the framework of regional financing programs of the Damu and raised KZT 21 billion from the Development Bank of Kazakhstan under working capital facility. At the same time the Bank received KZT 20.9 billion from the UPF under government business support program "Road Map 2020".

Contingent liabilities (net) increased by KZT 3 billion to KZT 181 billion as at 31 December 2016 (2015: KZT 178 billion; 2014: KZT 74 billion).

Loan book (net), including loans and contingent liabilities) decreased by KZT 70 billion or 1.8% in 2016 (2016: KZT 3,937 billion; 2015: KZT 4,008 billion; 2014: KZT 2,196 billion).

Provisions on loans to customers amounted to KZT 573 billion in 2016 compared to KZT 314 billion in 2015 (2014: KZT 508 billion). Provisioning rate as at 31 December 2016 was 13.2% (2015: 7.6%; 2014: 19.3%).

Structure of loan book as at 31 December 2016, 2015 and 2014

	31 December 2016		31 December 2015		31 December 2014		Change (2016-2015)		
	KZT mln	USD mln	KZT mln	USD mln	KZT mln	USD mln	KZT mln	USD mln	%
Loans to customers, gross	4,330,152	12,992	4,144,178	12,188	2,630,424	14,425	185,974	804	4.5%
Less: provisions on loans to customers	573,447	1,721	314,442	925	508,276	2,787	259,005	796	82.4%
Loans to customers, net	**3,756,705**	**11,272**	**3,829,736**	**11,264**	**2,122,148**	**11,638**	**-73,031**	**8**	**-1.9%**

Contingent liabilities

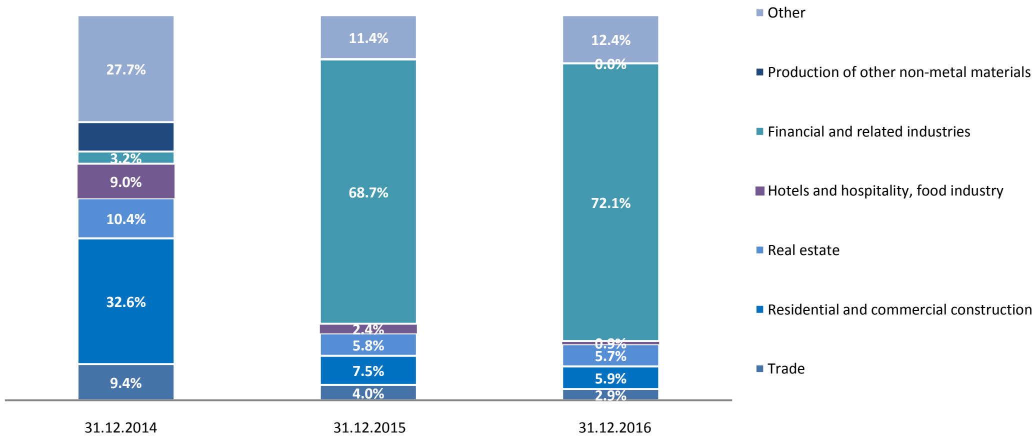
	31 December 2016		31 December 2015		31 December 2014		Change (2016-2015)		
	KZT mln	USD mln	KZT mln	USD mln	KZT mln	USD mln	KZT mln	USD mln	KZT mln
Guarantees	137,628	413	130,047	382	70,029	384	7,581	30	5.8%
Letters of credit	48,084	144	53,815	158	4,250	23	-5,731	-14	-10.6%
Total contingent liabilities, gross	**185,712**	**557**	**183,862**	**541**	**74,279**	**407**	**1,850**	**16**	**1.0%**
Less: provisions on contingent liabilities	5,070	15	5,894	17	686	4	-824	-2	-14.0%
Total contingent liabilities, net	**180,642**	**542**	**177,968**	**523**	**73,593**	**404**	**2,674**	**19**	**1.5%**

Total loan book*

	31 December 2016		31 December 2015		31 December 2014		Change (2016-2015)		
	KZT mln	USD mln	KZT mln	USD mln	KZT mln	USD mln	KZT mln	млн. долл.	%
Total loan book, gross	4,515,864	13,549	4,328,040	12,729	2,704,703	14,832	187,824	820	4.3%
Less: provisions on loans to customers and contingent liabilities	578,517	1,736	320,336	942	508,962	2,791	258,181	794	80.6%
Total loan book, net	**3,937,347**	**11,814**	**4,007,704**	**11,787**	**2,195,741**	**12,041**	**-70,357**	**27**	**-1.8%**

**Total loan book includes loans to customers and off balance sheet contingent liabilities, namely guarantees and letters of credit*

Structure of corporate loan book by sectors as at 31 December 2016, 2015 and 2014



The share of "investment and finance" sector in the loan book was the largest at 72.1% as at 31 December 2016 (2015: 68.7%; 2014: 3.2%) due to opening of credit line to JSC BTA Bank; the share of "residential and commercial construction" was 5.9% (2015: 7.5%; 2014: 32.6%); the share of "real estate" sector was 5.7% (2015: 5.8%; 2014: 10.4%). Consolidated share of these sectors in corporate loan book was 83.8% in 2016 (2015: 82.1%; 2014: 46.2%).

Loans to "investment and finance" sector increased by KZT 102 billion as at 31 December 2016 (2016: KZT 2,491 billion; 2015: KZT 2,389 billion; 2014: KZT 54 billion), while the loans to "residential and commercial construction" sector decreased by KZT 58 billion in 2016 (2016: KZT 204 billion; 2015: KZT 262 billion; 2014: KZT 559 billion). As at 31 December 2016 loans in "real estate" sector decreased by KZT 5 billion (2016: KZT 198 billion; 2015: KZT 203 billion; 2014: KZT 178 billion), while loans in "hospitality and food industry" decreased by KZT 56 billion (2016: KZT 29 billion; 2015: KZT 85 billion; 2014: KZT 154 billion). At the same time loans in "trade" sector decreased by KZT 40 billion (2016: KZT 100 billion; 2015: KZT 140 billion; 2014: KZT 161 billion), and in "production of other non-metal products" decreased by KZT 0.6 billion (2016: KZT 1.4 billion; 2015: KZT 2 billion; 2014: KZT 131 billion), while loans in "other" sectors increased by KZT 35 billion (2016: KZT 430 billion; 2015: KZT 395 billion; 2014: KZT 475 billion).

LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Balance sheet item	31.12.16	31.12.15	31.12.14	Change (2016-2015)	
	KZT mln	KZT mln	KZT mln	KZT mln	%
Loans	4 465	2 849	2 371	1 616	56,7%
Deposits	31 242	228 013	72 942	-196 771	-86,3%
Correspondent accounts in other banks	35 113	65 318	68 731	-30 205	-46,2%
Loans under REPO agreements	44 074	596	64 506	43 478	7295,0%
Loans and advances to banks and other financial institutions, gross	**114 894**	**296 776**	**208 550**	**-181 882**	**-61,3%**
Less: provisions	-5 062	-99	0	-4 963	5013,1%

Loans and advances to banks (net) decreased by 63% or KZT 187 billion in 2016 compared to decrease of KZT 88 billion in 2015 (2016: KZT 110 billion; 2015: KZT 297 billion; 2014: KZT 209 billion). In the structure of loans and advances to banks and other financial institutions, deposits decreased by KZT 197 billion in 2016, while loans under reverse REPO agreements increased by KZT 43 billion to KZT 44 billion as at the end of 2016 (2015: KZT 0,6 billion; 2014: KZT 65 billion). In 2016 loans increased by KZT 1.6 billion (2016: KZT 4 billion; 2015: KZT 3 billion; 2014: KZT 2 billion).

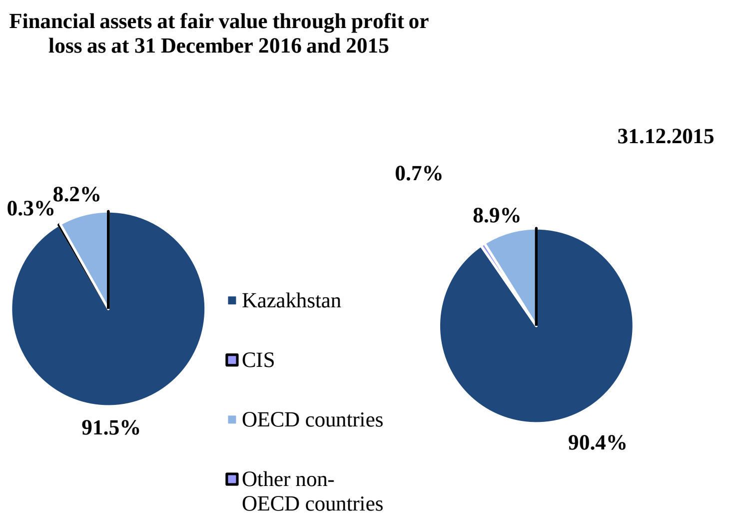
As at 31 December 2016 81.4% (2015: 28.1%; 2014: 70.5%) loans and advances to banks and other financial institutions have been placed for term of up to one month.

SECURITIES PORTFOLIO AND DERIVATIVE FINANCIAL INSTRUMENTS

Securities portfolio includes investments in debt and equity securities at fair value through profit or loss, investments available-for-sale and investments held-to-maturity.

Balance sheet item	31 December 2016		31 December 2015		31 December 2014		Change (2016-2015)	
	KZT mln	% share	KZT mln	% share	KZT mln	% share	KZT mln	%
Financial assets and fair value through profit or loss	210,538	46.5%	365,277	59.9%	175,927	60.9%	-154,739	-42.4%
Debt securities	*160,164*	*35.4%*	*100,866*	*16.5%*	*112,357*	*38.9%*	*59,298*	*58.8%*
Equity securities	*31,099*	*6.9%*	*53,925*	*8.8%*	*45,901*	*15.9%*	*-22,826*	*-42.3%*
Derivative financial instruments	*19,275*	*4.3%*	*210,486*	*34.5%*	*17,669*	*6.1%*	*-191,211*	*-90.8%*
Investments available-for-sale	19,724	4.4%	34,544	5.7%	94,606	32.7%	-14,820	-42.9%
Debt securities	*18,427*	*4,1%*	*33,143*	*5.4%*	*91,569*	*31.7%*	*-14,716*	*-44.4%*
Equity securities	*1,297*	*0.3%*	*1,401*	*0.2%*	*3,037*	*1.1%*	*-104*	*-7.4%*
Investments held-to-maturity	222,434	49.1%	209,936	34.4%	18,440	6.4%	12,498	6.0%
Debt securities	*222,434*	*49.1%*	*209,936*	*34.4%*	*18,440*	*6.4%*	*12,498*	*6.0%*
TOTAL SECURITIES PORTFOLIO	**433,421**	**95.7%**	**399,271**	**65.5%**	**271,304**	**93.9%**	**34,150**	**8.6%**
TOTAL SECURITIES PORTFOLIO AND DERIVATIVE FINANCIAL INSTRUMENTS	**452,696**	**100.0%**	**609,757**	**100.0%**	**288,973**	**100.0%**	**-157,061**	**-25.8%**

Securities portfolio increased by KZT 34 billion in 2016 (2016: KZT 433 billion; 2015: KZT 399 billion, 2014: 271 billion), largely due to purchase of NBK notes. Derivative financial instruments decreased by KZT 191 billion in 2016 (2016: KZT 19 billion; 2015: KZT 210 billion; 2014: KZT 18 billion).



Financial assets at fair value through profit or loss are mainly represented by financial assets of Kazakh issuers with a share of 91.5% as at 31 December 2016 (2015: 90.4%; 2014: 80.0%).

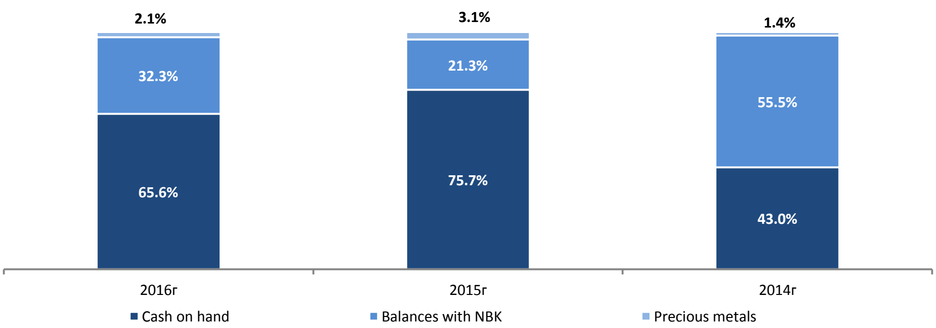
CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS AND PRECIOUS METALS

In 2016 cash and balances with national (central) banks and precious metals represented 3.2% of total assets (2015: 2.5%; 2014: 4.6%).

Cash and balances with national (central) banks (less precious metals) increased by KZT 28 billion to KZT 152 billion as at 31 December 2016 (2015: KZT 124 billion; 2013: KZT 192 billion).

The share of cash on hand decreased to 67% in 2016 compared to 78% in 2015 (2014: 43.7%).

Cash and balances with NBK, precious metals in 2016, 2015 and 2014



FIXED ASSETS AND INTANGIBLES

Fixed assets and intangibles increased by 23% or KZT 9 billion to KZT 48 billion as at 31 December 2016 (2015: KZT 39 billion; 2014: KZT 48 billion).

Book value of "buildings and other real estate" amounted to KZT 34 billion as at 31 December 2016 compared to KZT 27 billion in 2015 and KZT 35 billion in 2014. Buildings and other real estate are revalued on a regular basis based on independent valuation.

Book value of "furniture and equipment" increased by KZT 1 billion or 12.2% to KZT 10 billion (2015: KZT 9 billion; 2014: KZT 8 billion).

Balance sheet item	31 December 2016		31 December 2015		31 December 2014		Change (2016-2015)	
	KZT mln	% share	KZT mln	% share	KZT mln	% share	KZT mln	%
Buildings and other real estate	34,360	71.1%	26,726	68.1%	35,122	72.8%	7,634	28.6%
Furniture and equipment	10,406	21.5%	9,278	23.6%	8,305	17.2%	1,128	12.2%
Intangible assets	3,061	6.3%	2,854	7.3%	3,096	6.4%	207	7.3%
Unfinished construction	90	0.2%	128	0.3%	1,479	3.1%	-38	-29.7%
Other	385	0.8%	272	0.7%	232	0.5%	113	41.5%
Fixed assets and intangibles	**48,302**	**100.0%**	**39,258**	**100.0%**	**48,234**	**100.0%**	**9,044**	**23.0%**

INVESTMENT PROPERTY AND ASSETS HELD FOR SALE

Balance sheet item	KZT mln			Change (2016-2015)	
	31 December 2016	31 December 2015	31 December 2014	KZT mln	%
Investment property	13,134	8,709	60,953	4,425	50.8%
Assets held for sale	194,640	53,065	434,224	141,575	266.8%

Fair value of investment property was KZT 13 billion as at 31 December 2016 compared to KZT 9 billion as at 31 December 2015 and KZT 61 billion as at 31 December 2014.

Assets held for sale amounted to KZT 195 billion as at 31 December 2016 compared to KZT 53 billion as at 31 December 2015 and KZT 434 billion as at 31 December 2014. Increase by KZT 142 billion in 2016 was largely attributable to foreclosure of assets.

LIABILITIES OF THE BANK

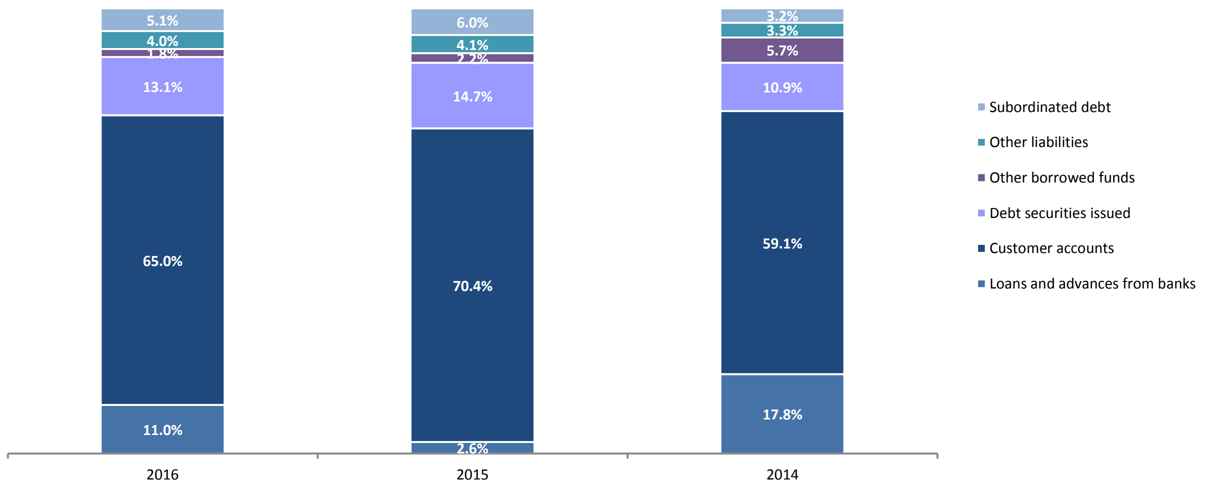
The Bank's liabilities decreased by KZT 237 billion or 5% in 2016 (2016: KZT 4,484 billion; 2015: KZT 4,721 billion; 2014: KZT 3,831 billion).

Customer accounts decreased by KZT 409 billion or 12.3% in 2016 (2016: KZT 2,915 billion; 2015: KZT 3,325 billion; 2014: KZT 2,264 billion).

Loans and advances from banks and other financial institutions amounted to KZT 492 billion as at 31 December 2016 compared to KZT 123 billion as at 31 December 2015.

Debt securities issued decreased by KZT 109 billion in 2016 (2016: KZT 587 billion; 2015: KZT 696 billion; 2014: KZT 417 billion).

Subordinated debt decreased by KZT 51 billion to KZT 230 billion as at 31 December 2016 (2015: KZT 281 billion; 2014: KZT 123 billion).



The share of customer accounts in total liabilities decreased from 70.4% in 2015 to 65% in 2016 (2014: 59.1%), the share of debt securities issued decreased from 14.7% to 13.1% (2014: 10.9%), of subordinated debt from 6.0% to 5.1% (2014: 3.2%), of other borrowed funds from 2.2% to 1.8% (2014: 5.7%). The share of loans and advances from banks and other financial institutions increased from 2.6% in 2015 to 11% in 2016 (2014: 17.8%).

CUSTOMER ACCOUNTS

Customer accounts decreased by 12.3% or KZT 409 billion in 2016 (2016: KZT 2,915 billion; 2015: KZT 3,325 billion; 2014: KZT 2,264 billion).

Structure of customer accounts

	31 December 2016		31 December 2015		31 December 2014		Change (2016-2015)	
	KZT mln	% share	KZT mln	% share	KZT mln	% share	KZT mln	%
Corporate deposits	1,475,357	50.6%	1,854,513	55.8%	1,258,860	56%	-379,156	-20%
Retail deposits	1,440,081	49.4%	1,470,221	44.2%	1,005,280	44%	-30,140	-2%
Total customer accounts	**2,915,438**	**100.0%**	**3,324,734**	**100.0%**	**2,264,140**	**100%**	**-409,296**	**-12%**

The share of corporate deposits in total deposits was 50.6% as at 31 December 2016 (2015: 55.8%; 2014: 55.6%). Corporate deposits decreased by KZT 379 billion and amounted to KZT 1,475 billion as at 31 December 2016 (2015: KZT 1,855 billion; 2014: KZT 1,259 billion).

The share of retail deposits in total deposits was 49.4% as at 31 December 2016 (2015: 44.2%; 2014: 44.4%). Retail deposits amounted to KZT 1,440 billion as at 31 December 2016 (2015: KZT 1,470 billion; 2014: KZT 1,005 billion).

Deposits under the government programmes (from the NWF Samruk-Kazyna, JSC Bayterek National Management Holding, JSC Distressed Loans Fund, JSC UPF) less accrued interest amounted to KZT 405 billion (2015: KZT 406 billion; 2014: KZT 95 billion).

DEBT SECURITIES ISSUED

Debt securities issued decreased by 15.6% to KZT 587 billion as at 31 December 2016 (2015: KZT 695 billion; 2014: KZT 417 billion).

In 2016 the Group had bought back debt securities issued with maturity in 2022 for total amount of KZT 9 billion (2015: KZT 3 billion; 2014: KZT 1 billion). In 2016 the Group had sold debt securities issued maturing in 2022 for total amount of KZT 7 billion (2015: KZT 4 billion; 2014: KZT 0.1 billion).

On April 11, 2016 the Bank repaid notes issued in April 2010 with issue amount of KZT 2 billion from its own funds.

On November 29, 2016 the Bank repaid Eurobonds issued in 2006 with issue amount of US$ 500 million for its own funds.

LOANS AND ADVANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Loans and advances from banks and other financial institutions amounted to KZT 492 billion as at 31 December 2016 compared to KZT 123 billion as at 31 December 2015 (2014: KZT 683 billion).

	31 December 2016		31 December 2015		31 December 2014		Change (2016-2015)	
	KZT mln	% share	KZT mln	% share	KZT mln	% share	KZT mln	% share
Correspondent accounts	20,190	4.1%	20,624	16.8%	6,074	0.9%	-434	-2.1%
Loans and advances from banks and financial institutions	240,685	49.0%	75,759	61.6%	16,985	2.5%	164,926	217.7%
Loans under REPO agreements	230,630	46.9%	26,680	21.7%	659,797	96.6%	203,950	764.4%
Total	**491,505**	**100.0%**	**123,063**	**100.0%**	**682,856**	**100.0%**	**368,442**	**299.4%**

Correspondent accounts of banks decreased by KZT 0.4 billion to KZT 20.2 billion as at 31 December 2016 (2015: KZT 20.6 billion; 2014: KZT 6 billion).

Loans and advances from banks and other financial institutions amounted to KZT 241 billion as at 31 December 2016 compared to KZT 76 billion as at 31 December 2015 (2014: KZT 17 billion).

Loans under REPO agreements with the banks increased by KZT 204 billion to KZT 231 billion as at 31 December 2016 compared to KZT 27 billion as at 31 December 2015 (2014: KZT 660 billion).

OTHER BORROWED FUNDS

Other borrowed funds decreased by KZT 20 billion to KZT 81 billion (2015: KZT 102 billion; 2014: KZT 217 billion) mainly due to decrease in loan from Damu.

	31 December 2016		31 December 2015		31 December 2014		Change (2016-2015)	
	KZT mln	% share	KZT mln	% share	KZT mln	% share	KZT mln	% share

Loans from NWF Samruk-Kazyna	39,271	48.3%	35,881	35.3%	170 523	78,7%	3 390	9,4%
Loans from Damu Entrepreneurship Development Fund	42,037	51.7%	65,714	64.7%	44 125	20,4%	-23 677	-36,0%
Long-term loans from other organizations	0	0.0%	0	0.0%	2 045	0,9%	0	0,0%
Other borrowed funds	**81,308**	**100.0%**	**101,595**	**100.0%**	**216 693**	**100,0%**	**-20 287**	**-20,0%**

Loan from the NWF Samruk-Kazyna amounted to KZT 39 billion as at 31 December 2016 (2015: KZT 36 billion; 2014: KZT 171 billion). Loans from the EDF Damu decreased by KZT 24 billion and amounted to KZT 42 billion as at 31 December 2016 (2015: KZT 66 billion; 2014: KZT 44 billion).

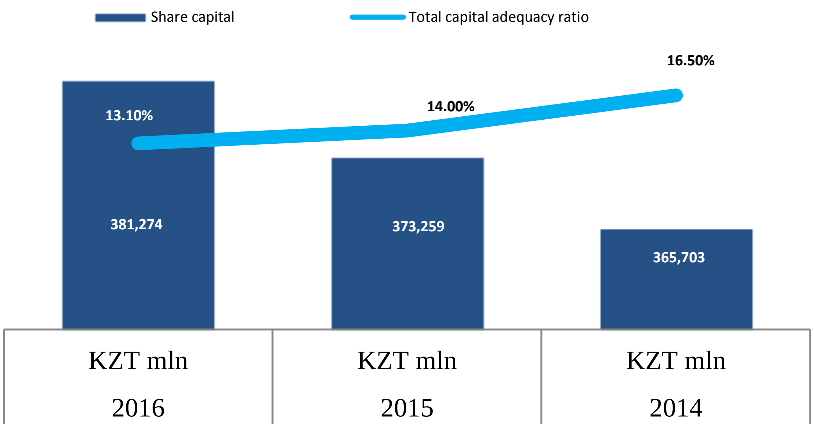
SUBORDINATED DEBT

Subordinated debt of the Bank decreased by KZT 51 billion to KZT 230 billion as at 31 December 2016 (2015: KZT 281 billion; 2014: KZT 123 billion) mainly due to repayment of subordinated debt in amount of USD 149.7 billion.

CAPITALIZATION OF THE BANK

The Bank's equity in accordance with Basel agreement amounted to KZT 621 billion as at 31 December 2016 (including Tier 1 capital in amount of KZT 473 billion) compared to KZT 643 billion (including Tier 1 capital in amount of KZT 463 billion) as at 31 December 2015. The Bank's equity was KZT 466 billion as at 31 December 2014 (including Tier 1 capital of KZT 359 billion).

Tier 1 capital adequacy ratio of the Bank was 10% as at 31 December 2016, while total capital adequacy ratio was 13.1% compared to 10.1% and 14% as at 31 December 2015, and 12.7% and 16.5% as at 31 December 2014, respectively.



FINANCIAL RESULTS FOR 2016

NET INCOME OF THE BANK

	2016	2015	2014	Change (2016-2015)	
	KZT mln	KZT mln	KZT mln	KZT mln	%
Net interest income before provisions	203,373	187,086	154,032	16,287	8.7%
Net non-interest income	-15,345	84,335	13,692	-99,680	-118.2%
Operating income before provisions	**188,028**	**271,421**	**167,724**	**-83,393**	**-30.7%**
Operating expenses	-84,050	-78,546	-64,891	-5,504	7.0%
Provisions on guarantees and other off-balance sheet liabilities	781	-5,141	4,989	5,922	-115.2%
Provisions on other operations	-10,023	-11,785	-3,405	1,762	-15.0%
Share as a result of the activities of associates	0	0	300	0	0%
Net income before provisions on interest-earning assets and taxation	**94,736**	**175,949**	**104,417**	**-81,213**	**-46.2%**
Provisions on interest-earning assets	-68,859	-176,841	-74,039	107,982	-61.1%
Profit/(loss) before income tax	**25,877**	**-892**	**30,678**	**26,769**	**-3001.0%**
Income tax (expense)/gain	-25,369	-17,543	-6,937	-7,826	44.6%
Net profit/(loss)	**508**	**-18,435**	**23,741**	**18,943**	**-102.8%**
Attributable to:					
Ordinary shareholders of the Parent	*439*	*-15,352*	*19,114*	*15,791*	*-102.9%*
Preference shareholders of the Parent	*68*	*0*	*2,291*	*68*	*100.0%*
Non-controlling interest	*1*	*-3,083*	*2,336*	*3,084*	*-100.0%*

Net interest income before provisions on interest-earning assets increased by 8.7% in 2016 (2016: KZT 203 billion; 2015: KZT 187 billion; 2014: KZT 154 billion).

Net income before provisions on interest-earning assets and taxation decreased by 46.2% in 2016 (2016: KZT 95 billion; 2015: KZT 176 billion; 2014: KZT 104 billion). Income tax expense in 2016 amounted to KZT 25 billion compared to KZT 18 billion in 2015 (2014: KZT 7 billion). Allowance for provisions on interest-earning assets decreased by 61.1% to KZT 69 billion in 2016 (2015: KZT 177 billion; 2014: KZT 74 billion).

INTEREST INCOME

	KZT mln			Change (2016-2015)	
	2016	2015	2014	KZT mln	%
Interest on loans to customers	374,130	274,776	281,679	99,354	36.2%
Interest on loans and advances to banks and other financial institutions	17,169	13,414	3,605	3,755	28.0%
Interest on Samruk-Kazyna bonds	0	14,883	19,390	-14,883	-100.0%
Interest on securities portfolio	43,085	16,676	8,905	26,409	158.4%

Discount on customer accounts	0	58,304	0	-58,304	-100.0%
Interest income	**434,384**	**319,749**	**313,579**	**114,635**	**35.9%**

Interest income increased by KZT 115 billion or 35.9% during 12 months of 2016 to KZT 434 billion compared to interest income of KZT 320 billion for the 12 months of 2015 (2014: KZT 314 billion). Interest income on loans to customers increased by 36.2% or KZT 99 billion (2016: KZT 374 billion; 2015: KZT 275 billion; 2014: KZT 282 billion). Interest income on loans and advances to banks and other financial institutions increased by KZT 4 billion to KZT 17 billion for the 12 months of 2016 (2015: KZT 13 billion; 2014: KZT 4 billion). Interest income on securities portfolio increased by KZT 26 billion to KZT 43 billion for the year of 2016 (2015: KZT 17 billion; 2014: KZT 9 billion).

The share of interest income on loans to customers was traditionally the largest and stood at 86.1% in 2016, 85.9% in 2015 and 89.8% in 2014.

INTEREST EXPENSE

	KZT mln			Change	
	2016	2015	2014	KZT mln	%
Interest expense on debt securities issued, subordinated debt and dividends on preferred shares	-83,914	-57,957	-36,304	-25,957	44.8%
Interest expense on loans and advances from banks and REPO	-5,232	-25,316	-22,579	20,084	-79.3%
Interest expense on customer accounts and REPO	-136,000	-100,404	-91,497	-35,596	35.5%
Other interest expense	-5,865	-7,290	-9,167	1,425	-19.5%
Interest expense	**-231,011**	**-190,967**	**-159,547**	**-40,044**	**21.0%**

Interest expense increased by 21% or KZT 40 billion to KZT 231 billion for the year of 2016 (2015: KZT 191 billion; 2014: KZT 160 billion). The share of interest expense on customer accounts increased to 58.9% compared to 52.6% for 2015. Interest expense on customer accounts increased by KZT 36 billion to KZT 136 billion for the year of 2016 (2015: KZT 100 billion; 2014: KZT 91 billion). The share of interest expense on debt securities issued, subordinated debt and dividends on preferred shares increased to 36.3% for the year of 2016 compared to 30.3% for the year of 2015 (2014: 22.8%). Interest expense on debt securities issued increased by KZT 14 billion for the year of 2016 (2016: KZT 61 billion; 2015: KZT 47 billion; 2014: KZT 26 billion), while interest expense on subordinated debt increased by KZT 11 billion (2016: KZT 21 billion; 2015: KZT 9 billion; 2014: KZT 9 billion). The share of interest expense on loans and advances from banks and REPO decreased from 13.3% to 2.3%. Interest expense on loans and advances from banks decreased by KZT 20 billion to KZT 5 billion for the year of 2016 compared to KZT 25 billion for the year of 2015 (2014: KZT 23 billion). The share of other interest expenses decreased to 3% or by KZT 1 billion (2016: KZT 6 billion; 2015: KZT 7 billion; 2014: KZT 9 billion).

NET INTEREST INCOME

	2016	2015	2014	Change (2016-2015)	
	KZT mln	KZT mln	KZT mln	KZT mln	%
Interest income	434,384	319,749	313,579	114,635	35.9%
Interest expense	-231,011	-190,967	-159,547	-40,044	21.0%
Discount on customer accounts	0	58,304	0	-58,304	-100.0%
Net interest income before provisions	203,373	187,086	154,032	16,287	8.7%
Allowances for provisions on interest-bearing assets	-68,859	-176,841	-74,039	107,982	-61.1%
Net interest income/(loss)	**134,514**	**10,245**	**79,993**	**124,269**	**1,213.0%**

Net interest income before provisions on interest-bearing assets increased by KZT 16 billion or 8.7% to KZT 203 billion for the year of 2016 compared to KZT 187 billion for the year of 2015. Net interest income of the Group increased by KZT 124 billion, compared to the beginning of the year 2016 (2016: KZT 135 billion; 2015: KZT 10 billion; 2014: KZT 80 billion).

ALLOWANCES FOR PROVISIONS ON INTEREST-BEARING ASSETS

	2016	2015	2014	Change (2016-2015)	
	KZT mln	KZT mln	KZT mln	KZT mln	%
Allowances for provisions on loans to customers	63,865	176,733	76,283	-112,868	-63.9%
Allowances for provisions on loans to banks	4,979	108	-2,383	4,871	4,510.2%
Allowances for provisions on investments available-for-sale	15	0	139	15	0.0%
Total	**68,859**	**176,841**	**74,039**	**-107,982**	**-61.1%**

Allowances for provisions increased by KZT 108 billion or 61.1% for the year of 2016 (2016: KZT 69 billion; 2015: KZT 177 billion; 2014: KZT 74 billion).

NET NON-INTEREST INCOME

	2016		2015		2014		Change (2016-2015)	
	KZT mln	% share	KZT mln	% share	KZT mln	% share	KZT mln	%
Net gain (loss) on foreign exchange and financial assets and liabilities at fair value through profit or loss	-9,036	58.9	42,845	50.8	-21,412	-156	-51,881	-121.1
Loss on write-off of financial assets and liabilities at fair value through profit or loss	-16,810	109.5	0	0.0	0	0	-16,810	-100.0
Net fee and commission income	28,367	-184.9	28,423	33.7	24,667	180	-56	-0.2
Net gain on investments available-for sale	381	-2.5	104	0.1	1,136	8	277	266.3
Dividends received	869	-5.7	1,297	1.5	1,438	11	-428	-33.0
Other income	36,386	-237.1	17,001	20.2	8,115	59	19,385	114.0
Revaluation of assets classified as held for sale	-55,502	361.7	-5,335	-6.3	-252	-2	-50,167	940.3
Net non-interest income	**-15,345**	**100.0**	**84,335**	**100.0**	**13,692**	**100**	**-99,680**	**-118.2**

Net non-interest income decreased by KZT 100 billion to loss of KZT 15 billion for the year of 2016 (2015: KZT 84 billion; 2014: KZT 14 billion).

Net loss on financial assets and liabilities at fair value through profit or loss and on foreign exchange operations amounted to KZT 9 billion as at 31 December 2016 compared to the gain of KZT 43 billion as at 31 December 2015.

During the 12 months ended 31 December 2016 loss from write-off of financial assets and liabilities at fair value through profit or loss was KZT 16.8 billion as the Group recognized loss from the write-off of 9.43% of Sekerbank shares according to an Istanbul court decision in favor of TurkiyeVakiflarBank.

Net fee and commission income decreased by 0.2% to KZT 28 billion for the year of 2016 (2015: KZT 28 billion; 2014: KZT 25 billion).

Fee and commission income increased by KZT 1.5 billion for the year of 2016. The structure of fee and commission income slightly changed: the share of commissions on plastic cards operations increased from 36.5% to 40.3%, on settlement operations from 20.8% to 25.6%, and on documentary operations from 4.6% to 4.8%. The share of commissions on cash operations decreased from 27.0% to 26.3%, on cash collection operations from 2.1% to 1.7%, on foreign exchange and securities operations from 3.3% to 0.5% and on other operations from 5.6% to 0.8%.

Fee and commission expenses also increased by KZT 1.5 billion. There have been certain changes in the structure fee and commission expenses. Thus, the share of plastic card expenses increased to 39.9% from 30.2%, on correspondent banking services to 3.7% from 2.3%, and on the NBK computation center services to 1.8% from 1.4%. The share of foreign exchange and securities operations decreased to 2.9% from 7.8%, on documentary operations to 1.1% from 3.1%, on insurance activities to 0% from 2.8%, and on other expenses to 3% from 4.7%. The share of expenses on payments to deposits and insurance payment guarantee fund remained unchanged in 2016.

OPERATING EXPENSES

	KZT mln			Change (2016-2015)	% share		
	2016	2015	2014		2016	2015	2014
Total operating expenses	**84,050**	**78,546**	**64,891**	**7.0%**	**100.0%**	**100.0%**	**100.0%**
Staff costs	49,406	33,306	27,445	48%	59%	42%	42%
Property and equipment maintenance	4,303	4,771	3,061	-10%	5%	6%	5%
Taxes, other than income tax	3,649	6,013	4,972	-39%	4%	8%	8%
Depreciation and amortization	3,618	3,829	3,624	-6%	4%	5%	6%
Operating leases	3,559	3,730	3,164	-5%	4%	5%	5%
Legal/consulting services	3,430	10,092	7,571	-66%	4%	13%	12%
Advertising costs and telecommunications	3,225	2,451	2,190	32%	4%	3%	3%
Bank card services	2,200	1,229	1,051	79%	3%	2%	2%
Security	1,703	1,517	1,286	12%	2%	2%	2%
Expenses on repossessed assets	1,059	2,667	3,532	-60%	1%	3%	5%
Business trip expenses	579	564	518	3%	1%	1%	1%
Collection services	534	374	261	43%	1%	0%	0%
Vehicle maintenance	481	395	447	22%	1%	1%	1%
Penalties, fines	85	501	64	-83%	0%	1%	0%
Other expenses	6 219	7 107	5 705	-12%	7%	9%	9%

Operating expenses for the 12 months of 2016 amounted to KZT 84 billion compared to KZT 79 billion for the same period in 2015 (2014: KZT 65 billion) mainly due to increase in staff costs and expenses on repossessed assets. Staff costs increased by 48% compared to 2015 and amounted to KZT 49 billion in 2016 (2015: KZT 33 billion; 2014: KZT 27 billion).

INCOME TAX EXPENSES

Income tax expense for the 12 months of 2016 amounted to KZT 25 billion, KZT 18 billion for 2015 and KZT 7 billion for 2014.

RATIOS

	31.12.2016	31.12.2015	31.12.2014
OE/OI before provisions	44.7%	28.9%	38.7%
OE/OI	70.5%	83.0%	69.3%
ROA	0.0%	-	0.6%
ROE	0.1%	-	5.8%
Deposits/Assets	59.9%	65.3%	53.3%
Net Loans/Assets	77.2%	75.2%	50.0%

Return on assets for the year ended 31 December 2016 was 0.01% compared to negative ratio in 2015 (2014: 0.6%) as a result of net income received for the year 2016.

Return on equity for the year ended 31 December 2016 was 0.1% compared to negative ratio in 2015 (2014: 5.8%), with improvement attributable, among other things, to the net income of the Bank for 2016.

Ratio of operating expenses to operating income decreased from 83% to 70.5% (2014: 69.3%) due to increase in net interest income in 2016. Ratio of operating expenses to operating income before provisions in 2016 was 44.7% (2015: 28.9%; 2014: 38.7%).

Ratio of deposits to assets was 59.9% in 2016, 65.3% in 2015, 53.3% in 2014, and the coverage of deposits by assets decreased by 5% in 2016 compared to 2015.

Ratio of net loans to assets in 2016 was 77.2% compared to 75.2% in 2015 (2014: 50%).

6. Risk management

Management of risks is fundamental to the Bank's business. Risk management functions include:

- Risk identification: the risks which the Group is exposed to in its operations are identified by the risk management system.
- Risk measurement: the Group measures risks using various quantitative and qualitative methodologies, which include risk based profitability analysis, calculation of potential loss amounts, and utilization of specialized models. Measurement models are periodically reviewed to ensure that the tools used by the Group are adequate and appropriate.
- Risk monitoring: the Group's policies and procedures determine the processes for minimizing and preventing risks and establish limits on various types of operations. Such processes and limits are reviewed periodically in accordance with internal documents of the Group.
- Risk reporting: risk reports are prepared for individual lines of business and on a consolidated basis. This information is periodically presented to the Management.

The main risks inherent in the Group's operations are as follows:

- credit risk;
- interest rate risk;
- liquidity risk;
- market risk;
- currency risk;
- operational risk.

Credit risk

The Bank is exposed to credit risk, i.e. the risk that a counterparty to a financial instrument may fail to fulfill its obligation to the Bank. This includes actual payment defaults as well as losses in value of the financial instrument resulting from a decrease in credit quality of the counterparty.

Credit risks in banking are related mainly to financial assets and off-balance sheet liabilities. The Group's credit risk is concentrated mainly in the Republic of Kazakhstan. The risk is monitored on a regular basis to ensure that credit limits are not exceeded and solvency criteria are met; the limits and the criteria are established by the Group's risk management policies.

Risks are managed and monitored in accordance with procedures and limits set by the Credit Committees and the Management Board of the Bank. Risk management is coordinated by a risk management specialist or Risk Management Departments. Daily risk management is performed by Heads of Credit Departments or Credit Divisions of branches.

To measure credit risk, the Bank employs various methodologies for estimating the likelihood of borrower or counterparty default. Methodologies differ depending on types of assets (e.g. consumer loans versus corporate loans), risk measurement parameters (e.g. delinquent payments and credit bureau reports versus corporate risk rating), and risk management and collection procedures (e.g. consumer lending collection versus collection and restructuring in relation to corporate loans).

The Bank determines the level of credit risk by determining the maximum amount of risk accepted in relation to one borrower or a group of borrowers, and to industry and geographical segments. The exposure to any individual borrower is further restricted by sub-limits covering on- and off-balance sheet exposures which are set by the Credit Committees.

Off-balance sheet credit commitments represent unused credit lines in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as the probability of losses due to the borrower's inability to comply with the contractual terms and conditions within the specified time frame. With respect to credit risk on off-balance sheet instruments, the maximum loss which the Bank can incur is equal to the total amount of unused credit lines, guarantees and letters of credit. The actual amount of this loss is likely to be considerably less than the total unused commitments given the Bank's requirements for the creditworthiness of potential borrowers. The Bank follows the same credit policy in respect of contingent liabilities as it does with regard to on-balance sheet financial instruments.

Provisions for credit losses

The Bank makes provisions for impairment losses on loans and off-balance sheet liabilities where there is objective evidence that a financial asset is impaired. In order to assess the quality of an asset and to classify it for provisioning purposes, the Bank takes into account a number of factors, including the borrower's financial position, terms of the loan, collateral value and the quality of debt service of the borrower. In relation to loans classified in a homogeneous portfolio, a portfolio-based approach is used and the quality of debt service is considered.

Asset and liability management risks

Effective asset and liability management is fundamental to the Bank, as it allows the Bank to offer competitive products in the market while maintaining the risk and profitability balance at the level creating additional shareholder value.

The following areas are defined by the Bank in the process of asset and liability management:

- structural risk management: structural interest rate and currency risks;
- liquidity risk management;
- market risk management in the trading portfolio;
- capital management.

The Assets and Liabilities Management Committee ("the ALMC") is responsible for managing risks the Bank is exposed to while managing assets and liabilities.

The duties of the ALMC include making decisions regarding the management of assets and liabilities with the purpose of:

- maintaining and increasing net income while keeping risk exposure at an acceptable level;
- ensuring continuity of the Bank's operations.

In order to achieve these objectives, the ALMC holds meetings on a weekly basis and monthly extended meetings. Weekly meetings focus on operational asset and liability management issues, including trading portfolio and liquidity management. At the monthly meetings, the ALMC considers issues related primarily to strategy, including balance sheet structure management. Information considered by the ALMC includes, but is not limited to, information on the securities portfolio, currency positions, liquidity gaps, cash flows, stress tests, etc.

Structural interest rate risk

To define and manage the interest rate risk, the Bank uses an approach which involves distinguishing the interest rate risk in the trading portfolio from the structural interest rate risk since they impact the Bank's equity and profit or loss differently. These types of risk are measured and managed separately. This section contains information on the structural interest rate risk. The Bank considers the interest rate risk in the trading portfolio to be a type of market risk.

The structural interest rate risk is a risk of possible decline in interest income from on-balance sheet and off-balance sheet positions accounted at amortized cost as a result of changes in market interest rates. Thus, management of the interest rate risk involves management of exposure of the Bank's interest income and, therefore, its capital to market interest rate changes in order to limit a possible reduction in income or losses and ensure optimal and stable interest income flow.

To manage the structural interest rate risk, the ALMC monitors and analyzes the interest rate gap and reports on earnings at risk and interest margins. This helps the Bank to reduce exposure to the structural interest rate risk and maintain a positive interest margin. The Risk Management Department monitors financial operations and regularly assesses the Bank's exposure to changes in interest rates and their impact on profitability.

Interest rate risk sensitivity

The Risk Management Department periodically estimates the Bank’s sensitivity to changes in market interest rates and their influence on the Bank’s profitability. If necessary, the Risk Management Department submits risk mitigation proposals to the ALMC.

To calculate and analyze sensitivity of the Bank's net profit to the structural interest rate risk, the Bank uses the earnings at risk (EaR) indicator. EaR is based on the interest rate gap and measures potential fluctuations in earnings over a given period under the existing market conditions; it is based on the following assumptions:

- the period when potential losses may be incurred is one year. One year is viewed as a period within which the Bank may attract new funding or restructure its assets and liabilities in order to manage and keep its risks within the limits of its risk appetite;
- EaR is calculated based on the assumption that each interest rate gap will be reassessed at a new interest rate.

Liquidity risk

Liquidity risk is the risk that the Bank will not have enough funding at a reasonable price to meet all demands (on- and off-balance sheet).

The ALMC controls this type of risk by means of weekly liquidity gap analysis and making decisions on reducing the liquidity risk. Current liquidity is managed by the Treasury Department by means of transactions on money markets and placement of available funds in marketable securities within the limits set by the ALMC.

The Bank also ensures that regulatory requirements are met, including term liquidity and foreign currency liquidity ratios. The Bank considers these requirements to be strong measures ensuring an adequate liquidity level.

Market risk

The Bank includes currency, equity, commodity and interest rate risks related to its trading and available-for-sale portfolios, as well as currency positions, in the definition of the market risk.

The Risk Management Department measures exposure to market risks and submits the results to the ALMC. The Risk Management Department calculates VaR to measure the market risk with regard to equity and debt instruments and currency positions and breaks them down by individual risk factors (currency risk, price and interest rate risk, etc.). This allows the Bank to analyze exposure to each risk factor and make further decisions on reducing a particular risk. For internal reporting purposes, in addition to the above-mentioned VaR analysis, the Bank also performs sensitivity analysis regarding its currency and interest rate risks. This sensitivity analysis is presented in these financial statements.

Currency risk

Currency risk is the risk of losses on open currency positions and financial instruments in foreign currencies as a result of changes in foreign exchange rates. The Bank is exposed to the impact of fluctuations in foreign currency exchange rates on its open currency positions and trading portfolio.

The ALMC controls currency risk by managing open currency positions taking into account macroeconomic analysis and exchange rate forecasts, which gives the Bank an opportunity to minimize losses on significant currency fluctuations. Like in the case of liquidity risk management, the Treasury Department manages open currency positions of the Bank using data generated by the Prudential Monitoring and Credit Reporting Division on a daily basis.

The National Bank sets strict limits on open currency positions. This measure also limits the currency risk. In addition, the Treasury Department uses various hedging strategies including cross currency swaps in order to mitigate the impact of the currency risk.

Currency risk sensitivity

The Bank carries out currency risk sensitivity analysis based on the internally prepared open currency position report, including derivative financial instruments, in accordance with assumed changes in foreign currency rates, to assess possible changes in profit and the cost of capital.

Operational risk

The Group is exposed to operational risk, i.e. the risk of incurring losses resulting from deficiencies or mistakes made by employees in the course of execution of internal processes or related to functioning of information systems and technologies, and also as a result of external events. Nowadays, to ensure effective work, the Group uses the following tools for identifying and measuring operational risks that are consistent with the world's best practices:

- Corporate Loss Database on operational risk (CLD);
- Risk Self-Assessment (RSA);
- Operational Risk Assessment Process (ORAP);
- Risk Map;
- Key Risk Indicators (KRI).

Operational risk management tools enable the Group to identify types of operations which are most exposed to operational risk, to assess and monitor the Group's losses caused by operational risks, as well as to introduce relevant controls and to develop preventative measures for minimizing such risks.

7. Social responsibility and environmental protection

7.1. Workforce management system, staff training and corporate culture of the Bank

Composition of the Bank's staff

Respecting and supporting gender equality, the Bank provides men and women with equal opportunities in terms of career and salary. 39% of employees worked in the Bank for more than 3 years.

The share of women in the total number of the Bank's employees (9,483) exceeded 70%. They hold positions at all levels, including the Management Board. The Bank has no internal regulations or practices leading to discrimination on the grounds of race, nationality, gender, social background, religion, language or on any other grounds.

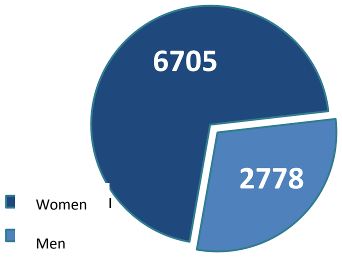
People of 36 nationalities belonging to various religions work in the Bank. The Bank's workforce comprises mainly Kazakhs (79.5%) and Russians (12.6%). The Bank's employees also include Uyghurs, Tatars, Koreans, Ukrainians, Germans, Belarusians, Azerbaijanis, Bashkirs, the Ingush, the Kyrgyz people and people of other nationalities.

Staff training

The Bank attaches great importance to employee training and organizes specialized training courses, workshops and other training activities to facilitate professional development of employees, broaden their professional knowledge and skills, foster the team spirit and develop corporate culture in the Bank.

In 2016 1,819 employees from 48 structural divisions of the Bank have been trained by external and internal trainers of the Bank.

Gender composition of the staff



Division	Training	Number of employees	Place
Management Board administration	Advance training for chief accountant	2	Almaty
	"Be an agent for changes"	2	Almaty
	"Anti-fraud in the Bank"	2	Moscow
	"How to introduce effective changes in the company"	3	Almaty
Department of Homebank	"Development of web-applications for WEB 2.0"	1	Almaty
Administrative Department	Advanced training	1	Almaty
Banking cards department	Advanced training on Oracle	4	Moscow
Accounting department	"Standard Business Services"	2	Almaty
	"Accounting of financial instruments (IFRS/US GAAP)"	4	Almaty
	ACCA training	4	Almaty
Operations department	"State procurement in 2016"	1	Астана
	"AML Compliance Best Practices"	1	London
Innovative technologies department	"Speaker's instruments"	1	Almaty
	"Development of web-applications for WEB 2.0"	2	Almaty
	"Project management in flexible technologies AGILE"	8	Almaty
	"Java SE programming language"	3	Almaty
Treasury department	"Speaker's instruments"	1	Almaty
Compensation and benefits department	"Be an agent for changes"	4	Almaty
Corporate loans department #2	"Financial analysis for the banks"	7	Almaty
Methodology and analysis department	"Financial analysis for the banks"	1	Almaty
Organizational development department	"Be an agent for changes"	4	Almaty

Staff selection and evaluation department	“Be an agent for changes”	5	Almaty
Corporate client support department	“Project management in flexible technologies AGILE”	1	Almaty
	“EXCEL Advanced”	4	Almaty
Problem loans department	“Management of banking loans”	1	Moscow
	“Conviction and influence skills” for early workouts	26	Almaty
Retail products development department	“Project management in flexible technologies AGILE”	2	Almaty
SME development department	“Caucasus SME Banking Conference”	1	Tbilisi
Onlinebank department	“Information security risk management: methodology and practical aspects”	1	Almaty
Operations development department	“Customer centric transformation”	3	Алматы/Актобе
	“Project management in flexible technologies AGILE”	1	Almaty
Risk Management Department #1	“Financial analysis for the banks”	3	Almaty
Risk Management Department #2	“Caucasus SME Banking Conference”	1	Tbilisi
Risk Management Department #2	Experian CIS Limited Conference	2	Budva
Risk Management Department #2	“SAS Enterprise Guide”	3	Moscow
Administrative and business operations, and taxes Department	Advance training for chief accountant	1	Almaty
	“Introduction to electronic invoices”	2	Almaty
AML division	“ACAMS”	10	Almaty
	“AML Compliance Best Practices”	1	London
	ACAMS certifications	9	Almaty
	COMPLIANCE CASE FORUM 2016	2	Moscow
Call center	Development of web-applications for WEB 2.0	1	Almaty
Aktau branch	“Customer centric transformation”	12	Astana/Aktobe
Aktobe branch	“Customer centric transformation”	267	Astana/Aktobe/Almaty
Almaty branch	“Customer centric transformation”	127	Almaty/Shymkent
Atyrau branch	“Customer centric transformation”	124	Astana/Almaty/Atyrau/UstKamenogorsk
	“Kaznefteservice 2016. New horizons: oil construction and engineering”	1	Atyrau
	"English Language"	2	Atyrau
	"Safety and security at work"	1	Atyrau
Balkhash branch	“Customer centric transformation”	35	Astana/Almaty/Zhezkazgan
Zhambyl branch	“Customer centric transformation”	38	Astana/Almaty/Shymkent
Zhezkazgan branch	“Customer centric transformation”	54	Astana/Almaty/Zhezkazgan
Karaganda branch	“Customer centric transformation”	1	Almaty
Kokshetau branch	“Customer centric transformation”	6	Astana/Almaty
	SME Banking Conference 2016	1	Kyiv
Kostanay branch	“Customer centric transformation”	6	Astana/Almaty/Kostanay
Kyzylorda branch	“Customer centric transformation”	66	Astana/Almaty/Shymkent/Kyzylorda
Pavlodar branch	“Customer centric transformation”	48	Astana/Almaty/Semey/Uralsk/Pavlodar
Petropavl branch	“Customer centric transformation”	5	Astana/Almaty/Petropavl
Taldykorgan branch	“Customer centric transformation”	28	Astana/Almaty/Shymkent

Temirtau branch	“Customer centric transformation”	53	Astana/Almaty
Uralsk branch	“Customer centric transformation”	107	Astana/Aktobe/Almaty/Aktau/Uralsk
	SME Banking Conference 2016	1	Kyiv
Usk Kamenogorsk branch	“Customer centric transformation	118	Astana/Almaty/Semey/Ust Kamenogorsk
Astana branch	“Customer centric transformation”	233	Astana/Almaty/Semey/Aktobe
Semey branch	“Customer centric transformation”	92	Astana/Almaty/Semey
Shelek branch	“Customer centric transformation”	9	Almaty
Shymkent branch	“Customer centric transformation”	137	Astana/Almaty/Shymkent
Ekibastuz branch	“Customer centric transformation”	39	Astana/Almaty/Semey/Pavlodar
Internal meetings of branches	“Training for division heads and workout divisions”	37	Almaty
	“Workout of problem retail and SME loans”	33	Almaty

New staff motivation instruments

The Bank puts special focus on development of corporate values of the Bank in staff unification and corporate spirit. In 2016 new mission and values of QAZKOM have been chosen via general staff voting. Based on the voting, Marketing Department developed info graphics for the mission and values of the Bank, and placed them at the internal digital resources of the Bank.

Corporate flash mob

The Bank launched corporate flash mob to celebrate 25 years anniversary of the Bank. Employees of the Bank have prepared photo and video congratulations using corporate colours of the Bank, and presented more than 40 projects with active involvement of branch offices. Certain original congratulations have been awarded incentive gifts for total of 250,000 GO!Bonuses.

QStar recognition award

The Bank launched QStar recognition award as an additional motivation to retain employees and introduce corporate values as well as to stimulate employees to show corporate values. Introduction of QStar award allowed to encapsulate and confirm corporate values.

Corporate team successes

In 2016 the corporate team of Kazkommertsbank have won the 1st place in karaoke and the 3rd place in bowling at the interbank tournament called “Clash of Titans”. Ten banks from Almaty participated in the tournament in karaoke, carting, billiards and bowling.

In addition the Bank regularly conducts sports tournaments to support corporate culture and increase employee participation.

Thus, 20 teams have participated in the annual football tournament in 2016, each team consisting of 10-12 players. Employees of the Bank and family members have actively supported the teams.

The Bank organized corporate bowling tournament to celebrate the Day of the national currency with participation of 53 teams of 4 people in each. Based on the results of the tournament, the best player have been identified among men and women. The winners received gifts and prizes.

New approaches: healthcare on-the-job

Care about employees is one of the priorities for Kazkommertsbank. In 2016 within the framework of International day for diabetes control, the Bank held a free screening on measuring blood sugar level among the employees of Almaty and Astana. Licensed volunteers have checked glucose level of the employees and have provided information on diabetes symptoms and precautions. This arrangement is indeed socially important because diabetes can inflict large harm and cause developments of different complications without diagnosis of sugar blood level at early stage.

Employees – volunteers and blood-donors

In December 2016 for the first time the Bank acted as a partner in New Year charitable initiative organized by JSC Kazpost. Dreams of 170 children across the country who wrote a letter to the Father Frost came true thanks to the sincere help and support of the Qazkom's volunteer-employees. Gifts to all children in all regions of Kazakhstan were given by employees of the Bank dressed in costumes of Santa Claus and Snow Maiden. Wishes from children of Socially Vulnerable Groups, orphans and low-income families were undoubtedly prioritized.

Blood-donor Day

Also in 2016 Qazkom organized Blood-donor Day in the Head Office of the Bank. Mobile laboratory for voluntary blood donation was equipped during the whole day for the convenience of the employees. This arrangement was well met among employees.

Corporate social responsibility of the Bank

Top-management of Kazkommertsbank thinks that business should create value not only for shareholders but also for the society as a whole. That is why the Bank endeavors to combine growth and implementation of innovative technologies together with support of cultural and social initiatives, solicitous attitude towards children's health, elder generation and environment.

This approach was founded many years ago by top-management of the bank by establishment of the Kus Zholy charity foundation. Activity of this fund reflects socially-oriented approach as an integral part of the business and corporate governance of Kazkommertsbank.

Currently Kus Zholy is concentrated on the three main directions: assurance of the healthy life-start of children, social adaptation of disabled people and support of social initiatives. The fund generates its own project as well as supports existing charity projects involving non-government organizations in its activity and also Qazkom's clients – on principles of the equal social partnership.

In 2016 sponsorship and charitable activity of the fund gained new impulse and passed under the new motto – "opening new borders". New direction and partners, new target groups and geography of the projects – all that contributed to expansion and opening of the corporate social responsibility strategy's borders in communities, cities and conscious of the people.

Charity and sponsorship: key numbers of 2016

▲ 3 times more

> ₸ 200 mln.

Increased expenses of Qazkom on charitable, social and sponsorship projects

₸ 45,4 mln.

Online transfers from clients and employees of the bank

49

Entrepreneurs with disability

Received grants on development of business-projects within the program “Look at the stars”

₸ 12,2 mln.

Granted on equipment of maternity hospitals in 7 regions of Kazakhstan within the “Guardian angel” project

₸ 10,8 mln.

Total amount of donations to the world war veterans on the eve of the Victory Day

Sponsorship projects of Qazkom

New Territories

In 2016 the bank together with the movement “Plant a tree” for the first time launched ecological project: employees started to save paper and collect it to the special waste boxes.

In April of the same year employees together with the Kus-Zholy fund have improved territory around the head office by planting several alleys of birches, maples and conifers.

Also the Bank have supported development of the city infrastructure by granting funds for construction and facilitation of the children’s sport ground that was opened in Nauryzbai district of Almaty in May 2016.

The new playground contains different playing and sport zones: football pitch, carousels and hillocks for kids, training machines for adults and teenagers.

New frontiers

Kazkommertsbank as one of leading financial institutions in Kazakhstan consider a great honor to be a partner of the Kazakh State Academic Theatre of Opera and Ballet named after Abay. Since 2008 the bank supported several new productions and festivals of opera and ballet art.

As compared to the previous period the bank substantially increased financing of the base sponsorship project - Theatre of Opera and Ballet named after Abay. Thanks to this support theater managed to organize a tour to Europe with its best ballet performances. Trip of the theater troupe opened new professional frontiers for the young specialists.

New scopes

Since 2009 Kazkommertsbank supports the literature contest “Altyn Qalam”. The feature of this contest is that its originators and members of jury are not related to writer’s environment but are active readers instead. Hence one could say that literature contest “Altyn Qalam” is the first contest in Kazakhstan which is awarded not by writers but by readers.

However in 2016 under initiative of the chairman of the Board of Directors Mr. Kenges Rakishev participation of Qazkom widened – a special prize was introduced for the best novel in Kazakh. In addition the bank has compensated expenses for the publication of the final edition with works of the contest winners.

New audience

Being in line with modern trends Kazkommertsbank was supportive towards youth audience. In 2016 for the first time was conducted first round of the Kazakhstan’s Cup on solving business-tasks - Changellenge. Qazkom acted as a general partner of the championship.

Changellenge – is the largest organization in Kazakhstan and CIS countries which specializes in the area of cases. Meetings for perspective students and leading employers are held under its aegis.

Qazkom strives to gain confidence of the new auditorium – young and active students of high schools, via development of new interesting products. Within the Changellenge project the bank inspires students for new ideas on business developments and providing them with the opportunity to participate in working out of new solutions.

New regions – new lives

Every day children who require emergent help during the first hours of life are born in Kazakhstan. These children are in need of guardian angel a role of which could be played by any wishing person. Via issue of the Visa banking card with a design of children drawings that participate in the charity project "Guardian angel" every client is able to influence on lowering of infant and maternal mortality in Kazakhstan.

In 2016 Kazkommertsbank has increased the rate of assignments on charity to 0.2% of the fees. As of now every payment made via these cards donate 0.2% from the transaction amount to the account of the "Guardian angel" project for further purchase of the necessary resuscitation equipment to the most needful urban, rural and regional hospitals in different parts of Kazakhstan.

During the years of realization of the "Guardian angel" project since 2006 clients opened about 15 000 of cards with current outstanding amount of around 8 000 cards. In 2016 Qazkom and the Kus Zholy fund has installed resuscitation, medical and operational equipment in seven medical institutions of the country for the amount of KZT 12 million.

In 2015-2016 several hospitals, perinatal centers and maternity hospitals were supplied with vitally important equipment in seven regions of the country.

New business-initiatives for social equality

Since 2006 the charitable contest "Look at the stars" aimed to elect best business ideas among disabled people has been conducted in Kazakhstan. Winners of the contest awarded with the grant for a purposeful development of their entrepreneurship capabilities.

Within the project 49 entrepreneurs with disability won the contest. Total amount of the grants was 12.8 million tenge. The project attracted 14 regions of the country, Almaty and Astana cities. 189 applications were presented for the contest. The following criteria were used for choosing a winner: competent business-plan, social concern and common benefit from the business, creation of new work places.

Since 2012 the project "Look at the stars" is held with support of the governmental structure JSC Entrepreneurship development fund "Damu".

Having wide distribution network of representative offices all across the country the "Damu" fund teaches all nominees of the competition to basics of the business, accounting, and leadership for free of charge. Local mass media act as informational partners of the project. Every editorial in its region informs society about course of the project and describes success stories of the project's winners.

Thirteen years ago Zhenisgul Dauletova turned out to be bedridden and her grandmother started to teach her to sew korpe and pillows in the national style. Zhenisgul is saying that she did not think this trade could be her destiny at that moment; she just tried to switch from painful thoughts. Today she is one of the most popular craftsmen who work using the national style. Zhenisgul knows all subtleties of the genuine bride's dowry creation. Initially she carried out only one-time orders.

Victory in the contest helped her to open real production and trading spot. Zhenisgul admits: *«It is difficult to launch or create something in Almaty and it is twice more difficult for people with disabilities without any help. And the grant I won I treat as the first support provided to me – my first victory. I did not receive neither financial support nor grants or loans anywhere else».*

Zhenisgul said that while applying for the contest she did not reckon on the victory. She believed in victory only when her dreamed sewing-machines were delivered. The more gratification Zhenisgul catch from providing with job not only herself but several people more.

Zhenisgul noted: *«Such contest are very needful because equipment is very expensive. And if you have the equipment in place it is increasing your productivity. The more and faster you sew the cheaper is the product. This is a very good help to craftsmen-entrepreneurs. I wish that others would follow the Kus Zholy fund because this is not just a sponsorship help this is a contest. And contest always stimulates, instills confidence and gives spur to development».*

New social technologies

Since 2007 Kazkommertsbank acts as a partner of a charitable campaigns «Save children's life» and «Autism is curable» which are organized by voluntary association «Mercy» governed by the public figure Aruzhan Sain.

These actions are aimed for the fundraising in order to provide emergency medical assistance to sick children medical treatment of whose is not possible in the Republic of Kazakhstan.

Kazkommertsbank was one of the few banks in Kazakhstan who have opened a special account released from all fees and commissions and have organized fundraising via online-banking financial portal Homebank.

During 2016 users of the portal (clients and employees of the bank) transferred KZT45.4 million of online payments of which KZT15.4 million to a charitable campaign «Bring life to children». Total amount of accumulated funds for the medical treatment during 2016 comprised KZT 61.4 million that resulted into 27 medical operations to 21 children.

In 2016 for the first time education of five tutors (parents of children with autism diagnosis) was financed; in addition fifth anniversary film «Bring life to children» was produced by the «Mercy» community. Demonstration of the film was in Astana and Almaty and gathered around a lot of adherent and anxious people.

During the last seven years (2010–2016) around KZT 178 million were funded via different instruments of Kazkommertsbank and transferred to the account of the «Mercy» community. The size of donation comprised from KZT200 to KZT100 000 and thanks to such campaigns lives of 1 449 children were saved.

New volunteers support the tradition

Kazkommertsbank annually provides financial support to veterans-participants of the Great Patriotic War and labor battle-front who are depositors of the bank. But there are such veterans among us who are not able to visit operational branches of the bank and city arrangements.

Since 2005 every spring volunteers of Kus Zholy foundation and employees of Kazkommertsbank keeping an old tradition come to see patronage veterans-participants of the Great Patriotic War and labor battle-front. Within the campaign «Thank you for the right to live in peace» lonely and immobile veterans are provided with food and medicine to their homes and warm greetings and attention as well.

In 2016 Kus Zholy fund together with volunteers congratulated 1 500 veterans with Victory Day. Total amount of donations comprised KZT10.8 million.

About visits to veterans of World War 2 employees of Kazkommertsbank shared their impressions:

«Our respected veterans expressed huge gratitude that they were not left without attention this year. We were first who congratulated them with the greatest celebration of their entire life. They said that it was one of the best presents for the years of Victory Day celebrations.

With tears in her eyes thanked not only Akyldy Balabatyrovna - veteran of the Great Patriotic but her daughter Zhanna as well. They were so deeply touched by congratulations that have visited Kazkommertsbank's branch to express their gratitude for the attention to the management of the bank.

Veterans shared their stories about the war during the meetings and noted that every of them waiting for this great holiday Victory Day with excitement and quiver.

***Gulnar Omarkhanovna** was educated in the family of the famous writer – M. Auezov. She is a professor-ophthalmologist and a writer concurrently. Gulnar Rozakovna – is an author of the books about the life of Mukhtar Auezov very brave and interesting woman. At the age of 12-13 she felt all the grief of war. Being a student of a medical college she was valiantly helping to wounded soldiers – washing the blood-stained bandages, ironed them with a heavy flatiron, bandaged wounded soldiers. Work was very hard. In a post-war years Gulnar Rozakovna works as an ophthalmologist, married and gave birth to two children».*

Stories of the veterans under patronage touched employees of the Kazkommertsbank very much. Volunteers said that they have learnt a lot of interesting about the war that was not included in school books. After meetings veterans thanked volunteers for their attention and wished peace, unity and accord in the country.

7.2. The responsibility of the listed company in ecology and environmental policy

The Bank carries out its business and administrative operations without damaging the environment. The Bank deals with environmental issues responsibly and makes every effort to protect natural resources and improve the environment in the Republic of Kazakhstan.

The Bank takes all necessary measures stipulated by environmental legislation. The Bank does not produce any dangerous waste and has officially registered the limits on waste placement and permissions for atmospheric pollutant emission.

The Bank uses energy-saving fluorescent and LED lamps for interior and exterior lighting. At the end of these lamps' useful life, the Bank collects and transfers them to specialized organizations for their further safe reprocessing (demercurization, etc.).

The Bank takes measures to reduce the noise and vibration made by diesel generators which are used for backup power supply. Rooms with diesel generators are fitted with sound insulation materials, and the machines themselves have vibration and noise absorbing components.

The Bank makes every effort to protect the environment and organizes daily garbage collection in the vicinity; besides, the Bank meets all technical requirements for its vehicle fleet, conducts periodic motor vehicle inspection and checks the content of harmful substances in exhaust fumes.

The Bank meets the main safety standards during construction and renovation of its own buildings and structures and guarantees that construction and installation works carried out by the Bank and its contractors do not damage the environment. Residents of cities where the Bank's buildings and structures are being built or renovated may freely familiarize themselves with all necessary documents which confirm the environmental safety and environmental friendliness of the work being done.

The Bank’s concept of social responsibility enables each employee to participate in the Bank’s charitable programs. The Bank constantly promotes care of the environment among its employees and supports Community Cleanup Days and other public activities.

The Bank's latest environmental initiatives included a tree planting campaign conducted in April 2016, which involved planting trees near the Bank's Head Office to create a “green avenue“. About 200 employees of the Bank's Head Office took part in the campaign; they helped to collect funds in the amount KZT 758,400 which were used for purchasing 70 deciduous and 20 coniferous seedlings. Tree species were selected taking into account the climate of the Almaty Region and professional recommendations. This noble initiative received wide support from all members of the Bank's team, from rank-and-file employees to senior managers. Participation in Community Cleanup Days and other public activities is one of the planned steps towards reaching the Bank’s new strategic goals.

The nature of the Bank's operations and the provisions of the legislation of the Republic of Kazakhstan do not allow the Bank to initiate projects based on environmentally safe technologies. However, the Bank does not provide funding for projects based on technologies which damage the environment.

Adhering to the environmental responsibility principles, the Bank plans to continue supporting the development and expansion of environmental protection activities.

Dealing with customer complaints and enquiries

The Bank has implemented an integrated electronic system for considering customers’ enquiries (complaints, suggestions and questions). The process involves consideration of customer complaints and enquiries by relevant specialists. Causes of complaints and enquiries are carefully analyzed. Findings are regularly communicated to the Bank’s management. The electronic document management system automatically controls and monitors the process of responding to each enquiry or complaint to ensure that it is timely. After registration, the enquiry is sent to the relevant departments of the Bank via electronic channels. The electronic system makes it possible to tackle all issues promptly and transparently.

8. Corporate Governance

8.1. Description of the corporate governance system and its principles.

The corporate governance system of Kazkommertsbank is based on strict compliance with the requirements of the legislation of the Republic of Kazakhstan and the National Bank of Kazakhstan, as well as on the commitment to meeting the latest international requirements and using best practices and expertise in corporate governance as fully as possible.

The Corporate Governance Code is the main document regulating the Bank's corporate governance system; the Code was approved by the General Shareholders' Meeting of the Bank in 2006 and was subsequently reviewed and updated in 2008 and 2010. In its day-to-day operations, the Bank complies with the Code in order to ensure efficient governance, which, in its turn, is aimed at maintaining and improving the investment attractiveness for the shareholders in the long term. A high-quality and efficient corporate governance system contributes to improving the Bank's performance and enables the Board of Directors to perform its duties most effectively, acting in the interests of all shareholders.

The Code meets the requirements of the Law of the Republic of Kazakhstan on Joint-Stock Companies, which provides a legal framework for defining corporate governance standards in the country. The Code also complies with the existing legislation of the Republic of Kazakhstan, the main provisions of the UK Corporate Governance Code ("the Combined Code") overseen by the Financial Reporting Council, the Bank's Articles of Association, and the Corporate Governance Code approved by the Issuers' Council.

The Bank's corporate governance is based on the following key principles:

1) protecting and respecting the rights and legitimate interests of the Bank's shareholders;
2) efficient management of the Bank;
3) transparent and objective disclosure of information on the Bank's operations;
4) lawfulness and ethics;
5) dividend policy;
6) HR policy;
7) environmental protection;
8) corporate dispute resolution.

Kazkommertsbank adheres to the principle of giving all its shareholders equal treatment, respecting their rights stipulated by the legislation of the Republic of Kazakhstan (including those related to receiving dividends and participating in the management of the Bank by holding General Shareholders' Meetings), providing the shareholders with accurate information on the Bank, including its financial position, financial and operating results, in due time.

8.2. Share capital. The number of authorized and outstanding shares of the listed company, their type (class), par value, number of shares in free float.

The book value per share of each type (class) as of December 31, 2016, is given below:

Type (class) of shares	Number of shares outstanding	Net assets (KZT million)	Book value, KZT per share
Common shares	796,987,545	371,912	466.65
Preference shares	123,984,564	21,456	173.05
		393,368	

Количество простых и привилегированных акций в обращении рассчитано за вычетом выкупленных собственных акций.

The number of outstanding common and preference shares does not include treasury shares. In accordance with amendments to the KASE Listing Rules introduced on August 25, 2010, financial statements of listed companies shall include information on the book value per share (common and preference shares). In the table above, the net asset value (NAV) and the book value per share are calculated in accordance with the methodology in the KASE Listing Rules.

Information on all material transactions in the shares of the listed company in the reporting period and changes concerning the shareholders whose stakes equaled or exceeded five percent of the number of outstanding shares in the reporting period.

As of December 31, 2016, the following shareholders owned the Bank's issued common shares:

Shareholder	Number of shares	% Of direct ownership*
K. Rakishev	344,777,652	43,26
JSC «Qazaq Financial Group»**	223,922,790	28.10
JSC Central Asian Investment Company (CAIC)***	70,074,945	8,79
JSC National Welfare Fund Samruk-Kazyna	85,517,241	10.73
N. Subkhanberdin	47,800,962	6.00
Other shareholders	24,893,955	3,12
Total****	**796,987,545**	**100.00**

Notes:
**These shareholdings were calculated based on the share of direct ownership of each shareholder in the total number of common shares outstanding less treasury shares (common) purchased by the Bank and its subsidiaries. JSC Kazkommerts Securities, a subsidiary of the Bank, is a market maker of the Bank's shares on the local stock exchange.*
*** Previously JSC Alnair Capital Holding.*
**** As of December 31, 2016, the total number of shares under CAIC's control amounted to 113,155,954 common shares, including 43,081,009 common shares received under a fiduciary management arrangement from N. Subkhanberdin; the stake totaled 14.2%.*
*****This number is calculated for each reporting date as the total number of common shares outstanding minus shares repurchased by the Bank's market maker based on the requirements of JSC Kazakhstan Stock Exchange (KASE).*

On April 20, 2016, Mr. Rakishev reached a preliminary agreement with Mr. Subkhanberdin and CAIC on purchasing their common shares of the Bank. Under this agreement, Mr. Rakishev purchased 115,486,789 common shares of the Bank from CAIC; as a result, the stake in the Bank directly owned by Mr. Rakishev increased from 28.67% to 43.15%. Taking into account the shares indirectly owned by him via JSC Qazaq Financial Group, the total stake controlled by Mr. Rakishev reached 71.23%.

As at June 10, 2016 Mr. Rakishev finalized the transaction on purchase of common shares from the shareholders that was announced on May 06, 2016 in accordance with clause 3 article 25 of the law “Of the Joint Stock Companies”. By the results of applications and executed orders 648 120 common shares with the price 211.4978 tenge per one share were purchased from minority shareholders.

JSC Central Asian Investment Company voluntarily returned its status of the bank holding as a result of decrease of share in the capital of the Bank. In accordance with the Resolution of the National Bank of Kazakhstan #162 dated June 27, 2016 CAIC lost its status of the bank holding and provided with the status of major holder of the Bank.

8.3. Organizational structure

8.3.1 Board of Directors (as at 01.06.2017)

1. Kenges Rakishev, **Chairman of the Board of Directors**. He was born 14 July 1979. Began his professional career in 1998. He graduated from the Kazakh State Academy of Management in 2000, and Ryskulov’s Kazakh Economic University in 2002 with a degree in Law and Economics. He also holds certificates in

Advanced Management from Oxford Saïd Business School and in Developing Strategy for Value Creation from London Business School. Mr. Rakishev has also been Chairman of the Board of Directors at JSC SAT & Company since 2006, and at Net Element International, a US technology company, since 2012. He is a member of the Boards of Directors in JSC Vyborg Shipbuilding Yard, OJSC Astrakhan Shipbuilding Plant, JSC Kazakhstan Petrochemical Industries, JSC NC Kazakhstan Engineering. He has been acted as a Chairman of the Board of Directors of JSC BTA since February 14, 2014. In January 2015 he entered the Board of Directors of the Bank. Since April 28, 2016 was elected as the Chairman of the Board of Directors. Taking into account the shares indirectly owned by him via JSC Qazaq Financial Group, the total stake controlled by Mr. Rakishev reached 71.23% *(as at 01.04.2017).*

2. Marc Holtzman, member of the Board of Directors. Was born on March 01, 1960. Became Chief Executive Officer in June 2016, had been Chairman of the Board of Directors since March 2015 and a member of the Board of Directors since January 2015. Previously, Mr. Holtzman was Chairman of Meridian Capital HK, a Hong Kong based private equity firm with investments in natural resources, real estate, food, agriculture and transportation. Prior to joining Meridian, Mr. Holtzman served as Vice Chairman of Barclays Capital and as Vice Chairman of ABN Amro Bank.
   Mr. Holtzman also served in the Cabinet of Governor Bill Owens as Colorado's Secretary of Technology and was President of the University of Denver. Previously, as co-founder and President of MeesPierson EurAmerica (a firm which was acquired by ABN Amro) and as Senior Adviser to Salomon Brothers, he lived and worked in Eastern Europe and Russia from September 1989 until October 1998. Currently he serves as a Member of the Board of Directors of TeleTech (NASDAQ: TTEC), the world's leading provider of analytics-driven technology-enabled services and Chairman of the Board of Directors of the Bank of Kigali, Rwanda's largest financial institution. Mr. Holtzman holds a Bachelor of Arts Degree in Economics from Lehigh University. Mr. Holtzman does not own (directly or indirectly) any voting shares of the Bank *(as at 01.04.2017).*

3. Serik Akhanov, member of the Board of Directors. Was born on October 30, 1951 Professor Akhanov has a PhD in economics. He has extensive experience in both public and private sectors. He worked for the Council of Ministers of the Kazakh SSR in 1990-91 and the President's Office in 1991-93. Serik Akhanov was Deputy Minister of Economy in 1993-94 and again in 1999-2001.
   He was the First Deputy Chairman of Eximbank Kazakhstan, Deputy Governor of the National Bank of Kazakhstan (1997-99) and the Deputy Minister of Finance in 1999. In 2002-03 Serik Akhanov was a member of the Board of Directors of Kazkommertsbank. Previously he was also an advisor to the CEO of Kazkommertsbank. Mr. Akhanov does not own (directly or indirectly) any voting shares of the Bank *(as at 01.04.2017).*

4. Nurlan Abduov, member of the Board of Directors. Was born on February 03, 1977. He graduated from the Kazakh State Academy of Management in 1998 with degree in international economics. In 2010-2012 he studied at the Russian State Tax Academy of the Ministry of Finance of the Russian Federation (Moscow). He holds degree of Candidate of political sciences from Russian Presidential Academy of National Economy and Public Administration.
   Mr. Abduov has an extensive experience in corporate finance in public and private sector. He started his career in 1997 in Accept Corporation from position of manager of financial and economics department with further promotion to position of Financial Director. In 2001-2002 he was the Vice-President of the Association of the Chambers of commerce and industry of Kazakhstan; in 2002-2004 he acted as General Director of CJSC KazStroyService. During 2005 to 2008 he was the General Director, and later CEO of JSC SAT & Company. In 2012-2015 he was the Head of Bank development division at Alef-Bank. In 2015 Mr. Abduov was a member of the boards of directors of JSC Kaztekhnologii and JSC National company Kazakhstan Engineering. Currently Mr. Abduov is an independent director-member of the Board of Directors of JSC KazMunaiGaz Processing and Marketing. Mr. Abduov was appointed as a member of the Board of Directors of KKB since April 28, 2016. Mr. Abduov does not own (directly or indirectly) any voting shares of the Bank *(as at 01.04.2017)*.

5. Rashit Makhat, member of the Board of Directors. Was born on November 29, 1976. He graduated from Kokshetau State University in 2005 with degree in economics. In 2010 he graduated from Moscow State University of international relations of the Ministry of Foreign Affairs of Russian Federation with degree in international economic relations.
Mr. Makhat started his career in 2005 as Vice-President of Prime Investment Company LLP. From 2006 to 2009 he acted as Advisor to CEO at JSC Duniye Corporation, in 2011-2013 he was commercial director of Wellcomm Company LLP. He was an independent director at JSC Kazakhstan Engineering and JSC Tartip. He is a member of the Advisory Board of JSC Kaspi Bank since 2012. Currently he acts as General Director of Baiman Managing Company LLP.
Mr. Makhat was appointed as independent director of the Board of Directors of KKB since April 28, 2016 Mr. Makhat does not own (directly or indirectly) any voting shares of the Bank (as at *01.04.2017*).

8.3.2. Management Board (as of June 01, 2017)

1. Marc Holtzman, Chairman of the Management Board. Was born on March 01, 1960. Became Chief Executive Officer in June 2016, had been Chairman of the Board of Directors since March 2015 and a member of the Board of Directors since January 2015. Previously, Mr. Holtzman was Chairman of Meridian Capital HK, a Hong Kong based private equity firm with investments in natural resources, real estate, food, agriculture and transportation. Prior to joining Meridian, Mr. Holtzman served as Vice Chairman of Barclays Capital and as Vice Chairman of ABN Amro Bank. Mr. Holtzman also served in the Cabinet of Governor Bill Owens as Colorado's Secretary of Technology and was President of the University of Denver. Previously, as co-founder and President of MeesPierson EurAmerica (a firm which was acquired by ABN Amro) and as Senior Adviser to Salomon Brothers, he lived and worked in Eastern Europe and Russia from September 1989 until October 1998. Currently he serves as a Member of the Board of Directors of TeleTech (NASDAQ: TTEC), the world's leading provider of analytics-driven technology-enabled services and Chairman of the Board of Directors of the Bank of Kigali, Rwanda's largest financial institution. Mr. Holtzman holds a Bachelor of Arts Degree in Economics from Lehigh University. Mr. Holtzman does not own (directly or indirectly) any voting shares of the Bank *(as at 01.04.2017).*

1. Abay Iskandirov, First Deputy CEO. Was born in 1983. Mr. Iskandirov is a representative of new generation of managers with multispecialty education, including western education, and with prominent experience in public and private sectors of the economy. Mr. Iskandirov has professional competencies in strategic planning and management, corporate finance, risk management and asset management as well as financial modeling and analysis. He worked for the Ministry of Economy and Budget Planning, in the President's Administration, and as Managing Director in Kazyna Sustainable Development Fund. In 2008-2011 he held position of financial director of Samruk-Kazyna NWF. Mr. Iskandirov was a member of the Board of Directors of BTA Bank in 2009-2011, and Chairman of the Board of Directors of JSC Temirbank in 2010-2011. Mr. Iskandirov was appointed as Vice-Minister of Economic Development and Trade in 2011, and in 2013 he held position of Senior Advisor to the Deputy Prime-Minister of Kazakhstan. In 2013-2015 Mr. Iskandirov worked in the National Bank of Kazakhstan, starting from a position of Senior Advisor to the CEO of the National Bank of Kazakhstan and later as Director of monetary operations and asset management department. Mr. Abay Iskandirov graduated from Kazakhstan State Law University with bachelor degree in financial and fiscal law and master's degree in international entrepreneurial law. He also holds master's degree in international management from the Oxford Brookes University (Oxford, USA). Mr. Iskandirov is a holder of Kurmet order and has a number of government awards and medals. Mr. Iskandirov owns no shares of the Bank.

2. Rashid Amirov, Managing Director. Was born in 1984. Is a Managing Director since May 2016, supervises treasury, investment banking, and cooperation with national companies and holdings. He is experienced in corporate finance, asset management, investment banking, and financial analysis. Prior to Kazkommertsbank he worked as Managing Director of the Astana International Financial Centre. Previously, he worked as Deputy Director of the Department of monetary transactions and asset management of the National Bank, Director of the Corporate Finance Department at National Welfare Fund "Samruk-Kazyna" as well as in the Administration of the President, Ministry of Economy and Budget Planning, and was a member of the Board of Directors of "Temirbank" JSC. Mr. Amirov graduated from Kazakh Economic University (international economist) and Manchester Business School (Master in

Finance), "Bolashak" program graduate. He also studied in Executive MBA program at IMD Business School (Switzerland). Mr. Amirov owns no shares of the Bank.

3. Askar Darmenov, Managing Director. Was born in 1981. Askar Darmenov was appointed as a Managing Director of JSC Kazkommertsbank in April 2016 and is responsible for the Bank's security and IT security as well as internal control, including same areas in the branches and subsidiaries of the Bank. He graduated from the Academy of the National Security Committee of Kazakhstan in 2004, and from the Georgetown University (USA, Washington) in 2008 with the master's degree in public administration and economics. He holds number of international certificates in the area of internal control and audit (CFE, CIA). Mr. Darmenov has 10-year experience in the national security authorities and internal audit. Mr. Darmenov owns no shares of the Bank.

4. Nurlan Zhagiparov, Managing Director. Was born in 1977. Nurlan Zhagiparov is supervising the development of innovative technologies, bank cards, call-centers and Homebank in his role as Managing Director. Since joining the Bank in 2002, he has held different positions in the Innovative Technologies Department and in 2005 he became the Head of this Department. In 2010 he also became an Executive Director at the Bank. He graduated from the Abay Almaty State University with a degree in International Relations and in 2001 he obtained a diploma from Houston College (USA) with a degree in Basic Computing and Programming. Mr. Zhagiparov is also a member of the Board of Directors of CB Moskommertsbank, JSC Kazkommertsbank Kyrgyzstan, and JSC Kazkommertsbank Tajikistan. Mr. Zhagiparov owns no shares of the Bank.

5. Mukhit Inebekov, Managing Director. Born in 1972. Mukhit Inebekov Managing Director, supervises the Bank's IT departments and the engineering of the Bank's business processes. He started his career in Kazkommertsbank in 1997, and has held various different positions in the IT Department. In 2005 he became Head of this Department and, in 2010, he became an Executive Director at the Bank. He graduated from the E.A. Buketov Karaganda State University with a degree in Mathematics, before continuing his education at the Market Institute of the Kazakh State Management Academy, with a degree in Finance and Credit. He also received training in Computer Systems for banking business with the participation of Charlton Association (England). Mr. Inebekov owns no shares of the Bank.

6. Mirzhan Karakulov, Managing Director. Was born in 1983. Mirzhan Karakulov was appointed as a Managing Director of JSC Kazkommertsbank in April 2016, and is responsible for the Bank's risk management. He has more than 10 years of experience in corporate finance, insurance and risk management in government and private companies. He held a number of management positions in the National Bank of Kazakhstan, Halyk Bank of Kazakhstan. He acted as Deputy CEO in the Development Bank of Kazakhstan. Mr. Karakulov worked in NWF Samruk-Kazyna during the crisis years of 2008-2009. He holds the Bolashak scholarship. Mr. Karakulov graduated from Vanderbilt University with degree with honors in economics, and holds MBA degree and bachelor's degree in economics from Kazakh Institute of Management and Economics and Strategic Research (KIMEP). Mr. Karakulov owns no shares of the Bank.

7. Yerulan Kussainov, Managing Director. Was born in 1976. Yerulan Kussainov was appointed as a Managing Director supervising problem loans division of JSC Kazkommertsbank in April 2016. Mr. Kussainov has more than 20 years of experience, including 18 years in banking sector. He started his career in 1995 from a position of bank teller with further promotion to position of branch director, managing regional branches of BTA Bank, Kaspi bank and Temirbank. In the following 8 years he acted as Managing director and Deputy CEO of Temirbank JSC where he supervised problem loans division over recent 3 years. In 2014 he held position of Deputy General Director at SamrukKazyna Invest National Company supervising investments. Mr. Yerulan Kussainov graduated from several universities including Kazakh State Academy of Management, and University named after Ya. Komenskiy (Prague, Czech Republic) where he received MBA degree. Mr. Kussainov also defended thesis in project management in Academy of economics and management AFW (Germany). Mr. Kussainov owns no shares of the Bank.

8. Murat Suleimenov, Managing Director. Was born in 1982. Murat Suleimenov was appointed as CFO of the Bank in April 2016. He is an experienced manager. He started his career in 2003 as chief specialist in the Ministry of Economy and Budgeting. Three years later he moved to asset management and investment banking area, where he joined Asyl Invest company, and then he was invited to the National Bank of Kazakhstan for a position of portfolio manager for gold reserves and the National Fund. He then continued in the National Investment Corporation as head of the Treasury. In 2013 he returned to the NBK as the head of currency and gold reserves and the National Fund. He graduated from KIMEP in 2003 with bachelor's degree in business administration, and in 2008 he graduated from the National University of Singapore with the master's degree in business administration. Mr. Suleimenov owns no shares of the Bank.

9. Sergey Yeltsov, Managing Director. Was born in 1976. Sergey Yeltzov is a Managing Director since May 2016, and is responsible for legal and HR issues, compliance, and the corporate secretariat. He worked both in public and private companies. Mr. Yeltzov started his career in 1995 in the Ministry of Industry and Trade of Kazakhstan and then changed to the Ministry of Finance of Kazakhstan in 1998. In 1999 he worked at "Kazakhtelecom" OJSC, "National Legal Service" CJSC of the Ministry of Justice of Kazakhstan. He was Director of Legal Department at "Kazphosphat" LLP in 2000-2007. Mr. Yeltzov was a Chairman of the Board of Directors of "Vasilkovski Mining and Processing Integrated Plant" OJSC in 2002-2004. In 2008 he took a position of director of legal department in "Investment Fund of Kazakhstan" JSC with further promotion to managing director and CEO positions. In 2009-2011 he worked as a Deputy CEO and Compliance Controller of BTA Bank, and moved to Alliance Bank in 2012, where he started as advisor to CEO, and later was appointed as a Managing Director. He worked as Managing Director of Green Apple Co in 2013-2015, and as Director of the Corporate Development Unit, Administrative Director of "KAMONT" JSC in 2015. Mr. Yeltzov graduated from Kazakh Law and International Relations Institute with the degree in international law, from Almaty Academy of Economics and Statistics with degree in economy. He has been a judge of the International Arbitration Court since 2001. Mr. Yeltzov owns no shares of the Bank.

10. David Mashuri, Managing Director. Was born in 1973. David Mashuri – Managing Director since July of 2016, in charge of HR management. Mr. Mashuri has over 16 years of entrepreneurship and management experience in consulting, real estate and public sector. He is experienced in executive search, coaching, facilitation and top-management training. Before Kazkommertsbank David Mashuri was the head of WE Partners Kazakhstan, alliance of Korn Ferry Partner Company. Previously he was the head of "Pedersen & Partners" International Recruitment Company in Central Asia, Georgia and Armenia. Mr. Mashuri holds a Master's degree in public policy from Pepperdine University in Malibu, CA, USA and the Bachelor's Degree in philology from Russian People's Friendship University in Moscow. David Mashuri has completed certificate programs in HRD at Cornel University in Ithaca, NY, USA and he is a Member of the ICF as well, and holds a coaching certificate. Mr. Mashuri owns no shares of the Bank.

11. Dauren Sartayev, Managing Director. Was born in 1984. Dauren Sartayev has been a Managing Director since June 2016. He is responsible for corporate lending, SME, and branch network development. Mr. Sartayev worked in financial and telecommunication companies, including business consulting area. Mr. Sartayev started his career in 2004 in Kazkommertsbank in capacity of SME Lending Manager at Pavlodar branch and was promoted to the Head of SME Lending Division of Almaty Branch. In 2010 he switched over to Temirbank, where he worked as the Head of the Loan Risks Division, Director of Ust-Kamenogorsk Branch, Director of the Distressed Loans Department at Head Bank. In 2012 Mr. Sartayev switched over to Kcell, where he was the Director of Shymkent Branch and supervised the office of Almaty and Almaty region. In 2014-2015 Mr. Sartayev worked as Manager at the Business Efficiency Increase Unit (consulting) of the representational office of Ernst & Young, the International Audit Company (Kazakhstan). Mr. Sartayev graduated from The Kazakh Liberal Arts and Law Academy in Almaty in 2003 with degree in business law. He holds an MBA degree in strategic management and entrepreneurship from the International Business School in Moscow (2012). Mr. Sartayev owns no shares of the Bank.

8.3.3 Board of Directors' Committees and their functions

1) Board of Directors' Committees

Kazkommertsbank has created an efficient system for corporate governance and monitoring of financial and business operations in order to protect the rights and legitimate interests of shareholders. There are three Board committees: the Audit Committee, the Committee on Strategic Planning and Risks and the Committee on Staff and Social Affairs.

Audit committee:

The Board of Directors appoints members of the Audit Committee, which is responsible for the following:

- improving the performance of the Bank's Board of Directors and exercising supervision;
- analyzing the process of preparation of financial statements, assessing the internal control and financial risk management systems;
- analyzing the audit process and the process of the company's monitoring of compliance with the laws of the Republic of Kazakhstan, regulations and the Code of Business Ethics;
- analyzing material issues related to accounting and reporting, including the latest professional and statutory regulations and their impact on the Bank's financial statements;
- analyzing legal issues that may have a significant impact on the Bank's financial statements;
- analyzing annual financial statements and assessing their completeness and compliance;
- assessing how the appropriate accounting principles are reflected in the Bank's financial statements.

Committee members:

- **Serik Akhanov** – Chairman of the Committee (independent director);
- **Kenges Rakishev** – Committee member (Chairman of the Board of Directors);
- **Marc Holtzman** – Committee member (independent director);
- **Rashit Makhat** – Committee member (independent director);
- **Nurlan Abduov** – Committee member (representative of JSC Qazaq Financial Group).

Committee on strategic planning and risks:

The Board of Directors appoints members of the Committee on Strategic Planning and Risks, which is responsible for the following:

- developing recommendations on general internal documents of the Bank, including risk management policies, in order to create sufficient conditions necessary for creating efficient risk management systems in the Bank; • developing recommendations for the Regulations on Committees and departments of the Bank in order to ensure sufficient authority and rights necessary for creating efficient risk management systems in the Bank;
- reviewing the plan to develop, update and implement risk assessment models (scoring models, rating models, credit risk pricing models, market VAR, EAR, internal operational risk models, a transfer pricing model);
- carrying out a methodological assessment of risk assessment models used by the Bank for the Bank's Board of Directors;
- reviewing status updates on implementation of strategic plans to develop the risk management system in the Bank and its subsidiaries;
- discussing risk management strategies with the Bank's Management Board;
- discussing risk management systems with external auditors;
- reviewing internal auditors' reports on the audit of risk management systems;
- regularly analyzing international best practices in risk management and submitting the relevant overviews to the Bank's Board of Directors;

- considering risk management issues submitted by the Bank’s Management Board and requiring a detailed analysis or expert assessment by the Committee before being submitted to the Bank’s Board of Directors;
- providing methodological guidance to the Bank’s Board of Directors with regard to the transition to the Advanced Measurement Approach under Basel II adopted in 2006;
- preparing recommendations for the Bank’s Board of Directors on transactions classified as major ones in accordance with the Law of the Republic of Kazakhstan on Joint-Stock Companies and the Bank’s Articles of Association.

Committee members:

- **Rashit Makhat** – Chairman (independent director);
- **Kenges Rakishev** – Committee member (Chairmanof the Board of Directors);
- **Marc Holtzman** – Committee member (independent director);
- **Nurlan Abduov** – Committee member (representative of JSC Qazaq Financial Group).

Committee on Staff and Social Affairs

The Committee provides the Board of Directors with advice and recommendations concerning cooperation with senior managers, their appointment and transfers, performance evaluation and the system of incentives.

Committee members:

- **Serik Akhanov** – Chairman of the Committee (independent director);
- **Kenges Rakishev** – Committee member (Chairman of the Board of Directors);
- **Marc Holtzman** – Committee member (independent director);
- **Rashit Makhat** – Committee member (independent director);
- **Nurlan Abduov** – Committee member (representative of JSC Qazaq Financial Group).

8.7. Internal control and audit.

The Internal Audit Department of the Bank is the Bank's supervisory body which monitors compliance of the Bank's internal control system and ensures that internal audit is organized and conducted in the Bank. The Internal Audit Department is an independent division of the Bank. The Internal Audit Department reports to the Board of Directors.

The Internal Audit Department is responsible for consideration and discussion of the following issues:

• functioning of the internal control system;

• preparing reports on the work of the Internal Audit Department for the Bank's Board of Directors and the Audit Committee of the Board of Directors;

• considering and discussing risks related to the Bank's operations which are subject to internal audit during the current year;

• checking the accuracy of financial information provided to the Management Board and the Board of Directors of the Bank, as well as to external users;

• analyzing any major deficiencies in accounting or internal audit identified by external or internal auditors.

8.8. Information on dividends

The Bank Dividend policy complies with the legislation of the Republic of Kazakhstan and the Bank's internal regulations on dividend payment to shareholders which are approved by the Bank's Board of Directors. When developing the internal regulations on dividend payment to the Bank's shareholders, Kazkommertsbank adheres to one of the main principles: providing a simple and transparent mechanism for determining the amount of dividends and the conditions of their payment.

The Bank's dividend policy should be sufficiently transparent and available to the Bank's shareholders and potential investors.

The procedure for dividend payment and the minimum amount of dividends per preference share of the Bank are stipulated in the Bank's Prospectus.

Preference shares carry no voting rights, except for the cases when preference dividends are not paid, but have an advantage over common shares in the event of liquidation of the Bank. The annual dividend on preference shares is determined by the preference share issuance rules in the amount of US$ 0.04 per share. In accordance with the Law of the Republic of Kazakhstan on Joint-Stock Companies, additional dividend payments on preference shares cannot be less than dividends paid on common shares. These shares are cumulative and not redeemable.

In 2016, dividends declared on preference shares amounted to KZT 1,697 million (2015: KZT 1,071 million; 2014: KZT 878 million). In 2016, 2015 and 2014, no dividends were declared on common shares of the Bank.

Basic and diluted loss per share is calculated as the ratio of net loss for the year attributable to shareholders of the Parent to the weighted average number of common shares during the year.

Dividends on common shares cannot exceed the amount of dividends on preference shares for the same period. Therefore, net profit/(loss) is distributed among common shares and preference shares in accordance with their legal and contractual rights to a share in retained earnings:

	Year ended December 31, 2015 KZT mln.
Basic and diluted (loss)/earnings per share	
Net (loss)/profit for the year attributable to shareholders of the Parent	(507)
Less additional dividends that would be paid on full distribution of profit to preference shareholders	(68)
Net (loss)/profit for the year attributable to common shareholders	(439)
Weighted average number of common shares for calculating basic and diluted (loss)/ earnings per share	796,935,211
(Loss)/earnings per share — basic and diluted (KZT)	0,55

The book value per share of each type (class) as of December 31, 2016, is given below:

Type of shares	Outstanding shares	Net assets KZT mln.	Book value per share, KZT
Common shares	796,987,545	371,912	466.65
Preference shares	123,984,564	21,456	173.05
		393,368	

The number of outstanding common and preference shares does not include treasury shares.

In accordance with amendments to the KASE Listing Rules introduced on August 25, 2010, financial statements of listed companies shall include information on the book value per share (common and preference shares). In the table above, the net asset value (NAV) and the book value per share are calculated in accordance with the methodology in the KASE Listing Rules.

8.9. Information policy regarding the existing and potential investors and its main principles

One of the main priorities of the Bank is to respect and protect the rights of the Bank's shareholders and investors. Decisions of the Bank's senior managers should be made in the shareholders' interests.

Decisions made at the General Shareholders' Meeting are fundamental to the Bank's development. These decisions are developed by the Bank's governing bodies (the Board of Directors and the Management Board) and implemented by managers at all levels.

The Bank takes on the obligation to comply strictly with the Corporate Governance Code approved by the General Shareholders' Meeting, which stipulates the main principles of interaction with shareholders and investors.

8.10. Information on remuneration

Remuneration paid to the members of the Board of Directors: in 2016, the remuneration paid to the members of the Board of Directors (seven members) totaled **KZT 58,262.4 thousand**.

Remuneration paid to the members of the Management Board: in 2016, the remuneration paid to the members of the Management Board (22 members during the year) totaled **KZT 5 274 544,1 thousand**.

8.11. Report on compliance with the Corporate Governance Code and/ or measures taken to ensure such compliance in the reporting year.

In its day-to-day operations the Bank is guided by the Corporate Governance Code.

9. Financial statements

Attached as a supplement.

10. Main goals and objectives for the next year

Main goals and objectives of the bank remain creation and increase of the value for the shareholders, proposal of innovative solutions to the clients of the bank, improvement of services' quality, and development of new products. Main goals and objectives may be changed due to vision and plans of the bank's shareholders.

11. Additional information

11.1. The index

11.2. Glossary

Abbreviations:

JSC – Joint stock company

DBK – Development Bank of Kazakhstan

GDP – Gross domestic product

EBRD – European Bank for Reconstruction and Development

CJSC – Closed Joint stock company

KKB – Kazkommertsbank

KUSA – компания по управлению стрессовыми активами

KASE – Kazakhstan stock exchange

SME – small and medium-sized enterprises

NBRK – National Bank of the Republic of Kazakhstan

CIS – Commonwealth of Independent States

LLP – Limited liability partnership

NWF Samruk-Kazyna – National Welfare Fund Samruk-Kazyna

Damu – "Damu" Entrepreneurship Development Fund" JSC

CAIC – Central Asian investment company

11.3. Contact details

Investor Relations	Asel Mukazhanova Tel. +7 727 2585125 Email: investor_relations@qazkom.kz www.qazkom.kz
Information on the Bank's registrar	**Full name:** The Integrated Securities Registrar JSC **Location of the legal entity:** 30A/3, Satpaev Street, Almaty, 050040, Kazakhstan; **Tel/Fax:** + 7 (727) 2 72 47 60 **E-mail:** info@tisr.kz, www.tisr.kz **Date and number of agreement with the registrar:** agreement No. 00035-AO on providing services related to the management of a system of shareholder registers dated August 9, 2012.
Information on the Bank's auditor	Deloitte LLP Almaty Financial District, 36 Al Farabi Avenue, Almaty, 050059, Kazakhstan Tel: +7 (727) 258 13 40 Fax: +7 (727) 258 13 41 www.deloitte.kz

JOINT STOCK COMPANY KAZKOMMERTSBANK

Consolidated Financial Statements and
Independent Auditors' Report
For the Years Ended 31 December 2016, 2015
and 2014

Joint Stock Company Kazkommertsbank

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Joint Stock Company Kazkommertsbank

Statement of Management's Responsibilities
For the Preparation and Approval of the Consolidated Financial Statements
For the years ended 31 December 2016, 2015 and 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company Kazkommertsbank ("the Bank") and its subsidiaries ("the Group") as at 31 December 2016, 2015 and 2014, and the consolidated results of its operations, cash flows and changes in equity for the years then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group'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 Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining accounting records in compliance with legislation of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the years ended 31 December 2016, 2015 and 2014 were authorized for issue on 20 April 2017 by the Management Board of Joint Stock Company Kazkommertsbank.

On behalf of the Management Board:

Iskandirov A.M.
First Deputy Chief Executive Officer

20 April 2017
Almaty

Salikhova N.M.
Chief Accountant

20 April 2017
Almaty

Deloitte.

Deloitte, LLP
36 Al Farabi Ave.,
Almaty, 050059,
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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Kazkommertsbank

Qualified Opinion

We have audited the consolidated financial statements of JSC Kazkommertsbank ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2016, 2015 and 2014, and the consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects, if any, of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, 2015 and 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As disclosed in Note 3 to the consolidated financial statements, the Group had outstanding loans to certain borrowers with a gross carrying value of KZT 302,437 million and a corresponding allowance for impairment losses of KZT 42,189 million. We were unable to obtain sufficient appropriate audit evidence regarding the adequacy of the allowance for loan losses recognised by the Group for these borrowers. Consequently, we were unable to determine whether any adjustments to the carrying value of these loans were necessary.

Further, as discussed in Notes 3 and 17 to the consolidated financial statements, as at 31 December 2016, the Group has loans receivable from JSC BTA Bank ("BTA"), an entity under common control, in the amount of KZT 2,465,831 million, which have not been classified as impaired. As at 31 December 2016, the loans should have been classified as impaired and an allowance for impairment loss should have been recognised in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. We were unable to determine the effect of this departure on the carrying value of the loans receivable from BTA as at 31 December 2016, and the impairment loss recognised in the consolidated statement of profit or loss for the year ended 31 December 2016.

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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated 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 qualified opinion.

Emphasis of Matter

As discussed in Notes 3 and 17 to the consolidated financial statements, as at 31 December 2016, the Group had loans receivable from BTA with a carrying amount of KZT 2,465,831 million. The Group, BTA and its major shareholders, entered into negotiations with the Government and the National Bank of the Republic of Kazakhstan on the purchase of certain assets from BTA, which would allow BTA to repay its loans to the Group. In March 2017, the parties to the negotiations have signed a Memorandum of Understanding, which has yet to be implemented. The ability of BTA to repay its loans to the Group, is dependent upon the implementation of the terms of the Memorandum of Understanding. In the event of BTA being unable to repay its loans to the Bank, this may impact the financial stability of the 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Collective assessment of loans for impairment According to the Bank's provisioning methodology, loans that are not individually significant are subject to a collective provision, which is calculated using statistical models based on the most recent historical data on credit conditions. Significant judgement is necessary to identify impairment events, particularly in relation to financial performance of the borrower and collateral valuations. The calculation of the impairment allowance for collectively assessed loans involves credit modelling techniques that utilize significant unobservable inputs and factors, such as internal credit ratings, probability of default and loss-given-default assumptions. The use of different modelling techniques and assumptions could produce a significantly different estimate of the impairment and related provision. Refer to Note 3 for the summary of significant accounting policies and for critical accounting estimates and judgements.	We obtained an understanding of the loan loss provision process and assessed the key methodologies for calculation of the provision for consistency with the requirements of IFRS. On a sample basis we evaluated management's judgment in relation to the identification of impairment events, such as number of days in arrears of interest or principal, restructuring events, and certain financial performance indicators. We tested the loans (on a sample basis) which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate. We tested (on a sample basis) the input data and assumptions used for calculation of impairment allowances used in the various models. We checked the reasonableness of principal assumptions used based on our knowledge of the market, industry, and historical performance. We checked the adequacy and completeness of disclosures made in the financial statements in accordance with IFRS.

Impairment of loans to customers operating in the construction sector and land loans The assessment of impairment on construction and land loans is based on the future expected cash flows to be received on the completion of such projects. The estimation of these cash flows requires management of the Bank to exercise significant judgment in relation to the timing and value of cash flows, in particular arising from pledged collateral, which are subject to change, due to external economic factors. Refer to Note 3 for the summary of significant accounting policies and for critical accounting estimates and judgements.	We obtained an understanding of the loan loss provision process for loans in the construction sector and land loans. On a sample basis, we have tested the appropriateness of the loan loss provision as at the reporting date, through reviewing the Bank's documented credit assessment of the borrowers, challenging assumptions around expected future cash flows and the valuation of collateral provided by the borrowers, agreeing key assumptions to supporting documents, and re-performing the calculations of impairment losses. We found no material exceptions in these tests.
Assessment of assets held for sale In the normal course of business the Group receives non-financial assets by taking possession of collateral it held as security. As at 31 December 2016, such assets in the amount of KZT 186,486 million (31 December 2015: KZT 44,901 million) are included in assets classified as held for sale in the consolidated statement of financial position. These assets are represented mostly by land and real estate, the majority of which will be realized through auctions. Assessment of the fair value of these assets at the date of recognition was made based on market evidence with the use of income and investment approaches by an independent appraiser. The assessment of the fair value of assets held for sale is subject to significant judgement in relation to the assumptions input into the valuation model, including the timing and value of cash flows. Refer to Note 3 for the summary of significant accounting policies. Refer to Note 21 for disclosure of assets classified as held for sale.	We obtained an understanding of the process of valuation of assets held for sale. On a sample basis we have obtained an understanding and tested the reasonableness of assumptions used in the valuation model including the timing and value of cash flows by comparing them to publicly available information, and challenging and applying our judgement to inputs that are not publicly available. We found no material exceptions in these tests.

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 consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated financial statements of the current period and are therefore the key audit matters.

Roman Sattarov
Qualified auditor of the
Republic of Kazakhstan
Qualification certificate
No.MF-0000149
dated 31 May 2013

Mark Smith
Engagement Partner
Chartered Accountant
Institute of Chartered Accountants of
Scotland
License № M21857
Glasgow, Scotland

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

24 April 2017
Almaty, Kazakhstan

Joint Stock Company Kazkommertsbank

Consolidated Statements of Profit or Loss
For the years ended 31 December 2016, 2015 and 2014

	Notes	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
Interest income	5, 33	434,384	378,053	313,579
Interest expense	5, 33	(231,011)	(190,967)	(159,547)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	5	203,373	187,086	154,032
Provision for impairment losses on interest bearing assets	6, 33	(68,859)	(176,841)	(74,039)
NET INTEREST INCOME		134,514	10,245	79,993
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	7	7,970	56,998	(30,170)
Loss on write-off of financial assets and liabilities at fair value through profit or loss	15	(16,810)	-	-
Net (loss)/gain on foreign exchange and precious metals operations	8	(17,006)	(14,153)	8,758
Fee and commission income	9	49,025	47,560	41,316
Fee and commission expense	9	(20,658)	(19,137)	(16,649)
Net gain on investments available-for-sale		381	104	1,136
Dividend income		869	1,297	1,438
Net income from sale of inventory		18,639	1,201	2
Other income	10	17,747	15,800	8,113
Revaluation of assets classified as held for sale	21	(55,502)	(5,335)	(252)
NET NON-INTEREST (EXPENSE)/INCOME		(15,345)	84,335	13,692
OPERATING EXPENSES	11, 33	(84,050)	(78,546)	(64,891)
PROFIT BEFORE OTHER OPERATING PROVISIONS		35,119	16,034	28,794
Provision for impairment losses on other transactions and insurance	6, 33	(10,023)	(11,785)	(3,405)
Recovery/(provision) of provision for guarantees and other contingencies	6, 33	781	(5,141)	4,989
Share of profits of associates		-	-	300
PROFIT/(LOSS) BEFORE INCOME TAX		25,877	(892)	30,678
Income tax expense	12	(25,369)	(17,543)	(6,937)
NET PROFIT/(LOSS)		508	(18,435)	23,741
Attributable to:				
Ordinary shareholders of the Parent		439	(15,352)	19,114
Preference shareholders of the Parent		68	-	2,291
Non-controlling interest		1	(3,083)	2,336
NET PROFIT/(LOSS) FOR THE YEAR		508	(18,435)	23,741
NET PROFIT/(LOSS) PER SHARE				
Basic and diluted (KZT)	13	0.55	(19.79)	25.89

On behalf of the Management Board:

Iskandirov A.M.
First Deputy Chief Executive Officer

20 April 2017
Almaty

Salikhova N.M.
Chief Accountant

20 April 2017
Almaty

The notes on pages 16-122 form an integral part of these consolidated financial statements.

Joint Stock Company Kazkommertsbank

Consolidated Statements of Other Comprehensive Income
For the years ended 31 December 2016, 2015 and 2014

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
NET PROFIT/(LOSS)	508	(18,435)	23,741
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Net gain resulting on revaluation of property	8,314	1,218	3,296
Income tax	(1,569)	74	349
Share of other comprehensive income of associates	-	-	(2)
	6,745	1,292	3,643
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	325	(301)	(1,063)
Net gain/(loss) resulting on revaluation of available-for-sale investments during the year	1,133	(1,097)	(996)
Reclassification adjustment relating to available-for-sale investments disposed of during the year	(381)	(104)	(1,136)
Net loss on cash flows hedges	(429)	(371)	(246)
Income tax	46	206	203
	694	(1,667)	(3,238)
OTHER COMPREHENSIVE INCOME/(LOSS) AFTER INCOME TAX	7,439	(375)	405
TOTAL COMPREHENSIVE INCOME/(LOSS)	**7,947**	**(18,810)**	**24,146**
Attributable to:			
Ordinary shareholders of the Parent	6,877	(16,416)	17,909
Preference shareholders of the Parent	1,069	-	1,213
Non-controlling interest	1	(2,394)	5,024
TOTAL COMPREHENSIVE INCOME/(LOSS)	7,947	(18,810)	24,146

On behalf of the Management Board:

Iskandirov A.M.
First Deputy Chief Executive Officer

20 April 2017
Almaty

Salikhova N.M.
Chief Accountant

20 April 2017
Almaty

The notes on pages 16-122 form an integral part of these consolidated financial statements.

Joint Stock Company Kazkommertsbank

Consolidated Statements of Financial Position
As at 31 December 2016, 2015 and 2014

	Notes	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
ASSETS:				
Cash and balances with national (central) banks	14	151,908	123,908	192,362
Precious metals		3,255	3,908	2,826
Financial assets at fair value through profit or loss	15, 33	210,538	365,277	175,927
Loans and advances to banks and other financial institutions	16, 33	109,832	296,677	208,550
Loans to customers	17, 33	3,756,705	3,829,736	2,122,148
Bonds of JSC National Welfare Fund Samruk-Kazyna	24	-	-	659,116
Investments available-for-sale	18, 33	19,724	34,544	94,606
Investments held to maturity	19	222,434	209,936	18,440
Investments in associates		-	-	8,840
Goodwill		-	-	171
Investment property	20	13,134	8,709	60,953
Property, equipment and intangible assets	22	48,302	39,258	48,234
Deferred income tax assets	12	17,538	27,164	6,022
Other assets	23	117,741	102,153	214,658
Assets classified as held for sale	21	194,640	53,065	434,224
TOTAL ASSETS		**4,865,751**	**5,094,335**	**4,247,077**
LIABILITIES AND EQUITY				
LIABILITIES:				
Loans and advances from banks and other financial institutions	24, 33	491,505	123,063	682,856
Customer accounts	25, 33	2,915,438	3,324,734	2,264,140
Financial liabilities at fair value through profit or loss	15	64,275	75,409	20,791
Debt securities issued	26	586,961	695,483	416,920
Other borrowed funds	27	81,308	101,595	216,693
Provisions	6	62,571	57,329	48,672
Deferred income tax liabilities	12	153	28,360	-
Other liabilities	28	51,823	33,859	48,080
Subordinated debt	29	230,437	281,235	122,856
Liabilities directly associated with assets classified as held for sale	21	-	-	10,028
Total liabilities		**4,484,471**	**4,721,067**	**3,831,036**
EQUITY:				
Equity attributable to equity holders of the Parent:				
Share capital	30	234,589	234,520	160,945
Additional paid-in-capital		(6,405)	(6,405)	(6,405)
Property and equipment revaluation reserve		11,515	5,201	7,166
Other reserves		141,575	139,943	203,997
Total equity attributable to equity holders of the Parent		**381,274**	**373,259**	**365,703**
Non-controlling interest		6	9	50,338
Total equity		381,280	373,268	416,041
TOTAL LIABILITIES AND EQUITY		**4,865,751**	**5,094,335**	**4,247,077**

On behalf of the Management Board:

Iskandirov A.M.
First Deputy Chief Executive Officer

20 April 2017
Almaty

Salikhova N.M.
Chief Accountant

20 April 2017
Almaty

The notes on pages 16-122 form an integral part of these consolidated financial statements.

Joint Stock Company Kazkommertsbank

Consolidated Statements of Changes in Equity
For the years ended 31 December 2016, 2015 and 2014

	Share capital (KZT million)	Treasury shares (KZT million)	Additional paid-in capital (KZT million)	Property and equipment revaluation reserve (KZT million)	Invest-ments available-for-sale fair value deficit [1] (KZT million)	Cumulative translation reserve[1] (KZT million)	Hedging reserve[1] (KZT million)	Retained earnings[1] (KZT million)	Total equity attribu-table to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
31 December 2013	**213,301**	**(689)**	**(6,405)**	**5,779**	**(153)**	**(807)**	**901**	**158,577**	**370,504**	**1,703**	**372,207**
Net profit	-	-	-	-	-	-	-	21,405	21,405	2,336	23,741
Other comprehensive income/(loss)	-	-	-	1,825	(1,496)	(2,413)	(199)	-	(2,283)	2,688	405
Total comprehensive income/(loss)	-	-	-	1,825	(1,496)	(2,413)	(199)	21,405	19,122	5,024	24,146
Repurchase of treasury shares	-	(52,004)	-	-	-	-	-	(1)	(52,005)	-	(52,005)
Sale of treasury shares		337	-	-	-	-	-	-	337	-	337
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(438)	-	-	-	438	-	-	-
Effect of transfer of liabilities from BTA	-	-	-	-	-	-	-	27,745[2]	27,745	(27,745)	-
Increase in non-controlling interest as a result of acquisition	-	-	-	-	-	-	-	-	-	72,530	72,530
Decrease in non-controlling interest as a result of dividend payment	-	-	-	-	-	-	-	-	-	(1,174)	(1,174)
31 December 2014	**213,301**	**(52,356)**	**(6,405)**	**7,166**	**(1,649)**	**(3,220)**	**702**	**208,164**	**365,703**	**50,338**	**416,041**

[1] The amounts included within the Investments available-for-sale fair value deficit, Cumulative translation reserve, Hedging reserve and Retained earnings, in the above table, are included within "Other reserves" in the consolidated statement of financial position.
[2] During the year ending 31 December 2014, JSC BTA Bank Eurobonds in the amount of USD 750 million with a 5.5% coupon rate and maturity date in the year 2022 were recognised by KKB at the date of acquisition of BTA for USD 450 million representing its fair value at the time of acquisition. The resulting difference in the amount of USD 300 million is effectively a distribution by BTA to KKB. As a result, the non-controlling interest related to BTA was reduced by KZT 27,745 million (USD 150 million) and a corresponding increase in KKB owners' equity was recognised.

Joint Stock Company Kazkommertsbank

Consolidated Statements of Changes In Equity (Continued)
For the years ended 31 December 2016, 2015 and 2014

	Share capital (KZT million)	Treasury shares (KZT million)	Additional paid-in-capital (KZT million)	Property and equipment revaluation reserve (KZT million)	Investments available-for-sale fair value deficit[1] (KZT million)	Cumulative translation reserve[1] (KZT million)	Hedging reserve[1] (KZT million)	Retained earnings[1] (KZT million)	Total equity attributable to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
31 December 2014	**213,301**	**(52,356)**	**(6,405)**	**7,166**	**(1,649)**	**(3,220)**	**702**	**208,164**	**365,703**	**50,338**	**416,041**
Net loss	-	-	-	-	-	-	-	(15,352)	(15,352)	(3,083)	(18,435)
Other comprehensive income/(loss)	-	-	-	890	(635)	(1,022)	(297)	-	(1,064)	689	(375)
Total comprehensive income/(loss)	-	-	-	890	(635)	(1,022)	(297)	(15,352)	(16,416)	(2,394)	(18,810)
Repurchase of treasury shares	-	(379)	-	-	-	-	-	-	(379)	-	(379)
Sale of treasury shares	-	444	-	-	-	-	-	-	444	-	444
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(2,855)	-	-	-	2,855	-	-	-
Acquisition of BTA shares	-	-	-	-	-	-	-	(32,551)	(32,551)	(40,947)	(73,498)
Disposal of subsidiary	-	-	-	-	-	-	-	(21,159)	(21,159)	(2,712)	(23,871)
Repayment of dividends	-	-	-	-	-	-	-	-	-	(61)	(61)
Effect of simultaneous transfer of assets and liabilities	-	-	-	-	-	-	-	4,107	4,107	(4,215)	(108)
Issue of ordinary share capital	73,510	-	-	-	-	-	-	-	73,510	-	73,510
31 December 2015	**286,811**	**(52,291)**	**(6,405)**	**5,201**	**(2,284)**	**(4,242)**	**405**	**146,064**	**373,259**	**9**	**373,268**

[1] The amounts included within the Investments available-for-sale fair value deficit, Cumulative translation reserve, Hedging reserve and Retained earnings, in the above table, are included within "Other reserves" in the consolidated statement of financial position.

Consolidated Statements of Changes in Equity (Continued)
For the years ended 31 December 2016, 2015 and 2014

	Share capital (KZT million)	Treasury shares (KZT million)	Additional paid-in capital (KZT million)	Property and equipment revaluation reserve (KZT million)	Investments available-for-sale fair value deficit[1] (KZT million)	Cumulative translation reserve[1] (KZT million)	Hedging reserve[1] (KZT million)	Retained earnings[1] (KZT million)	Total equity attributable to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
31 December 2015	**286,811**	**(52,291)**	**(6,405)**	**5,201**	**(2,284)**	**(4,242)**	**405**	**146,064**	**373,259**	**9**	**373,268**
Net income	-	-	-	-	-	-	-	507	507	1	508
Other comprehensive income/(loss)	-	-	-	6,768	712	302	(343)	-	7,439	-	7,439
Total comprehensive income/(loss)	-	-	-	6,768	712	302	(343)	507	7,946	1	7,947
Repurchase of treasury shares	-	(238)	-	-	-	-	-	-	(238)	-	(238)
Sale of treasury shares	-	307	-	-	-	-	-	-	307	-	307
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(454)	-	-	-	454	-	-	-
Dividend payment	-	-	-	-	-	-	-	-	-	(4)	(4)
31 December 2016	**286,811**	**(52,222)**	**(6,405)**	**11,515**	**(1,572)**	**(3,940)**	**62**	**147,025**	**381,274**	**6**	**381,280**

[1] The amounts included within the Investments available-for-sale fair value deficit, Cumulative translation reserve, Hedging reserve and Retained earnings, in the above table, are included within "Other reserves" in the consolidated statement of financial position.

On behalf of the Management Board:

Iskendirov A.M.
First Deputy Chief Executive Officer

20 April 2017
Almaty

Salikhova N.M.
Chief Accountant

20 April 2017
Almaty

The notes on pages 16-122 form an integral part of these consolidated financial statements.

Joint Stock Company Kazkommertsbank

Consolidated Statements of Cash Flows
For the years ended 31 December 2016, 2015 and 2014

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received from financial assets at fair value through profit or loss	6,403	10,650	6,201
Interest received on loans and advances to banks and other financial institutions	18,942	9,031	5,921
Interest received from loans to customers	126,652	129,600	169,085
Interest received from bonds of JSC National Welfare Fund Samruk-Kazyna	-	28,376	19,350
Interest received from investments available-for-sale	1,875	6,778	2,580
Interest received from investments held to maturity	13,465	1,452	426
Interest paid on loans and advances from banks and other financial institutions	(5,094)	(9,338)	(22,323)
Interest paid on customer accounts	(142,665)	(108,034)	(95,932)
Interest paid on debt securities issued	(53,692)	(44,339)	(28,162)
Interest paid on other borrowed funds	(3,005)	(2,369)	(9,195)
Interest paid on subordinated debt	(20,091)	(6,319)	(6,998)
Fee and commission received	49,814	49,125	41,864
Fee and commission paid	(20,531)	(19,071)	(16,646)
Income from sale of inventory	18,639	1,201	2
Other income received	16,407	13,155	9,010
Operating expenses paid	(80,432)	(79,983)	(61,268)
Cash (outflow)/inflow from operating activities before changes in operating assets and liabilities	(73,313)	(20,085)	13,915
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Funds deposited with National Bank of the Republic of Kazakhstan	2,411	(14,737)	959
Funds deposited with Central Bank of Russian Federation	(2,728)	(1,461)	729
Funds deposited with National Bank of the Kyrgyz Republic	-	-	(35)
Funds deposited with National Bank of Tajikistan	110	(409)	(63)
Precious metals	652	(1,082)	(335)
Financial assets at fair value through profit or loss	135,252	(69,099)	(15,433)
Loans and advances to banks and other financial institutions	34,142	(173,927)	35,228
Loans to customers	(10,740)	124,938	50,870
Other assets	(38,074)	(9,865)	31,334
Increase/(decrease) in operating liabilities:			
Loans and advances from banks and other financial institutions	365,182	53,737	83,547
Customer accounts	(363,662)	31,552	(114,167)
Other liabilities	13,493	(2,643)	626
Cash inflow/(outflow) from operating activities before taxation	62,725	(83,081)	87,175
Income tax paid	(31,449)	(18,151)	(10,890)
Net cash inflow/(outflow) from operating activities	31,276	(101,232)	76,285

Consolidated Statements of Cash Flows (Continued)
For the years ended 31 December 2016, 2015 and 2014

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets	(5,064)	(11,272)	(6,963)
Proceeds on sale of property and equipment	1,105	6,011	100
Proceeds on sale of assets classified as held for sale	26,606	16,668	-
Dividends received	869	1,297	1,438
Proceeds on sale of investments available-for-sale	56,934	43,918	5,042
Purchase of investments available-for-sale	(27,636)	(2,322)	(52,169)
Proceeds on acquisition of subsidiary (Note 2)	-	-	20,595
Proceeds on sale of subsidiaries	-	4,071	-
Purchase of investments in subsidiary (Note 2)	-	(73,498)	-
Purchase and capitalization of investment property	(3,943)	(1,324)	(22,349)
Proceeds from disposal of investment property	53	76	445
Proceeds on maturity of investments held to maturity	4,130	727	912
Purchase of investments held to maturity	(7,329)	(185,543)	(8,498)
Net cash inflow/(outflow) from investing activities	45,725	(201,191)	(61,447)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital	-	73,510	-
Purchase of treasury shares	(238)	(379)	(52,004)
Sale of repurchased treasury shares	307	444	337
Proceeds from debt securities issued	7,482	97,992	60,548
Repurchase and repayment of debt securities issued	(107,611)	(86,598)	(36,478)
Proceeds from repayment of JSC National Welfare Fund Samruk-Kazyna bonds	-	32,250	-
Proceeds from other borrowed funds	3,528	28,671	26,000
Repayment of other borrowed funds	(26,677)	(5,079)	(5,733)
Proceeds from subordinated debt	-	101,144	-
Repayment of subordinated debt	(51,374)	(12,496)	-
Dividends paid on preference shares	(1,701)	(1,131)	(2,052)
Net cash (outflow)/inflow from financing activities	(176,284)	228,328	(9,382)
Effect of foreign exchange changes on the balance of cash held in foreign currencies	3,573	36,983	25,097
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(95,710)	(37,112)	30,553
CASH AND CASH EQUIVALENTS, beginning of period (Note 14)	268,426	305,538	274,985
CASH AND CASH EQUIVALENTS, end of period (Note 14)	172,716	268,426	305,538

During the years ended 31 December 2016, 2015 and 2014 there were non-cash transfers, which were excluded from the consolidated statements of cash flows and disclosed in Notes 20, 21 and 23.

On behalf of the Management Board:

Iskandirov A.M.
First Deputy Chief Executive Officer

20 April 2017
Almaty

Salikhova N.M.
Chief Accountant

20 April 2017
Almaty

The notes on pages 16-122 form an integral part of these consolidated financial statements.

1. Organisation

Joint Stock Company ("JSC") Kazkommertsbank ("the Bank", "Kazkommertsbank" or "KKB") is a Joint Stock Company and has operated in the Republic of Kazakhstan since 1990. The Bank's activities are regulated by the National Bank of the Republic of Kazakhstan ("the NBRK") in accordance with the license № 1.2.16/222/32 dated 2 December 2014. The Bank's primary business consists of commercial banking activities, operations with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at 135Zh, Gagarin str., Almaty 050060, Republic of Kazakhstan.

As at 31 December 2016, 2015 and 2014, the Bank has 23 branches in the Republic of Kazakhstan.

Kazkommertsbank is a parent company of the banking group ("the Group") which consists of the following subsidiaries consolidated in the financial statements:

Name	Country of operation	Proportion or ownership interest/voting rights As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	Type of operation
JSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	100%	Securities market transactions
Kazkommerts International B.V.	Kingdom of the Netherlands	100%	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Finance II B.V.	Kingdom of the Netherlands	100%	100%	100%	Raising funds for the Bank on international capital markets
CJSC Kazkommertsbank Tajikistan	Republic of Tajikistan	100%	100%	100%	Banking
JSC Commercial Bank Moskommertsbank	Russian Federation	100%	100%	100%	Banking
LLP KUSA KKB-1	Republic of Kazakhstan	100%	100%	100%	Management of stress assets
LLP KUSA KKB-2	Republic of Kazakhstan	100%	100%	100%	Management of stress assets
LLP KUSA KKB-3	Republic of Kazakhstan	100%	100%	100%	Management of stress assets
JSC BTA Securities	Republic of Kazakhstan	100%	100%	-	Securities market transactions and management of assets
LLP AlemCard	Republic of Kazakhstan	100%	100%	-	Payment card processing and other related services
LLP Titan-Inkassatsiya	Republic of Kazakhstan	100%	100%	-	Cash collection services
JSC Life Insurance Company Kazkommerts Life	Republic of Kazakhstan	100%	100%	100%	Life insurance
JSC Insurance Company Kazkommerts-Policy	Republic of Kazakhstan	99.97%	99.97%	100%	Insurance
JSC Grantum APF	Republic of Kazakhstan	-	82.52%	82.52%	Pension fund
LLP Processing Company	Republic of Kazakhstan	-	100%	100%	Payment card processing and other related services
Kazkommerts Capital II B.V.	Kingdom of the Netherlands	-	-	100%	Raising funds for the Bank on international capital markets
JSC GRANTUM Asset Management	Republic of Kazakhstan	-	-	100%	Investment management of pension assets
LLP Kazkom Realty	Republic of Kazakhstan	-	-	100%	Management of stress assets

Name	Country of operation	Proportion or ownership interest/voting rights As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	Type of operation
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	-	-	95.75%	Banking
JSC BTA Bank and related subsidiaries	Republic of Kazakhstan	-	-	47.42%	Banking

Other changes in Group structure

JSC Commercial Bank Moskommertsbank

On 23 May 2016, in accordance with the decision of the Board of Directors of the Bank dated 1 April 2016, the Bank entered into an agreement with its subsidiary bank JSC Commercial Bank Moscommertsbank (hereinafter – "MCB") on the acquisition of an additional issue of ordinary registered uncertificated shares of MCB in the amount of 1,400,000 shares. The Bank's share in the authorized capital of MCB did not change as a result of the transaction.

Merger of BTA Life and Kazkommerts-Life

On 16 September 2015, the Bank decided to merge its subsidiary insurance companies, as a result of which JSC Subsidiary Life Insurance Company of BTA Bank JSC BTA Life ("BTA Life") merged with JSC Life Insurance Company Kazkommerts-Life ("Kazkommerts-Life"). All assets, as well as liabilities of BTA Life towards its clients have been transferred to Kazkommerts-Life.

Merger of BTA Insurance and Kazkommerts-Policy

On 18 December 2014, the shareholders of JSC Subsidiary of JSC BTA Bank BTA Insurance ("BTA Insurance") and JSC Insurance Company Kazkommerts-Policy made a decision on the voluntary reorganization of JSC BTA Insurance and JSC Insurance Company Kazkommerts-Policy by merging JSC BTA Insurance to JSC Insurance Company Kazkommerts-Policy.

On 30 June 2015, in accordance with the Agreement of Accession dated 19 December 2014, assets, liabilities and equity capital of BTA Insurance were transferred to JSC Insurance Company Kazkommerts-Policy. The transfer resulted in the number of shares of JSC Kazkommerts-Policy, owned by the Bank increasing to 505,995 shares, the Bank's share in JSC Kazkommerts-Policy decreased to 99.62% (due to minority shareholders of BTA Insurance).

In the third quarter of 2015 (after the merging of BTA Insurance and JSC Kazkommerts-Policy), the Bank acquired shares of JSC Kazkommerts-Policy from minority shareholders, as a result the Bank's share in the subsidiary increased to 99.67%.

On 10 November 2015, the Bank reported on completion of the process on reorganization of its insurance subsidiary companies as a result of which JSC BTA Insurance has joined JSC Kazkommerts-Policy. All assets, as well as liabilities of BTA Insurance towards its clients have been transferred to Kazkommerts-Policy.

Liquidation of Grantum APF

As a result of the reforms in the pension system of the Republic of Kazakhstan, JSC Grantum APF has stopped accepting pension contributions from its clients and transferred net pension assets under management to JSC Single Accumulating Pension Fund in February 2014.

On 20 June 2014, at the extraordinary General Meeting of Shareholders of JSC Grantum APF, the decision was made on voluntary liquidation of JSC Grantum APF and an appropriate liquidation committee was appointed.

In December 2015, JSC Grantum APF distributed its share capital among shareholders in accordance with the decision of the liquidation committee.

According to the certificate of NBRK on cancellation of actions of 5 March 2016, the share issue of JSC NPF Grantum has been cancelled since 11 March 2016. Registration of the termination of activity of JSC NPF Grantum has been made on 18 May 2016.

Liquidation of Kazkommerts Capital II B.V.

On 5 June 2015, as a result of the completion of a liquidation procedure, the company Kazkommerts Capital II B.V. had been excluded from the Chamber of Commerce of the Netherlands.

Merger of JSC Grantum Asset Management and JSC Kazkommerts Securities

On 15 December 2014, the Board of Directors of the Bank decided on a voluntary reorganization of JSC Grantum Asset Management through a merger with JSC Kazkommerts Securities.

On 17 September 2015, the Bank announced the completion of reorganization of its investment subsidiaries, as a result of which JSC Grantum Asset Management merged with JSC Kazkommerts Securities. JSC Grantum Asset Management ceased its activities, and JSC Kazkommerts Securities was assigned all rights and obligations of JSC Grantum Asset Management.

Sale of OJSC Kazkommertsbank Kyrgyzstan

On 16 February 2015, the Bank sold its stake in OJSC Kazkommertsbank Kyrgyzstan of 95.75%, representing 293,975 ordinary shares, in accordance with the shares sale agreement approved by the Board of Directors of the Bank on 29 January 2015.

Sale of OJSC JSC Subsidiary of BTA Bank London-Almaty Insurance Company

On 21 July 2015, in accordance with the shares sale agreement, the Bank sold its 99.86% stake, representing 1,497,946 ordinary shares, in JSC Subsidiary of BTA Bank London-Almaty Insurance Company. The stake was earlier transferred to KKB in line with the Agreement on the simultaneous transfer of assets and liabilities between KKB and JSC BTA Bank ("BTA").

Sale of JSC BTA Ipoteka

On 18 September 2015, in accordance with the shares sale agreement, the Bank has sold its 100% stake, representing 55,000,000 ordinary shares, in mortgage subsidiary JSC BTA Ipoteka. The stake was earlier transferred to KKB in line with the Agreement on the simultaneous transfer of assets and liabilities between KKB and BTA dated 15 June 2015.

Others

During the fourth quarter of 2015, under the shares sale agreement, the Bank had sold part of its shares in JSC Life Insurance Company Kazkommerts Life and JSC Insurance Company Kazkommerts-Policy (repurchase by issuers).

On 6 October 2016, the Bank sold 100% of ownership interest in LLP Processing Company on the basis of a sale contract, approved by the Board of Directors decision on 5 October 2016.

Shareholders

As at 31 December 2016, 2015 and 2014, the following shareholders owned the issued ordinary shares of the Bank:

	31 December 2016		31 December 2015		31 December 2014	
	Number of shares	Direct ownership,* %	Number of shares	Direct ownership,* %	Number of shares	Direct ownership,* %
Mr. Kenes Rakishev**	344,777,652	43.26	228,642,743	28.69	-	-
JSC Qazaq Financial Group ("QFG") ***	223,922,790	28.10	223,922,790	28.10	223,922,790	33.45
JSC NWF Samruk-Kazyna	85,517,241	10.73	85,517,241	10.73	85,517,241	12.77
JSC Central-Asian Investment Company ("CAIC")****	70,074,945	8.79	185,561,734	23.28	185,561,734	27.72
Mr. Nurzhan Subkhanberdin	47,800,962	6.00	47,800,962	6.00	148,666,001	22.20
Other shareholders	24,893,955	3.12	25,490,812	3.20	25,859,399	3.86
Total*** **	**796,987,545**	**100.00**	**796,936,282**	**100.00**	**669,527,165**	**100.00**

Notes:

* These percentage holdings were calculated based on the direct holding of each shareholder in the total number of ordinary shares outstanding less treasury shares purchased by the Bank and its subsidiaries. JSC Kazkommerts Securities, subsidiary of the Bank, acts as a market-maker of the Bank's shares on the local stock exchange.

** Taking into account the shares belonging indirectly through JSC Qazaq Financial Group as at 31 December 2016, the number of ordinary shares is 568,700,442, the share under control of Mr. Kenes Rakishev totals 71.36%, as at 31 December 2015 the number of shares was 452,565,533, share under control totals 56.79%.

*** Previously JSC Alnair Capital Holding.

**** As at 31 December 2016, taking into account common shares received in trust management from Mr. Subkhanberdin N in the amount of 43,081,009 shares, the total number of common shares under the control of CAIC was 113,155,954 shares, the total share - 14.20%. (As at 31 December 2015, taking into account common shares received in trust management from Mr. Nurzhan Subkhanberdin in the amount of 43,081,009 shares, the total number of common shares under the control of CAIC was 228,642,743 shares, the total share - 28.69%). (As at 31 December 2014, taking into account common shares received for trust management from JSC "National Welfare Fund" Samruk-Kazyna "in the amount of 56,324,076 shares, the total number of shares under the control of CAIC was 241,885,810 shares, the total share - 36.13%).

***** This number is calculated at each reporting date as the total number of the ordinary shares outstanding minus treasury shares purchased by the Bank's market-maker based on the requirements of the Kazakhstan Stock Exchange ("KASE").

In February 2015, the Bank has placed 20,916 ordinary shares at a price of KZT 575.2 per ordinary share and KZT 1,150.4 per global depository receipt, with the basic asset being the Bank's ordinary shares (two ordinary shares per GDR) among existing shareholders - holders of ordinary shares as part of their pre-emptive rights.

On 3 March 2015, the Bank acquired 304,187,299,781 ordinary shares of BTA at a price of KZT 0.24162 per share from Mr. Kenes Rakishev for KZT 73,498 million. This was in line with the integration model approved by the shareholders of the two banks on 26 December 2014. As a result, the Bank's holding in BTA increased to 94.83%. At the same time, Mr. Kenes Rakishev purchased 127,777,704 ordinary shares of the Bank at a price of KZT 575.2 per share under the share offering agreement announced earlier and after receiving necessary regulatory approvals, Mr. Kenes Rakishev became a new major shareholder of the Bank.

On 30 April 2015, Mr. Nurzhan Subkhanberdin sold a 7.22% stake in KKB, representing 57,544,959 ordinary shares, to the major shareholder of the Bank, Mr. Kenes Rakishev. On 29 June 2015, Mr. Nurzhan Subkhanberdin sold a 1.168% stake in KKB, representing 9,313,819 ordinary shares, to the major shareholder of the Bank, Mr. Kenes Rakishev. These transactions were in line with the integration model approved by the shareholders of KKB and BTA on 26 December 2014.

JSC Central Asian Investment Company ("CAIC") owned 185,561,734 ordinary shares of KKB (23.27%) and an additional 56,324,076 ordinary shares carrying voting rights were transferred to trust management under the agreement signed in 2009 with JSC NWF Samruk-Kazyna as part of the government stabilisation programme. Under the agreement between JSC NWF Samruk-Kazyna and CAIC, trust management was due to be in force until either May 2017 or the completion of the integration of KKB and BTA, whichever comes first. Since the integration of KKB and BTA has now been completed, the trust management agreement in respect of KKB's ordinary shares between CAIC and the Fund was terminated effective from 26 June 2015.

To ensure CAIC retains a share of at least 25% in KKB, on 26 June 2015, Mr. Nurzhan Subkhanberdin has transferred 43,081,009 ordinary shares (5.4%) into the trust management of CAIC.

On 3 July 2015 and 4 August 2015, in line with the integration model approved by the shareholders of KKB and BTA on 26 December 2014, Mr. Nurzhan Subhanberdin has sold his part of the ordinary shares of the Bank in the quantity of 11,479,823 (1.44%) and 22,526,438 (2.82%), respectively, to major shareholder of the Bank – Mr. Kenes Rakishev.

On 29 December 2015, Mr. Kenes Rakishev has completed a transaction with JSC Qazaq Financial Group ("QFG") on purchase of its parent company, QFG, which owns 28.08% of issued and placed ordinary shares of KKB. As a result, Mr. Kenes Rakishev became General Partner of QFG with voting and other rights in respect to ordinary shares of the Bank owned by QFG. Thus, Mr. Kenes Rakishev directly and indirectly (via QFG) controls 56.75% of issued and placed ordinary shares of the Bank as at 31 December 2015.

On 2 February 2016, the Bank announced the completion of the sale of 608,374,602,366 common shares of BTA, which is 99.4187% of the total number of common shares of BTA. These shares of BTA were sold to the following shareholders of the Bank: Mr. Kenes Rakishev - 299,211,380,223 shares (or 49.18% of the sold shares of BTA), Mr. Nurzhan Subkhanberdin - 299,211,380,223 shares (or 49.18% of the sold shares of BTA), minority shareholders of KKB - 9,951,841,920 shares (or 1.64% of the sold shares of BTA). After selling these shares of BTA, the Bank ceased to be a shareholder of BTA. These common shares of BTA were sold in accordance with and within the framework of the offer made to the Bank's shareholders at the selling price of 0.00001 KZT per common share.

On 20 April 2016, Mr. Kenes Rakishev has reached a preliminary agreement with Mr. Nurzhan Subkhanberdin and CAIC on the repurchase of their common shares of the Bank. Under this agreement, Mr. Kenes Rakishev acquired from CAIC, 115,486,789 common shares of the Bank, as a result of which the direct share of Mr. Kenes Rakishev in the Bank grew from 28.67% to 43.15%. Taking into account the shares belonging to him indirectly through JSC Qazaq Financial Group, the total shares under the control of Mr. Rakishev is 71.23%.

On 10 June 2016 Mr. Kenes Rakishev completed the purchase of common shares from shareholders, announced on 6 May 2016 in accordance with paragraph 3 of Article 25 of the Law "On Joint Stock Companies". Following the results of filed applications and executed orders, minority shareholders purchased 648,120 ordinary shares of the Bank at a price of KZT 211.4978 per share.

Due to a decrease in the share of CAIC in the capital of the Bank, JSC Central Asian Investment Company voluntarily surrendered the status of a banking holding company. In accordance with the Resolution of the National Bank of the Republic of Kazakhstan No. 162 from 27 June 2016, the status of the Bank's holding company was withdrawn from CAIC and granted the status of a major participant in the Bank.

Information on major shareholders

JSC Central Asian Investment Company (hereinafter referred to as "CAIC") is a large participant of JSC Kazkommertsbank. The only shareholders of CAIC are: Mr. Nurzhan Subkhanberdin (Share in CAIC - 87.21%) and Zhusupova N.A. (Share in CAIC - 12.79%).

QFG is a company operating under the laws of the Republic of Kazakhstan whose sole participant is Qazaq Capital Management LLP exercising all the rights of the participant and manager of the company's activity. QFG group of companies has been the Bank's shareholder from 2008 possessing the official status of the bank holding company which was obtained with approval of the NBRK. QFG mainly holds shares in the form of GDRs which are included into the total number of shares being in the nominal holding of the Central Depositary.

JSC NWF Samruk-Kazyna is an entity controlled by the Government of the Republic of Kazakhstan.

These consolidated financial statements were authorized for issue by the Management Board of the Group on 20 April 2017.

2. Operations with JSC BTA Bank

Acquisition of JSC BTA Bank

On 30 June 2014, the Bank and Mr. Kenes Rakishev, each purchased a 46.5% equity stake in BTA from JSC National Welfare Fund Samruk-Kazyna ("JSC NWF Samruk-Kazyna"). Meanwhile, JSC NWF Samruk-Kazyna transferred its remaining 4.26% in BTA to the Bank under a Trust Agreement providing the Bank with over 50% of the voting rights and operational control of BTA.

During the third quarter of 2014, the Bank and Mr. Kenes Rakishev acquired 11,783,301,082 ordinary shares of BTA from minority shareholders at a price of KZT 0.24162 per share. In accordance with the contractual agreements, all shares purchased from minority shareholders of BTA were distributed equally between the Bank and Mr. Kenes Rakishev at the same price (KZT 0.24162 per share).

Acquisition cost of BTA is as follows:

	Carrying value 30 June 2014 (unaudited) (KZT million)	Fair value 30 June 2014 (unaudited) (KZT million)
Assets		
Cash and balances with national (central) banks	39,367	39,367
Financial assets at fair value through profit or loss	60,677	60,711
Loans and advances to banks and other financial institutions	56,873	60,676
Loans to customers	607,619	527,917
Bonds of JSC National Welfare Fund Samruk-Kazyna	656,216	659,116
Investments available-for-sale	35,319	35,317
Investments in associates	12,408	12,408
Goodwill	998	998
Property, equipment and intangible assets	10,768	10,768
Other assets	98,220	98,220
	1,578,465	1,505,498
Liabilities		
Loans and advances from banks and other financial institutions	497,740	498,478
Customer accounts	547,085	548,786
Derivative financial instruments	10,426	10,426
Debt securities issued	87,773	105,973
Other borrowed funds	129,529	146,492
Provisions	30,475	30,475
Deferred tax liabilities	214	214
Dividends payable	10	10
Other liabilities	28,043	28,043
	1,331,295	1,368,897
Net assets		136,601
Non-controlling interest		74,149
Net assets acquired		136,601
Less: non-controlling interest in subsidiaries of JSC BTA Bank		(2,296)
Net assets attributable to acquisition		134,305
Net acquired assets, 46.5%		62,452
Consideration transferred		(62,452)
The excess of Bank's share in cost of acquired net assets of BTA Bank over consideration transferred		-

Consideration transferred:

	BTA (KZT million)
Consideration paid	31,000
Consideration payable	31,452
Total	**62,452**

Net cash inflow on acquisition of subsidiary:

	BTA (KZT million)
Consideration paid in cash	31,000
Less: cash and cash equivalent balances acquired	(51,595)
	(20,595)

The non-controlling ownership interest (53.5%) in BTA recognised at the acquisition date was measured by reference to the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets and amounted to KZT 74,149 million.

The initial accounting for the acquisition of BTA has been determined at the end of the reporting period, based on the fair value information.

The loans acquired (to customers and to banks) had fair value of KZT 527,917 million and KZT 60,676 million, respectively, and gross contractual amounts of KZT 3,403,990 million and KZT 66,433 million, respectively. The best estimate at acquisition date of the amounts expected not to be collected on these contractual cash flows is KZT 2,796,371 million and KZT 9,560 million, respectively.

Transfer of assets

On 15 June 2015, KKB and BTA have signed an agreement on the simultaneous transfer of assets and liabilities ("the Agreement") between the two banks. Under the Agreement, certain assets and liabilities of BTA were transferred to KKB, and a portion of KKB's distressed assets was transferred to BTA.

According to the Agreement, the following assets and liabilities of BTA were transferred to KKB:

1. all current and savings account balances opened in BTA of legal entities and individuals;
2. balances on active card accounts, together with the corresponding payment cards;
3. claims on loans to corporate, small and medium entrepreneurships and retail customers;
4. BTA's operating branches and offices;
5. part of BTA's property, equipment and buildings, inventories, securities and cash;
6. shares in BTA subsidiaries: JSC Subsidiary of JSC BTA Bank BTA Insurance, JSC Subsidiary of JSC BTA Bank BTA Life, JSC SK Leasing, JSC Subsidiary of JSC BTA Bank BTA Securities, JSC Subsidiary of JSC BTA Bank BTA Ipoteka, JSC Subsidiary of JSC BTA Bank Insurance company London-Almaty, LLP Subsidiary of JSC BTA Bank Alem Card and LLP Titan-Inkassatsiya.

In turn, the following assets of KKB were transferred to BTA:

1. claims on loans to corporate customers;
2. equity interest in LLP Kazkom Realty, the Bank's subsidiary that manages real estate-related distressed assets.

On 27 August 2015, in line with the Agreement, 48,125 ordinary shares (55% of the total outstanding ordinary shares issued by JSC SK Leasing were transferred to BTA.

The Agreement took into account peculiarities of the transferred assets, their changes and called for the need to:

- Conduct the reconciliation in order to identify actually transferred assets and liabilities, recording any changes in the condition of the assets and liabilities and determination of assets and liabilities at the date of the actual transfer;
- Direct the results of verification to an independent appraiser in order to determine the market value of the assets of BTA and KKB, transferred under the Agreement;
- Adjust balances of counterclaims based on the value determined by an independent appraiser, and to deliver an adjusted balance for approval by the Board of Directors of KKB and BTA. The adjusted balance of counterclaims should reflect: the market value of the assets of BTA, transferred to KKB, determined by an independent appraiser; the amount of money transferred to BTA in favor of KKB; the market value of the assets of KKB, transferred to BTA, determined by an independent appraiser; the total carrying amount of liabilities of BTA, transferred to KKB, and adjusted amount of the debt of BTA.

Taking into account the amendments to the Agreement as at 14 December 2015, the adjusted balance of the counterclaims based on the fair value of assets at the date of transfer (on 15 June 2015) is as follows:

- The fair value of the assets of BTA, as at 15 June 2015, transferred to KKB amounted to KZT 343,648 million, including the cash in the amount of KZT 29,763 million.
- The fair value of assets of KKB as at 15 June 2015, transferred to BTA amounted to KZT 1,158,034 million.
- The total fair value of liabilities of BTA, transferred to KKB amounted to KZT 356,213 million.
- The total fair value of KKB assets, as at 15 June 2015, transferred to BTA, exceeded the total market value of BTA's assets, as at 15 June 2015, transferred to KKB (net of liabilities of BTA, transferred to KKB) by KZT 1,170,599 million.

The difference between fair and carrying value of the assets received/transferred in accordance with the Agreement, was KZT 40,446 million and was reflected in the statement of changes in equity in the line "Effect of simultaneous transfer of assets and liabilities". On consolidation, due to eliminations of intragroup transactions the overall effect recognized in SOCIE amounted to KZT 2,091 mln.

On 22 June 2015, the Board of Directors of the Bank has made a decision to open a credit line to BTA under (i) the Agreement on simultaneous transfer of assets and liabilities between the Bank and BTA; (ii) the Agreement on transfer of liabilities between JSC NWF Samruk-Kazyna, KKB and BTA by signing respective credit documentation (in KZT and in USD); and (iii) the Agreement on transfer of debt as at 14 November 2014 between the Bank and BTA.

The Bank and BTA have signed an Agreement on opening of a credit line, under which the Bank has opened a credit line to BTA with a limit of KZT 630,000 million and USD 5,600 million with maturity on 30 June 2024 and an interest rate of 9% for loan denominated in KZT and 8% for loan denominated in USD. BTA shall make quarterly repayments of principal and interest in fixed amounts, stated in the Agreement, with the remaining debt to be repaid at maturity.

Disposal of JSC BTA Bank

After the simultaneous transfer of assets and liabilities and cancellation of BTA's banking license, KKB transferred control over BTA to its main shareholders and excluded BTA from its consolidated financial statements, starting from 30 June 2015.

On 25 September 2015, the Bank completed the redemption procedure of BTA shares in the amount of 27,351,461,050 ordinary shares (4.26%) from JSC NWF Samruk-Kazyna, which prior to this date were under trust management of KKB. An agreement of trust management of BTA shares was previously signed between KKB, as trustee, and JSC NWF Samruk-Kazyna, as the founder of the trust management on 31 January 2014, in line with the integration model of KKB and BTA.

On 9 December 2015, the Board of Directors of KKB decided to dispose 608,374,602,366 ordinary shares issued by BTA under terms and conditions specified by the Board of Directors of KKB. In accordance with the decision, on 28 December 2015, the major shareholders of the Bank, Mr. Kenes Rakishev and Mr. Nurzhan Subkhanberdin, have signed agreements on the sale of BTA shares in the amount of 294,246,757,376 shares each. Management did not consider the disposal and ultimate deconsolidation of BTA as a discontinued operations as at the time of disposal BTA did not represent a separate major line of business or geographical area of operations.

Disposed assets and liabilities of BTA on the date of loss of control:

	30 June 2015 (unaudited) (KZT million)
ASSETS:	
Cash and balances with national (central) banks	981
Financial assets at fair value through profit or loss	2,658
Loans and advances to banks and other financial institutions	153,257
Loans to customers	789,038
Investments available-for-sale	14,990
Investments in associates	6,167
Goodwill	24
Investment property	188,914
Property, equipment and intangible assets	9,313
Other assets	395,998
Assets classified as held for sale	11,769
Total assets	**1,573,109**
LIABILITIES:	
Loans and advances from banks and other financial institutions	1,343,505
Customer accounts	32,764
Other borrowed funds	141,037
Provisions	1
Deferred income tax liabilities	49
Other liabilities	25,709
Liabilities directly associated with assets classified as held for sale	6,173
Total liabilities	**1,549,238**
Net assets disposed	23,871

Loss on disposal of a subsidiary:

	On the date of disposal
Investments in BTA stated at fair value	-
Net assets disposed	(23,871)
Non-controlling interest in subsidiaries of BTA	2,712
Loss on disposal	**(21,159)**

Loss on disposal is reflected as loss from disposal of subsidiary in the consolidated statement of changes in equity, in the line "Disposal of subsidiary".

As at 30 June 2015, investments in BTA were reclassified to investments available-for-sale, due to loss of control and absence of significant influence.

3. Significant accounting policies

Going concern principle

These financial statements have been prepared on going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business of the Group within the foreseeable future.

For the year ended 31 December 2016, the Group incurred a net profit after tax in the amount of KZT 508 million.

During the fourth quarter of 2016, the Group, BTA and their shareholders entered into negotiations with the Government of the Republic of Kazakhstan, represented by the Ministry of Finance, the NBRK and JSC Problem Loan Fund, on the coverage of possible risks connected with the loans owed to the Group by BTA Bank. In particular, this process intends to purchase certain assets from BTA, to allow BTA to repay in full, the amount outstanding to the Group. These negotiations resulted in the signing of a Memorandum of Understanding ("MoU") on 2 March 2017, the key points of which were publicly announced by the parties to the agreement.

On 20 April 2017, the Bank received notification from the NBRK to develop a plan for resolving issues related to the adequacy of loan portfolio provisions. Management are currently preparing a plan to submit to the NBRK, a key component of which is the successful implementation of MoU and the full repayment by BTA, which is expected to occur in the second quarter of 2017.

Management believe the Group will continue as a going concern for the foreseeable future, as;

- the repayment of the loans by BTA will provide the Group additional liquidity and significantly reduce the capital requirements due to the changes in the risk weighting on repayment;
- Management continue to successfully work out existing non performing assets and focus on collections;
- Management continue to implement the approved strategy of the Group;
- Management continue to strengthen the Bank's technological leadership in the market.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Boards ("IASB").

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in millions of Kazakhstani tenge ("KZT"), unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and certain property and equipment which are carried at revalued cost less depreciation and impairment as explained 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 Group 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 consolidated 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.

Kazkommertsbank and its subsidiaries (except for subsidiaries in Russian Federation and Republic of Tajikistan) maintain their accounting records in accordance with IFRS. Subsidiaries in Russian Federation and Republic of Tajikistan maintain their accounting records in accordance with local GAAP and their financial statements are prepared from the local statutory accounting records and adjusted to conform with IFRS.

These consolidated financial statements have been prepared based on the accounting records of the Bank and its subsidiaries. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

The Group presents its consolidated 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 37.

Functional currency

Items included in the financial statements of each entity of the Group 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 Kazakhstani tenge. The presentation currency of the consolidated financial statements is Kazakhstani tenge.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interest

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interest are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, with some exceptions.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holders of the Parent. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent and to the non-controlling interests. Total comprehensive income is attributed to the equity holders of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Parent.

When the Bank loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the owners of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting.

Financial assets and financial liabilities are initially recognised 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 recognised immediately in profit or loss. The accounting policies for subsequent remeasurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

Financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

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

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group 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 financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Cash and balances with national (central) banks

Cash and balances with national (central) banks include cash on hand and unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan, the Central Bank of the Russian Federation, the National Bank of Kyrgyz Republic and the National Bank of Tajikistan with original maturities within three months.

Cash and cash equivalents

For the purposes of determining cash flows, cash and cash equivalents includes advances to banks with original maturities within three months, cash and balances with national (central) banks less the minimum reserve deposits required by the Central Bank of the Russian Federation, the National Bank of the Republic of Kazakhstan, the National Bank of the Kyrgyz Republic and the National Bank of Tajikistan.

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 on the date. Changes in the bid prices are recorded in net gain/(loss) on foreign exchange and precious metals operations.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities: (1) acquired principally for the purpose of selling them in the near future, (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking, or (3) which are designated by the Group at fair value through profit or loss upon initial recognition.

A financial asset or liability other than a financial asset or liability held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; (2) the financial asset or 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 Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. Fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognised in the consolidated statement of profit or loss for the period and is included in Net gain/(loss) from financial assets and liabilities at fair value through profit or loss line item. Fair value is determined in the manner described in Note 35.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, futures, swaps and options on foreign currency, precious metals and securities to manage currency, interest rate and liquidity risks and for trading purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured 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 within financial assets or financial liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in Net gain/(loss) from financial assets and liabilities at fair value through profit or loss in the consolidated 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 consolidated statement of profit or loss. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a non-derivative 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.

Loans and advances to banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks and other financial institutions. Loans and advances to banks and other financial institutions with a fixed maturity term are initially recorded at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction from impairment or uncollectibility.

Securities repurchase and reverse repurchase agreements and lending transactions

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

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets transferred under repos are retained in the consolidated financial statements and the consideration received under these agreements is recorded as a collateralized loan received within loans and advances from banks and other financial institutions.

Financial assets received under reverse repos are recorded in the consolidated financial statements as loans which are collateralized by securities and are classified within Loans and advances to banks and other financial institutions and loans to customers.

In the event that the financial assets received under reverse repos are sold to third parties, the results are recorded in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and resale of the underlying financial assets is accrued over the life of the agreement using the effective interest rate and recognised as interest income or expense in the consolidated statement of profit or loss.

The Group enters into repos and reverse repos agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of 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, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

Loans to customers

Loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans to customers granted by the Group are initially recognised at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognised as a loss on initial recognition of the loan and included in the consolidated statement of profit or loss according to the nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances to banks and customers 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 Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as a decrease of charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. A lease is classified as a finance lease if:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group as a lessor presents finance leases within Loans to customers and initially measures them in the amount equal to net investment in the lease. Subsequently, the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the finance lease.

Investments available-for-sale

Investments available-for-sale represents debt and equity investments that are intended to be held for an indefinite period of time. Investments in available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Investments available-for-sale are initially recorded at fair value and subsequently are measured at fair value, with such re-measurement recognised in other comprehensive income and accumulated within the Investments available-for-sale fair value reserve which is included in Other reserves category within equity, except for impairment losses, foreign exchange gains or losses, interest income accrued using the effective interest method and dividends on available-for-sale equity investments, which are recognised directly in the consolidated statement of profit or loss. When sold, the cumulative gain or loss previously accumulated in the Investments available-for-sale fair value reserve is reclassified to profit or loss. Fair value is determined in the manner described in Note 35.

Dividends on available-for-sale equity investments are recognised when the Group's right to receive the dividends is established and are included in dividend income in the consolidated statement of profit or loss.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has a positive intent and the ability to hold them to maturity. Such securities are carried at amortized cost, using the effective interest rate method, less any allowance for impairment. Amortized discounts or premiums are recognised in interest income over the period to maturity using the effective interest method.

Impairment of financial assets

Financial assets carried at amortized cost

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. Such impairment losses are not reversed unless 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 recognised, such as recoveries, in which case the previously recognised impairment loss is reversed by adjustment of an allowance account to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Investments available-for-sale

If an available-for-sale asset is impaired, the cumulative loss comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss, is reclassified from equity to the consolidated statement of profit or loss. Reversals of impairment losses in respect of equity securities classified as available-for-sale are not recognised in the consolidated statement of profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated within the Investments available-for-sale fair value reserve which is included in Other reserves line item within equity. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss.

For the financial assets recorded at cost the impairment represents the difference between the carrying value of the financial asset and present value of the estimated future cash flows discounted using the current market interest rate for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included in the consolidated statement of profit or loss using the provision account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of 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.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Group can incur losses greater than recorded impairment.

Goodwill

Goodwill arising on the acquisition of a business is carried at cost as established at the date of acquisition of the business (see paragraph Business Combinations above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, equipment and intangible assets

Property and equipment, except for buildings, other real estate and intangible assets are carried at historical cost less accumulated depreciation and amortization. Buildings and other real estate are carried at market value, market value is revised on an annual basis. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization of property, equipment and intangible assets are charged on the carrying value of property and equipment and are designed to write off assets over their useful economic lives. Depreciation and amortization are calculated on a straight-line basis at the following annual prescribed rates:

Buildings and other real estate	1-10%
Furniture and equipment	4-50%
Intangible assets	15-50%

Freehold land is not depreciated.

Leasehold improvements are amortized over 5 years. Expenses related to repairs and renewals are charged when incurred and included in operating expenses in the consolidated statement of profit or loss, unless they qualify for capitalization.

The carrying amounts of property, plant and equipment and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use, where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognised in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by an 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 land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to consolidated 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.

Market value of property is assessed using one of three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property based on available public information;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

An item of property, plant 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, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. When the Group determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Assets classified as held for sale

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the 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.

Non-current assets held for sale are measured at the lower of its 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 recognised in the consolidated statement of profit or loss as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognised to the extent of the cumulative impairment loss that was previously recognised in relation to that specific asset.

Discontinued operation

Disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted as of the reporting date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit or taxable temporary difference from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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.

Deferred tax is calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the 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 dealt with in other comprehensive income or equity.

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

- The Group 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.

Countries where the Group operates also have various other taxes other than income tax, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Loans and advances from banks and other financial institutions, customer accounts, debt securities issued, other borrowed funds and subordinated debt

Loans and advances from banks and other financial institutions, customer accounts, debt securities issued, other borrowed funds and subordinated debt are initially recognised at fair value less transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognised when the Group 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.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group 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 recognised at fair value. Subsequently they are measured at the higher of (a) the amount recognised as a provision as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognised less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

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

Share capital and share premium reserve

Share capital is recognised at historical cost. The amount of share capital may be changed through placement of treasury shares (increase in capital), as well as through repurchase of treasury shares (decrease in capital).

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognised in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" and disclosed accordingly.

Preference shares

Preferred shares that mandate the payment of dividends at a predetermined guaranteed amount shall be treated as compound financial instruments that contain a liability. On initial recognition, the fair value of the debt component is measured by discounting the expected future cash flows at the market rate for similar debt instruments and recognised in the statement of financial position as a liability, as well as in the additional paid-in capital. Subsequently, the debt component is measured according to the same principles as those used for subordinated debt, and equity component is measured according to the same principles as for share capital. Current period dividends relating to these shares are recognised as expenses in profit or loss.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the countries in which the Group operates certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged in the period in which the related salaries are earned. Upon retirement all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the state pension system of the countries in which the Group operates. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognised on an accrual basis 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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to the consolidated statement of profit or loss when the related transactions are completed. Interest income, received on assets assessed at fair value, is classified as interest income.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct and incremental costs, and recognised as an adjustment to the effective interest rate of the loan. 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 recognised 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 recognised in the consolidated statement of 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 recognised in the profit or loss on expiry. Loan servicing fees are recognised as revenue as the services are provided. Loan syndication fees are recognised in the consolidated statement of profit or loss when the syndication has been completed. All other commissions are recognised when services are provided.

Underwriting income and expenses

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and insurance policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within Provisions in the accompanying consolidated statement of financial position.

Losses and loss adjustments are charged to the consolidated statement of profit or loss as incurred.

Commissions earned on ceded reinsurance contracts are recorded to the consolidated statement of profit or loss at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated statement of financial position within other assets, and are amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognised as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

Reserve for insurance losses and loss adjustment expenses is a summary of estimates of ultimate losses, and includes both claims reported but not settled ("RBNS") and claims incurred but not reported ("IBNR").

RBNS is created for significant reported claims not settled at the reporting date. Estimates are made on the basis of information received by the Group during its investigation of insured events. IBNR is estimated by the Group based on its previous history of claims/indemnification of claims using actuarial methods of calculation, which include loss triangulation for insurance classes for which there is statistical data. For the types of insurance that do not have statistical data, IBNR is calculated according to the NBRK requirements as not less than 5% of the written premiums net of commission, for the last twelve months prior to reporting date.

Life insurance

The reserves for claims and claims incurred for annuity contracts are determined as the sum of the discounted value of the expected future benefits, annuities handling and contracts administration expenses, which are directly related to the contract, less the discounted value of the expected estimated premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The reserves are either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

The reinsurers' share in the provision for losses is calculated in accordance with the reinsurers' share under the reinsurance contracts.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the accompanying consolidated statements of financial position within other assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the Group to the reinsurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Rates of exchange

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year end are as follows:

	31 December 2016	31 December 2015	31 December 2014
KZT/1 US Dollar	333.29	340.01	182.35
KZT/1 Euro	352.42	371.46	221.59
KZT/1 Kyrgyz Som	4.8	4.43	3.10
KZT/1 Russian Rouble	5.43	4.61	3.13
KZT/1 Tajikistan Somoni	42.4	50.81	35.35

Collateral

The Group 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 Group a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity on the Group's statement of financial position include:

- 'Property and equipment revaluation reserve' which comprises revaluation reserve of land and buildings;
- 'Investments available-for-sale fair value reserve/(deficit)' which comprises changes in fair value of available-for-sale investments;
- 'Cumulative translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- 'Hedging reserve' which is used to record the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. Since late 2009, the hedge did not meet the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs;
- 'Statutory reserve' which reflects the difference between provisions calculated in accordance with local requirements and provisions calculated under IFRS. The difference is attributable to fundamental methodological deviations including the impact of discounted future cash flows and the impact which certain forms of collateral have on the level of provision. Before 1 January 2013 this reserve was required by legislation of the Republic of Kazakhstan and is created through appropriations of retained earnings. This requirement was cancelled by NBRK effective from 1 January 2013.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the Group intends either 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 Group does not offset the transferred asset and the associated liability.

Fiduciary activities

The Group provides depositary services to its customers, which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

The segments are identified on the basis used by the Group's chief operating decision maker (Management Board) to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The segments are managed primarily on the basis of their results, which excludes certain unallocated costs related to interest expense on debt securities issued and loans and advances to banks and other financial institutions and operating expenses other than salaries and other employee benefits. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported based on the domicile of the company within the Group.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the Group management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Allowance for impairment losses of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables 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 Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group 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 Group estimates changes in future cash flows based on past performance, past customer behavior, 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. The Group uses management's judgement to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The most significant judgement is applied in assessing impairment levels in real estate loans and construction financing. Current economic and market conditions make historical statistical loss levels less relevant in determining the inherent loss levels in the loan portfolio. Instead, management is required to use recent empirical evidence of impairment or employ analytical tools to estimate future economic value of collateral secured under loans or the expected cash generating ability of the borrowers' business. This area of judgement bears significant sensitivity to various risk factors, such as general economic growth, central government involvement, support of local authorities, trends in the housing and commercial real estate markets, and changes in the regulatory environment. The assumptions underlying this judgement are highly subjective.

The level of loan loss provisions for this loan category at the reporting date is supported by following factors:

- The economic value assessment of collateral under real estate loans. In some cases management used certain assumptions to determine the inherent value of collateral, such as land, based on highest and best use, current observable lease rates and sale prices for commercial and residential real estate. Moreover, the assessment sometimes depends on expectations that local municipal government will continue funding capital expenditure costs for infrastructure development in and around any given real estate project. In certain cases, the requirement for additional financing as well as investment is factored into determining the value.
- The Bank has formulated a work-out strategy for construction loans, which is currently being implemented, most significantly in Almaty and Astana. In many cases the approach taken by the Bank necessitates close partnership with local municipal authorities, construction subcontractors, suppliers of construction materials, and the availability of construction materials, specialized equipment and labour.
- Incomplete construction projects are more likely to result in past due construction loans. Therefore, the Bank encourages additional investments in incomplete construction projects, which in turn increase an opportunity to generate more cash flows for existing borrowers of the Bank that are involved in ancillary services to the construction sector, such as equipment leasing, construction materials, site management, labour outsourcing, transportation, security, and other services.

Fair value changes in the above factors and assumptions may result in significant adjustment to loan loss provisions and the carrying value of loans to customers. Management seeks to regularly update assumptions and the approach it has taken toward individual borrowers.

The allowances for impairment losses of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in these 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 impairment of a loan is identified within credit monitoring, which includes monitoring of payments of the customer and preparation of regular monitoring reports on the customer and his loans every 6 or 12 months, depending on the solvency of the customer. In addition, on a regular basis the credit managers monitor the quality of the loan, financial position and business of the customer, and observe the terms of the loan agreements. For the purpose of provisioning, an assessment of impairment losses for corporate loans is performed on an individual basis.

If there is a default on payments of principal or accrued interest for 90 days or more, as well as in the case of an event which adversely affects the creditworthiness of the borrower, the Group classifies corporate loans as non-performing and, therefore, as impaired.

The Group classifies consumer (retail) loans and small business loans as non-performing or impaired if there is a delay in payment of the principal or accrued interest for 90 days or more. For the purposes of provisioning for impairment, assessment of such loans is performed on a pool basis, at the portfolio level.

According to the Group's credit portfolio management policy, if at least one loan of a customer is recognised as impaired based on the above mentioned criteria, the total debt of such a customer is considered impaired, i.e. other performing loans of such customer are also recognised as impaired.

All loans other than those included in the non-performing or impaired categories are assessed collectively. Homogeneous and/or collective loans are not assessed for impairment on an individual basis, because there is not enough objective information on such loans for assessment of their impairment.

The Group creates an allowance for impairment losses in order to cover credit losses, including losses where the asset is not specifically identified. At least monthly, the provision for impairment losses on interest bearing assets is reviewed by the Chairman of the Board, the Head of Risk Management Department №1, the Chief Financial Officer, and the Chief Accountant. At least quarterly, the provision for impairment losses and overall credit quality is reviewed by the Board of Directors. The amount of provision is reviewed relative to the credit portfolio and current economic conditions. The amount of provision is determined by individual and portfolio-based approaches. As at 31 December 2016, 2015 and 2014, management deemed the provision for impairment losses to be appropriate and sufficient to absorb losses that are inherent to the Group's loan portfolio.

As at 31 December 2016, the key sources of estimation uncertainty on loans to customers amounting to KZT 2,768,268 million related to the following matters;

As at 31 December 2016, 2015 and 2014, the Group had loans receivable from BTA, an entity under common control, in the gross amount of KZT 2,465,831 million, KZT 2,312,385 million and KZT nil, respectively. During the fourth quarter of 2016, the Group, BTA and its shareholders entered into preliminary negotiations on separation of the loans to BTA from the Group, with the Government of the Republic of Kazakhstan, represented by the Ministry of Finance, the NBRK and JSC Problem Loan Fund. These negotiations culminated with the signing of a Memorandum of Understanding on 2 March 2017, which will result in allowing BTA to repay the loans to the Group in full. Management have assessed the provision level against these loans based on the completion of this transaction in the second quarter of 2017.

As at 31 December 2016, the Group was in the process of obtaining, documenting and processing the pledging of additional collateral against certain loans to a group of borrowers in the nominal amount of KZT 105,683 million. The pledging of additional collateral requires extensive documentation and the registration of each individual item of collateral with the Ministry of Justice of the Republic of Kazakhstan, which may take a considerable period of time. The provision level against these loans takes into consideration sufficient collateral being successfully pledged.

As at 31 December 2016, the Group had loans to customers outstanding from certain borrowers in the nominal amount of KZT 68,924 million. This includes an amount of KZT 28,011 million, which are collateralized by guarantees from individuals the recoverability of which has been assessed based on the limited information available. In addition, as at 31 December 2016, borrowers in the amount of KZT 40,913 million had entered into negotiations with Management on repayment of the amount outstanding in the form of the transfer of various items of real estate. The allowance for impairment losses is based on the successful completion of the transfer of sufficient real estate to cover the amount outstanding, the value of which is subject to judgement.

As at 31 December 2016 and 2015, the Group had certain amounts outstanding to borrowers operating in the Russian Federation in the nominal amount of KZT 127,830 million and KZT 124,330 million, respectively. These loans are uncollateralized and the repayment is dependent on the borrowers ability to generate sufficient future cash flows from a pool of underlying mortgage loans. The probability of the borrowers ability to repay these loans is based on the limited historical information which was available.

Goodwill impairment

The review of goodwill for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

- the future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance, and reflect management's expectations of future business prospects at the time of the assessment; and
- the rates used to discount future expected cash flows are based on the costs of capital assigned to individual CGUs and the rates can have a significant effect on their valuation. The cost of capital percentage is generally derived from a Capital Asset Pricing Model, which incorporates inputs reflecting a number of financial variables, which are subject to fluctuations in external market rates and economic conditions beyond control of the Group.

Impairment testing inherently involves a number of judgemental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

Valuation of financial instruments

As described in Note 35, the Group 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 35 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Recoverability of deferred tax assets

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 profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax to be recovered.

Transactions with entities under common control

Transactions between entities under common control is performed with the use of the predecessor values method with the use of carrying values. The Group applies this principle consistently to all similar transactions. For acquisition of entities under common control the group combines financial statement from the date of the transaction and comparative information is not restated. The difference between consideration and the acquired assets and liabilities is recognised in retained earnings.

4. Application of new and revised IFRS

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 consolidated financial statements:

- Amendments to IAS 1 *Disclosure Initiative;*
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation;*
- Annual Improvements to IFRSs 2012-2014 Cycle.

Amendments to IAS 1 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The Group has applied these amendments for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a. when the intangible asset is expressed as a measure of revenue; or

b. when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The application of these amendments has not resulted in any impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs - 2012-2014 Cycle

The Group has applied these amendments for the first time in the current year. The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has not resulted in any impact on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group 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[2];
- IFRS 16 Leases[3];
- IFRS 2 Classification and Measurement of Share-based Payment Transactions[2];
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4];
- Amendments to IAS 7 – Disclosure Initiative[1];
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses[1];
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance
- Contracts[2];
- IFRIC 22 Foreign Currency Transactions and Advance Consideration[2];
- Amendments to IAS 40 – Transfers of Investment Property[2];
- Annual Improvements to IFRSs 2014-2016 Cycle.

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is 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 to which IFRS 3 applies) 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.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group expects that the adoption of IFRS 9 will result in the increase in the allowance for loan losses. As at the date of issue of these consolidated financial statements, it was not yet possible to determine the extent of the impact of IFRS 9 implementation on the Group's capital. Management does not expect significant changes in the reclassification between financial assets measured at amortized cost and at fair value. The effect of transition will be recognised prospectively as an adjustment to the retained earnings as at 1 January 2018. The Group continues the work with methodology for IFRS 9 implementation including consideration of the regulator and market expectations. The management of the Group expects to complete the work with methodology and assess the impact of IFRS 9 implementation by the end of 2017.

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 of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The management of the Group does not anticipate that the application of these amendments to IFRS 16 may have a significant effect on the consolidated financial statements.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
   a. the original liability is derecognised;
   b. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
   c. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The management of the Company does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

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

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017, with earlier application permitted.

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

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

The amendments clarify the following:

- Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
- When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be offset against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
- The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
- In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits, excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017, with earlier application permitted.

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

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

The amendments provide entities meeting a criterion for engaging in predominantly insurance activities with the option to continue current IFRS accounting and to defer the application of IFRS 9 until the earlier of the application of the new insurance Standard or periods beginning on or after 1 January 2021. The assessment of predominance has to be made at the reporting entity level and at the annual reporting date immediately preceding 1 April 2016. Thereafter, it should not be reassessed, unless there is a significant change in the entity's activities that would trigger a mandatory reassessment. An entity shall apply those amendments, which permit insurers that meet specified criteria to apply a temporary exemption from IFRS 9, for annual periods beginning on or after 1 January 2018.

Separately, the amendments provide all entities with contracts within the scope of IFRS 4 with an option to apply IFRS 9 in full but to make adjustments to profit or loss to remove the impact of IFRS 9, compared with IAS 39, for designated qualifying financial assets. This is referred to as the 'overlay approach' and is available on an asset-by asset basis with specific requirements around designations and de-designations. An entity shall apply those amendments, which permit insurers to apply the overlay approach to designated financial assets, when it first applies IFRS 9.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements as the Group does not have any insurance contracts to which IFRS 4 applies.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration (i.e. when the prepayment or liability in respect of the income received in advance was recognised). If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018, with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively.

The management of the Group does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements, as the Group currently uses the approach prescribed in IFRIC 22.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments are intended to clarify that an entity can only reclassify a property to/ from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments emphasise that a change in management's intentions alone would not be enough to support a transfer of property. The standard has a list of circumstances that evidence a change in use, which is perceived by some as being exhaustive, the amendments make it clear that they are only examples. The amendments apply to annual periods beginning on or after 1 January 2018, with earlier application permitted. Entities may elect to apply them either retrospectively (if it is possible without the use of hindsight) or prospectively.

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

Annual Improvements to IFRSs 2014-2016 Cycle

This annual improvements package amended three standards:

The amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarized financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests.

The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

In accordance with IAS 28, a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at FVTPL. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

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

There are a number of other standards, which have been issued or amended that are expected to be effective in future periods. The management of the Group is evaluating if the application of these amendments may have an effect on the consolidated financial statements.

5. Net interest income

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
Interest income comprises:			
Interest income on financial assets recorded at amortized cost:			
- interest income on collectively assessed impaired financial assets	12,302	29,034	41,127
- interest income on impaired financial assets that have been assessed individually for impairment	33,179	89,438	95,203
- interest income on financial assets that are not impaired including collective not impaired loans	362,163	188,449	169,057
Interest income on financial assets at fair value through profit or loss (financial assets held-for-trading)	22,737	7,276	5,561
Interest income on investments available-for-sale	4,003	5,552	2,631
Discount on customer accounts	-	58,304	-
Total interest income	**434,384**	**378,053**	**313,579**
Interest income on financial assets recorded at amortized cost comprises:			
Interest on loans to customers	374,130	274,776	281,679
Interest on loans and advances to banks and other financial institutions	17,169	13,414	3,605
Interest on investments held to maturity	16,345	3,848	713
Interest income on bonds of JSC NWF Samruk-Kazyna	-	14,883	19,390
Total interest income on financial assets recorded at amortized cost	407,644	306,921	305,387
Interest expense on financial liabilities recorded at amortized cost comprise:			
Interest on customer accounts	(136,000)	(100,404)	(91,497)
Interest on debt securities issued	(61,412)	(47,427)	(26,466)
Interest on subordinated debt	(20,805)	(9,459)	(8,960)
Interest on other borrowed funds	(5,865)	(7,290)	(9,167)
Interest on loans and advances from banks and other financial institutions	(5,232)	(25,316)	(22,579)
Preference share dividends*	(1,697)	(1,071)	(878)
Total interest expense on financial liabilities recorded at amortized cost	(231,011)	(190,967)	(159,547)
Net interest income before provision for impairment losses on interest bearing assets	**203,373**	**187,086**	**154,032**

* Preference share dividends relate to obligatory dividends payable on debt component of preference shares (Note 30).

6. Allowance for impairment losses and other provisions

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans and advances to banks and other financial institutions (KZT million) (Note 16)	Loans to customers (KZT million) (Note 17)	Investments held to maturity (KZT million) (Note 19)	Total (KZT million)
31 December 2013	**171**	**978,753**	**186**	**979,110**
(Recovery of provision)/additional provision recognised	(2,383)	76,283	139	74,039
Write-off of assets	-	(655,723)	(181)	(655,904)
Foreign exchange differences	2,212	109,262	-	111,474
Reclassified as asset held for sale	-	(299)	-	(299)
31 December 2014	**-**	**508,276**	**144**	**508,420**
Additional provision recognised	108	176,733	-	176,841
Write-off of assets	-	(152,518)	(84)	(152,602)
Foreign exchange differences	29	216,649	-	216,678
Disposal of subsidiary	(38)	(434,698)	-	(434,736)
31 December 2015	**99**	**314,442**	**60**	**314,601**
Additional provision recognised	4,979	63,865	15	68,859
(Write-off of assets)/recovery of previously written off assets	-	(60,491)	142	(60,349)
Sale of loans	-	(17,349)	-	(17,349)
Gross up effect (Note 17)	-	272,950	-	272,950
Foreign exchange differences	(16)	30	-	14
31 December 2016	**5,062**	**573,447**	**217**	**578,726**

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Insurance provisions, gross	57,501	51,435	47,986
Reinsurance share in provision	(9,227)	(6,601)	(9,799)
	48,274	**44,834**	**38,187**

The movements in insurance provisions, allowances for impairment losses on other transactions were as follows:

	Insurance provisions, gross (KZT million)	Reinsurance assets (KZT million) (Note 23)	Other assets (KZT million) (Note 23)	Total (KZT million)
31 December 2013	**15,655**	**(3,114)**	**6,813**	**19,354**
Additional provision recognised	9,997	(6,685)	93	3,405
Write-off of assets	-	-	(7,181)	(7,181)
Foreign exchange differences	-	-	(644)	(644)
Acquisition of BTA	22,334	-	24,878	47,212
Disposal of subsidiary	-	-	(87)	(87)
31 December 2014	**47,986**	**(9,799)**	**23,872**	**62,059**
Additional provision recognised	6,954	2,437	2,394	11,785
Write-off of assets	-	-	(3,787)	(3,787)
Disposal of subsidiary	(3,505)	761	(16,759)	(19,503)
Foreign exchange differences	-	-	625	625
31 December 2015	**51,435**	**(6,601)**	**6,345**	**51,179**
Additional provision recognised	6,066	(2,626)	6,583	10,023
Write-off of assets	-	-	(2,033)	(2,033)
Foreign exchange differences	-	-	(27)	(27)
31 December 2016	**57,501**	**(9,227)**	**10,868**	**59,142**

Insurance provisions, net of reinsurance, comprised:

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Annuity insurance	32,905	27,780	20,894
Life insurance	5,442	5,739	4,796
Civil liability for damage	2,437	3,349	3,076
Civil liability for owners of vehicles	1,535	2,448	2,370
Property	1,190	1,590	1,644
Medical insurance	1,112	340	647
Vehicles	514	986	1,271
Accidents	120	1,345	1,568
Other	3,019	1,257	1,921
	48,274	**44,834**	**38,187**

Other insurance provisions include provisions for insurance of private lawyers, auditors and audit organizations, air and marine transport and others.

The movements in provision for guarantees and other contingencies were as follows:

	Guarantees and other off-balance sheet commitments (Note 32)
31 December 2013	**4,156**
Recovery of provision	(4,989)
Foreign exchange differences	307
Acquisition of BTA	1,212
31 December 2014	**686**
Additional provision recognised	5,141
Foreign exchange differences	67
31 December 2015	**5,894**
Recovery of provision	(781)
Foreign exchange differences	(43)
31 December 2016	**5,070**

7. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
Net gain/(loss) on operations with financial assets and liabilities held-for-trading comprise:			
Realized gain/(loss) on trading operations	5,475	1,407	(909)
Unrealized gain/(loss) on fair value adjustment of financial assets held for trading	4,843	(18,079)	(3,257)
Net (loss)/gain on operations with derivative financial instruments	(2,348)	73,670	(26,004)
Total net gain/(loss) on financial assets and liabilities at fair value through profit or loss	**7,970**	**56,998**	**(30,170)**

8. Net (loss)/gain on foreign exchange and precious metals operations

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
Dealing, net	(4,710)	7,179	10,736
Translation differences, net	(12,296)	(21,332)	(1,978)
Total net (loss)/gain on foreign exchange and precious metals operations	**(17,006)**	**(14,153)**	**8,758**

9. Fee and commission income and expense

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
Fee and commission income:			
Plastic cards operations	19,771	17,355	17,295
Cash operations	12,881	12,818	10,403
Settlements	12,545	9,904	6,839
Documentary operations	2,376	2,210	2,186
Encashment operations	851	1,013	842
Foreign exchange and securities operations	228	1,590	2,772
Investment fees on administered pension funds	-	-	482
Other	373	2,670	497
Total fee and commission income	**49,025**	**47,560**	**41,316**
Fee and commission expense:			
Payments to the deposits and insurance payment guarantee fund	(9,835)	(9,117)	(8,990)
Plastic cards services	(8,234)	(5,778)	(4,787)
Correspondent bank services	(773)	(447)	(293)
Foreign exchange and securities operations	(609)	(1,494)	(247)
The NBRK computation center services	(372)	(265)	(211)
Documentary operations	(222)	(589)	(680)
Insurance activity	-	(542)	(195)
Other	(613)	(905)	(1,246)
Total fee and commission expense	**(20,658)**	**(19,137)**	**(16,649)**

10. Other income

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
Income from insurance activity	9,843	9,297	5,365
Fines and penalties received	3,707	1,097	87
Income from repurchase of own debt securities and early redemption of other obligations	1,339	1,323	130
Income from state duties written-off	848	1,010	-
Rental income	736	1,319	685
Income from recovery of impairment loss on property and equipment	199	-	30
Gain/(loss) from revaluation of investment property	80	(306)	(746)
Net gain/(loss) on sale of property and equipment	56	861	(666)
(Loss)/gain on sale of investment property	(25)	-	300
(Expenses)/income from disposal of the subsidiaries	(77)	393	-
Net (loss)/gain from sale of non-current assets held for sale	(621)	(532)	1,266
Other	1,662	1,338	1,662
	17,747	**15,800**	**8,113**

11. Operating expenses

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
Staff costs	49,406	33,306	27,445
Property and equipment maintenance	4,303	4,771	3,061
Taxes, other than income tax	3,649	6,013	4,972
Depreciation and amortization	3,618	3,829	3,624
Operating leases	3,559	3,730	3,164
Legal/consulting services	3,430	10,092	7,571
Advertising costs and telecommunications	3,225	2,451	2,190
Bank cards services	2,200	1,229	1,051
Security	1,703	1,517	1,286
Expenses on repossessed assets	1,059	2,667	3,532
Business trip expenses	579	564	518
Collector services	534	374	261
Vehicle maintenance	481	395	447
Fines, penalty	85	501	64
Other expenses	6,219	7,107	5,705
	84,050	**78,546**	**64,891**

12. Income tax

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from IFRS.

The income tax expense for the years ended 31 December 2016, 2015 and 2014 is as follows:

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
Current income tax expense	45,469	9,900	11,107
Adjustments in respect of current income tax expense based on declarations for prior years	-	-	88
Adjustment in respect of deferred income tax expense based on the profit of prior years	3,480	-	-
Deferred income tax (benefit)/expense	(23,580)	7,643	(4,258)
Income tax expense	25,369	17,543	6,937

Corporate income tax rate in the Republic of Kazakhstan was 20% during 2016, 2015 and 2014.

Due to the fact that certain types of expenses are not taken into account for tax purposes, and due to the availability of non-taxable income, the Group has certain permanent tax differences.

Relationships between tax expenses and accounting profit for the years ended 31 December 2016, 2015 and 2014 are explained as follows:

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
Profit/(loss) before income tax	25,877	(892)	30,678
Tax at the statutory tax rate	5,175	(178)	6,136
Tax effect of permanent differences:			
- tax effect from different tax rates	26	33	24
- tax exempt income	(14,078)	(22,827)	(6,960)
- unrecognised deferred corporate income tax assets	-	-	(6,046)
- non-deductible expense	34,246	40,515	13,695
Adjustments in respect of current income tax expense based on declarations for prior years	-	-	88
Income tax expense	25,369	17,543	6,937

During 2016, 2015 and 2014, tax exempted income was represented by interest income and capital gains on state and other securities listed on KASE, dividend income and interest income on finance leases, and non-deductible expenses comprising non-deductible operating expenses and provisions on finance leases.

Deferred tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount that is determined for tax purposes. The temporary differences available for December 31, 2016, 2015 and 2014 are mainly related to various methods of accounting for income and expenses, as well as the accounting value of certain assets.

Tax effect of temporary differences as at 31 December 2016, 2015 and 2014:

	1 January 2016 (million)	Change in deferred income tax recognised in the statement of profit or loss	Change in deferred income tax recognised in equity	Other	31 December 2016 (million)
Deferred income tax assets:					
Unrealised loss on trading securities and derivatives	8,679	6,278	6	(6)	14,957
Tax losses carried forward on trading securities and derivatives	3,192	394	-	-	3,586
Allowance for impairment losses on loans and advances to banks and customers	13,926	(13,339)	-	10	597
Bonuses accrued	1,198	2,324	-	-	3,522
Tax losses carried forward	26	(29)	-	3	-
Property, equipment and intangible assets, accumulated depreciation	14	(14)	-	-	-
Other assets	131	(131)	-	-	-
Total	**27,166**	**(4,517)**	**6**	**7**	**22,662**
Deferred income tax liabilities:					
Property, equipment, intangible assets and accrued depreciation	(2,920)	(148)	(1,569)	(2)	(4,639)
Unrealized gain on revaluation of financial instruments, recognised on cash flow hedges	(104)	-	86	-	(18)
Unrealised gain on trading securities and derivatives	(24,651)	24,545	(46)	(1)	(153)
Provision on guarantees and letters of credit	373	(373)	-	-	-
Other liabilities	(1,060)	593	-	-	(467)
Total	**(28,362)**	**24,617**	**(1,529)**	**(3)**	**(5,277)**
Net deferred income tax (liabilities)/assets	(1,196)	20,100	(1,523)	4	17,385

	1 January 2015 (million)	Change in deferred income tax recognised in the statement of profit or loss	Change in deferred income tax recognised in equity	Other	31 December 2015 (million)
Deferred income tax assets:					
Unrealised loss on trading securities and derivatives	3,950	4,577	132	20	8,679
Tax losses carried forward on trading securities and derivatives	2,952	240	-	-	3,192
Allowance for impairment losses on loans and advances to banks and customers	2,560	11,295	-	71	13,926
Bonuses accrued	349	849	-	-	1,198
Accrued interest payable	277	(319)	-	42	-
Provision on guarantees and letters of credit	2	(2)	-	-	-
Tax losses carried forward	-	20		6	26
Property, equipment and intangible assets, accumulated depreciation	-	12	2	-	14
Other assets	319	(200)	-	12	131
Total	**10,409**	**16,472**	**134**	**151**	**27,166**
Deferred income tax liabilities:					
Property, equipment, intangible assets and accrued depreciation	(2,533)	(453)	72	(6)	(2,920)
Unrealized gain on revaluation of financial instruments, recognised on cash flow hedges	(178)	-	74	-	(104)
Unrealised gain on trading securities and derivatives	-	(24,651)	-	-	(24,651)
Provision on guarantees and letters of credit	-	373	-	-	373
Other liabilities	(1,676)	616	-	-	(1,060)
Total	**(4,387)**	**(24,115)**	**146**	**(6)**	**(28,362)**
Net deferred income tax assets/(liabilities)	6,022	(7,643)	280	145	(1,196)

	1 January 2014 (million)	Change in deferred income tax recognised in the statement of profit or loss	Change in deferred income tax recognised in equity	Other	31 December 2014 (million)
Deferred income tax assets:					
Unrealised loss on trading securities and derivatives	519	3,296	156	(21)	3,950
Tax losses carried forward on trading securities and derivatives	2,852	100	-	-	2,952
Allowance for impairment losses on loans and advances to banks and customers	-	2,712	-	(152)	2,560
Bonuses accrued	496	(147)	-	-	349
Accrued interest payable	3,279	(2,858)	-	(144)	277
Provision on guarantees and letters of credit	-	2	-	-	2
Other assets	73	460		(214)	319
Total	**7,219**	**3,565**	**156**	**(531)**	**10,409**
Deferred income tax liabilities:					
Property, equipment, intangible assets and accrued depreciation	(2,183)	(711)	349	12	(2,533)
Unrealized gain on revaluation of financial instruments, recognised on cash flow hedges	(225)	-	47	-	(178)
Unrealised gain on trading securities and derivatives	(2,852)	2,851	-	1	-
Allowance for impairment losses on loans and advances to banks and customers	(3)	3	-	-	-
Other liabilities	(226)	(1,450)	-	-	(1,676)
Total	**(5,489)**	**693**	**396**	**13**	**(4,387)**
Net deferred income tax assets/(liabilities)	1,730	4,258	552	(518)	6,022

The Group offset the deferred tax assets and liabilities in the consolidated statement of financial position when there was a right for netting. The amounts presented after the netting include:

	31 December 2016 (million)	31 December 2015 (million)	31 December 2014 (million)
Deferred income tax assets	17,538	27,164	6,101
Deferred income tax liabilities	(153)	(28,360)	(79)
Net deferred income tax assets/(liabilities)	17,385	(1,196)	6,022

Unrecognised deferred income tax assets as at 31 December 2016, 2015 and 2014 are as follows:

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Tax losses carried forward	669	415	305,204
	669	**415**	**305,204**

As at 31 December 2014, KZT 305,204 million unrecognised deferred tax assets relates to BTA.

13. Earnings/(loss) per share

Basic and diluted (loss)/earnings per share are calculated by dividing the net profit/(loss) for the year attributable to equity holders of the Parent by the weighted average number of participating shares outstanding during the year.

As described in Note 30, dividend payments per ordinary shares cannot exceed the dividends per share on preference shares for the same period. Therefore, net profit/(loss) for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings:

	Year ended 31 December 2016 (KZT million)	Year ended 31 December 2015 (KZT million)	Year ended 31 December 2014 (KZT million)
Basic and diluted earnings/(loss) per share			
Net profit/(loss) for the year attributable to equity holders of the Parent	507	(15,352)	21,405
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	(68)	-	(2,291)
Net profit/(loss) for the year attributable to ordinary shareholders	439	(15,352)	19,114
Weighted average number of ordinary shares for basic and diluted earnings/(loss) per share	796,935,211	775,758,296	738,205,653
Earnings/(loss) per share – basic and diluted (KZT)	**0.55**	**(19.79)**	**25.89**

The book value per share for each type of shares as at 31 December 2016, 2015 and 2014 is as follows:

	31 December 2016			31 December 2015			31 December 2014		
Type of shares	**Outstanding shares**	**Net asset value (KZT million)**	**Book value per share, KZT**	**Outstanding shares**	**Net asset value (KZT million)**	**Book value per share, KZT**	**Outstanding shares**	**Net asset value (KZT million)**	**Book value per share, KZT**
Ordinary shares	796,987,545	371,912	466.65	796,936,282	364,138	456.92	669,527,165	406,813	607.61
Preference shares	123,984,564	21,456	173.05	123,160,124	21,729	176.43	122,273,402	14,419	117.92
		393,368			**385,867**			**421,232**	

The number of outstanding ordinary and preferred shares is calculated net of treasury shares.

According to amendments enacted to the KASE Listing Rules effective from 25 August 2010, listed companies are required to present book value per share (ordinary and preferred) in their financial statements. In the table above, net asset value and book value per share is calculated in accordance with the methodology in the KASE Listing Rules.

14. Cash and balances with national (central) banks

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Cash on hand	101,771	96,702	84,002
Balances with national (central) banks	50,137	27,206	108,360
	151,908	**123,908**	**192,362**

Cash and cash equivalents for the purposes of the consolidated statement of cash flows are comprised of the following:

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Cash and balances with national (central) banks	151,908	123,908	192,362
Loans and advances to banks with original maturities less than 3 months	45,630	212,611	100,926
REPO with banks original maturity of less than 3 months	44,074	596	64,506
Less funds deposited with the National Bank of the Republic of Kazakhstan	(62,894)	(65,305)	(50,568)
Less funds deposited with the Central Bank of Russian Federation	(5,562)	(2,834)	(1,373)
Less funds deposited with the National Bank of Tajikistan	(440)	(550)	(141)
Less funds deposited with the National Bank of the Kyrgyz Republic	-	-	(174)
	172,716	**268,426**	**305,538**

As of December 31, 2016, 2015 and 2014 there were no Cash and cash equivalents restricted in use.

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

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Debt securities	160,164	100,866	112,357
Equity investments	31,099	53,925	45,901
Derivative financial instruments	19,275	210,486	17,669
Total financial assets at fair value through profit or loss	**210,538**	**365,277**	**175,927**

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Derivative financial instruments	64,275	75,409	20,791
Total financial liabilities at fair value through profit or loss	**64,275**	**75,409**	**20,791**

The financial assets at fair value through profit or loss relate entirely to financial assets held for trading.

	Nominal interest rate %	31 December 2016 Amount (KZT million)	Nominal interest rate %	31 December 2015 Nominal interest rate %	Amount (KZT million)	31 December 2014 Nominal interest rate %
Debt securities:						
Short-term notes of NBRK	0.00	99,350	-	-	-	-
Bonds of the Ministry of Finance of the Republic of Kazakhstan	4.48-8.20	44,041	3.30-8.75	60,385	3.30-8.75	77,937
Bonds of Kazakhstani companies	7.50-14.90	4,017	7.50-10.00	2,345	5.00-13.00	5,467
Bonds of Kazakhstani banks	7.00-11.00	3,101	4.90-11.00	10,720	5.50-13.00	4,532
Eurobonds of Kazakhstani banks	7.25-9.13	2,483	6.38-9.00	3,333	7.25-9.88	1,986
Bonds of Development Bank of Kazakhstan	6.00-6.50	2,411	6.00-6.50	2,194	6.00-6.50	1,209
Municipal bonds of the Russian Federation	12.00	2,020	13.256	1,743	12.85	1,124
Treasury bonds of USA	2.00-2.44	1,285	-	-	8.13	228
Eurobonds of Kazakhstani companies	4.63-6.95	986	4.63-6.95	3,417	4.63-6.95	3,449
Bonds of Russian companies	13.00	470	10.75	373	8.15-10.75	3,306
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	4.88-6.50	15,928	3.88-4.88	10,735
Municipal bonds of the Republic of Kazakhstan	-	-	-	-	6.20	608
Other government bonds of foreign countries	-	-	-	-	7.85-12.50	569
Bonds and eurobonds of Russian banks	-	-	7.90	374	6.13-9.00	372
Bonds of international financial organizations, foreign banks and foreign financial organizations	-	-	4.77-13.78	54	4.64-5.00	410
Other bonds of foreign issuers	-	-	-	-	7.88	425
		160,164		100,866		112,357

	31 December 2016 Amount (KZT million)	31 December 2015 Amount (KZT million)	31 December 2014 Amount (KZT million)
Equity investments*:			
GDRs of Kazakhstani companies	23,361	22,634	22,552
GDRs of Kazakhstani banks	5,059	-	-
Shares of Kazakhstani companies	2,165	4,295	5,308
Shares of Kazakhstani banks	350	304	327
Shares of foreign banks	164	24,714	16,983
Shares of foreign companies	-	1,978	731
	31,099	53,925	45,901

* As at 31 December 2016, the Group's ownership interest in equity securities did not exceed 2.16% (31 December 2015: 10.91% (Sekerbank shares), 31 December 2014: 10.82% (Sekerbank shares)).

During the 12 months ended 31 December 2016, the Group recognised a loss from the write-off of 9.43% of Sekerbank shares in the amount of KZT 16,810 million according to an Istanbul court decision in favour of TurkiyeVakiflarBank T.A.O. (Turkey) (Note 32). The Group also recognised a loss on the remaining 1.48% of Sekerbank shares belonging to it as at 31 December 2016 of KZT 3,343 million as a result of a revaluation of the shares in question to zero due to them having been placed under arrest and the continuing court case.

As at 31 December 2016, fair value of financial assets at fair value through profit or loss pledged under repurchase agreements were equal to KZT 89,399 million (2015: 27,469 KZT million, 2014: KZT 73,763 million) (Note 24 and 31).

	Notional value	31 December 2016 Fair value (KZT million)		Notional value	31 December 2015 Fair value (KZT million)		Notional value	31 December 2014 Fair value (KZT million)	
Derivative financial instruments:		**Assets**	**Liabilities**		**Assets**	**Liabilities**		**Assets**	**Liabilities**
Foreign exchange contracts:									
Swaps	781,274	19,275	(60,570)	603,059	210,464	(61,578)	498,429	15,496	(12,195)
Forwards	-	-	-	105	1	-	17,323	1,160	-
Spots	723	-	(4)	6,175	21	(27)	3,709	2	(5)
Options	-	-	-	-	-	-	1,300	232	-
Interest rate contracts:									
Swaps	2,772	-	(195)	4,625	-	(408)	4,275	-	(453)
Other: Forward on securities	11,124	-	(3,506)	13,698	-	(13,396)	9,227	-	(7,359)
Spot on purchase of securities	-	-	-	-	-	-	-	779	(779)
		19,275	(64,275)		210,486	(75,409)		17,669	(20,791)

As at 31 December 2016, the aggregate amount of unrealized gains under foreign exchange swap contracts deferred in the hedging reserve relating to the exposures amounted to KZT 78 million (2015: KZT 507 million, 2014: 878 million KZT). It is being recycled to profit or loss over the periods up to February 2017, in line with the previously hedged cash flows relating to these contracts.

As at 31 December 2016, despite the write-off of 9.43% of Sekerbank T.A.S shares of KZT 16,810 million, the Group continued to recognise the forward financial liability with JSC NWF Samruk-Kazyna. The value of the forward financial liability was treated as the difference between the fair value of the Sekerbank T.A.S shares and their selling value, according to an agreement with JSC NWF Samruk-Kazyna, and as at 31 December 2016 amounted to KZT 3,506 million (31 December 2015: KZT 13,396 million).

16. Loans and advances to banks and other financial institutions

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Recorded as loans and receivables:			
Loans under reverse repurchase agreements	44,074	596	64,506
Loans and advances to banks	35,707	230,862	75,313
Correspondent accounts with other banks	35,113	65,318	68,731
	114,894	296,776	208,550
Less: allowance for impairment losses	(5,062)	(99)	-
	109,832	296,677	208,550

Movements in allowances for impairment losses on loans and advances to banks and other financial institutions for the years ended 31 December 2016, 2015 and 2014 are disclosed in Note 6.

As at 31 December 2016, the Group had no loans and advances to banks and other financial institutions, which individually exceeded 10% of the Group's equity (2015: KZT nil, 2014: KZT nil).

The fair value of collateral and carrying value of loans under reverse repurchase agreements as at 31 December 2016, 2015 and 2014 comprised:

		31 December 2016 (KZT million)		31 December 2015 (KZT million)		31 December 2014 (KZT million)
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of executive authorities and constituent entities of the Russian Federation	35,239	33,207	-	-	-	-
Bonds of the Ministry of Finance of the Republic of Kazakhstan	6,934	6,917	603	596	64,220	60,136
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	1,002	1,001	-	-	4,655	4,370
Bonds of the Ministry of Finance of the Russian Federation	4,164	2,949	-	-	-	-
	47,339	**44,074**	**603**	**596**	**68,875**	**64,506**

The maturity of reverse repo agreements that were effective, as at 31 December 2016, was in January 2017 (2015: in January 2016, 2014: in January 2015).

As at 31 December 2016, reverse repo agreements were concluded through KASE and through JSC Bank National Clearing Centre. The Group believes that counterparties of these agreements are banks and other financial institutions.

As at 31 December 2016, the Group maintained deposits of KZT 6,203 million included in loans and advances to banks as collateral for credit cards operations (2015: 2,652 KZT million, 2014: KZT 1,526 million).

17. Loans to customers

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Recorded as loans and receivables:			
Originated loans	4,328,940	4,140,641	2,624,593
Net investments in finance lease	1,212	3,537	5,831
	4,330,152	4,144,178	2,630,424
Less: allowance for impairment losses	(573,447)	(314,442)	(508,276)
	3,756,705	**3,829,736**	**2,122,148**

In 2015, the Bank acquired certain loans in the course of the business combination with JSC BTA Bank. Due to the limitations of the automated banking system, management decided to disclose these loans and related provisions on a gross basis starting from 30 September 2016. This disclosure does not affect the net book value of loans provided in the statement of financial position.

Movement in allowances for impairment losses on loans to customers for the years ended 31 December 2015, 2014 and 2013 are disclosed in Note 6.

On 22 June 2015, the Board of Directors of the Bank has made a decision to open a credit line to BTA under (i) the Agreement on simultaneous transfer of assets and liabilities between the Bank and BTA; (ii) the Agreement on transfer of liabilities between JSC NWF Samruk-Kazyna, KKB and BTA by signing respective credit documentation (in KZT and in USD); and (iii) the Agreement on transfer of debt as at 14 November 2014 between the Bank and BTA.

The Bank and BTA have signed an Agreement on opening of a credit line, under which the Bank has opened a credit line to BTA with a limit of KZT 630,000 million and USD 5,600 million with maturity on 30 June 2024 and an interest rate of 9% for loan denominated in KZT and 8% for loan denominated in USD. BTA shall make quarterly repayments of principal and interest in fixed amounts, stated in the Agreement, with the remaining debt to be repaid at maturity.

As at 31 December 2016, the carrying value of BTA loans under this credit line are included in the line "Investments and finance" in the classification of the loan portfolio by sector.

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Analysis by sector:			
Investments and finance	2,491,067	2,389,208	54,266
Individuals	302,311	353,717	411,086
Real estate	197,887	202,725	177,548
Housing construction	116,739	203,720	503,710
Agriculture	109,783	19,049	27,959
Wholesale and retail trade	100,237	140,148	161,015
Commercial real estate construction	87,596	58,450	54,838
Energy	79,207	58,273	76,011
Industrial and other construction	65,626	85,588	87,224
Food industry	45,163	31,233	18,690
Mining and metallurgy	34,643	44,282	29,855
Hospitality business	29,409	84,890	154,458
Transport and communication	13,503	41,345	53,771
Production of construction materials	8,654	8,457	6,928
Medicine	8,365	5,864	6,207
Machinery construction	7,363	22,423	9,589
Production of other non-metal materials	1,444	2,052	130,660
Other	57,708	78,312	158,333
	3,756,705	**3,829,736**	**2,122,148**

During the years ended 31 December 2016, 2015 and 2014, the Group received non-financial assets by taking possession of collateral it held as security. As at 31 December 2016, such assets in the amount of 186,486 KZT (2015: 44,901 million KZT, 2014: 411,346 million KZT) are included in the assets classified as held for sale line of the consolidated statement of financial position. These assets are represented mostly by real estate the majority of which will be realized through auctions. Additionally, the balance of repossessed collateral, as at 31 December 2016, 2015 and 2014, includes construction in progress. As at 31 December 2016, such construction in progress in the amount of KZT 8,154 million (2015: KZT 8,164 million 2014: KZT 8,971 million) are included in the assets classified as held for sale line of the consolidated statement of financial position.

Loans to individuals comprise the following products:

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Consumer loans	173,140	198,553	230,297
Mortgage loans	126,480	150,916	174,961
Car loans	1,062	1,915	2,234
Business loans	734	968	2,005
Other	895	1,365	1,589
	302,311	**353,717**	**411,086**

As at 31 December 2016, the Group granted loans to the borrowers, which individually exceeded 10% of the Bank's equity, in the total amount of KZT 2,613,569 million, (2015: KZT 2,447,520 million, 2014: KZT 609,161 million).

As at 31 December 2016, a significant part of loans 94.43% (2015: 93.08%, 2014: 86.94%) of the total portfolio is granted to companies operating in the territory of the Republic of Kazakhstan, which represents a significant geographical concentration.

The components of net investment in finance lease as at 31 December 2016, 2015 and 2014 are as follows:

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Minimum lease payments	1,234	3,817	6,498
Less: unearned finance income	(22)	(280)	(667)
Net investment in finance lease	1,212	3,537	5,831
Not later than one year	963	2,184	1,867
From one year to five years	249	1,353	3,954
More than five years	-	-	10
Net investment in finance lease	1,212	3,537	5,831

The value of future minimum lease payments receivable from the customer under a finance lease as at 31 December 2016, 2015 and 2014 comprised:

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Not later than one year	977	2,326	2,145
From one year to five years	257	1,491	4,342
More than five years	-	-	11
Total value of future minimum lease payments	1,234	3,817	6,498
Less: unearned finance income	(22)	(280)	(667)
Present value of minimum lease payments receivable	1,212	3,537	5,831

18. Investments available-for-sale

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Debt securities	18,427	33,143	91,569
Equity securities	1,297	1,401	3,037
	19,724	**34,544**	**94,606**

	31 December 2016		31 December 2015		31 December 2014	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:						
Bonds of Kazakhstani companies	0.00-14.90	7,524	3.91-13.00	7,277	0.00-15.00	10,715
Bonds of Kazakhstani banks	7.00-14.00	5,331	4.80-11.90	4,946	5.70-13.00	11,164
Bonds of Russian companies	8.00-10.00	4,004	7.90-8.70	3,810	7.90-9.00	3,507
Bonds of the Ministry of Finance of the Republic of Kazakhstan	4.50-8.10	1,347	3.20-8.75	2,330	3.20-8.75	9,353
Eurobonds of Kazakhstani banks	7.25	221	7.25-7.30	2,067	7.25-9.88	1,460
Bonds of Russian banks	-	-	8.10-9.55	1,730	7.65-10.80	2,955
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	4.88	8,333	3.80-4.88	10,418
Other government eurobonds of foreing countries	-	-	8.13	1,531	7.85-12.50	1,308
Eurobonds of Kazakhstani companies	-	-	6.95-7.00	1,119	6.95-9.13	871
Bonds of international financial institutions, foreign banks and foreign financial institutions	-	-	-	-	0.00-12.54	37,106
Other bonds of foreign issuers	-	-	-	-	5.75-11.75	1,841
Municipal bonds of the Republic of Kazakhstan	-	-	-	-	6.20	869
Bonds of Development Bank of Kazakhstan	-	-	-	-	6.00-6.50	2
		18,427		**33,143**		**91,569**

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Equity securities:			
Shares of Kazakhstani companies	712	717	1,609
Shares of foreign companies	545	-	173
Shares of Kazakhstani banks	38	49	92
GDR of Kazakhstani banks	2	3	94
ADR of Kazakhstani companies	-	632	767
GDR of Kazakhstani companies	-	-	302
	1,297	**1,401**	**3,037**

19. Investments held to maturity

	31 December 2016		31 December 2015		31 December 2014	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:						
Bonds of JSC NWF Samruk-Kazyna	6.00-6.50	185,275	6.00-6.50	182,467	6.50	201
Bonds of the Ministry of Finance of the Republic of Kazakhstan	4.20-8.65	13,238	4.20-12.75	13,264	4.20-8.07	8,328
Bonds of Kazakhstani banks	6.25-15.00	12,318	6.25-13.00	1,127	7.00-13.00	752
Bonds of international financial institutions and foreign banks	0.00	7,260	13.78	153	8,74	155
Bonds of Kazakhstani companies	0.00-13.00	2,958	0.00-12.50	2,851	0.00-9.00	2,200
Eurobonds of Kazakhstani banks	7.25	681	7.25-9.00	1,135	7.25	615
Bonds of Development Bank of Kazakhstan	6.00-6.50	503	6.00-6.50	502	-	-
Eurobonds of Kazakhstani companies	7.75	201	7.75	202	5.75	1,405
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	4.88	8,235	4.88	4,408
Eurobonds of Russian banks	-	-	-	-	6.13	376
		222,434		**209,936**		**18,440**

As at 31 December 2016, impairment of some debt securities, held to maturity, was in the amount of KZT 217 million (2015: KZT 60 million, 2014: KZT 144 million). Movements in those impairment for the years ended 31 December 2016, 2015 and 2014 are disclosed in Note 6.

As at 31 December 2016, the amortized cost of investments held to maturity pledged under repo agreements was KZT 172,628 million (2015: KZT 1,163 million, 2014: KZT 6,118 million) (Notes 24 and 31).

20. Investment property

	2016 (KZT million)	2015 (KZT million)	2014 (KZT million)
As at 1 January	8,709	60,953	30,840
Acquisitions	11	641	9,056
Increase due to capitalization of costs	3,932	698	22,407
Reclassified from assets classified as held for sale	366	185,930	692
Reclassified from property	142	1,080	570
Disposal	(53)	(190,385)	(445)
Reclassified to assets held for sale	(11)	-	(2,467)
Reclassified to other assets	(108)	-	-
Gain/(loss) on property revaluation	80	(306)	(614)
Foreign exchange differences	66	210	(338)
Reclassified as inventory	-	(50,112)	-
Additions due to business combination	-	-	278
Reclassified from inventory	-	-	974
As at 31 December	**13,134**	**8,709**	**60,953**

As at 31 December 2016, 2015 and 2014 there was no investment property pledged as collateral for liabilities.

Included into operating lease income is investment property rental income for the year ended 31 December 2016 amounted to KZT 123 million (2015: 158 million KZT, 2014: KZT 290 million).

Operating expenses arising from the investment property that generated rental income during the year ended 31 December 2016 amounted to KZT 13 million (2015: KZT 23 million, 2014: 57 million KZT). Operating expenses arising from the investment property that did not generate rental income during the year ended 31 December 2016 amounted to KZT nil (2015: KZT 2 million, 2014: KZT 23,726 million).

The fair value of the Group's investment property, as at 31 December 2016, 2015 and 2014 was determined by independent appraisers. The following methods were used for the estimation of its fair value: income approach, cost based method and comparative approach. 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 the year.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016, 2015 and 2014 are as follows:

	Level 2 (KZT million)	Level 3 (KZT million)	Fair value as at 31 December 2016 (KZT million)
Investment property at fair value:			
Land	32	269	301
Real estate	298	12,535	12,833
Total	**330**	**12,804**	**13,134**

	Level 2 (KZT million)	Level 3 (KZT million)	Fair value as at 31 December 2015 (KZT million)
Investment property at fair value:			
Land	86	-	86
Real estate	344	8,279	8,623
Total	**430**	**8,279**	**8,709**

	Level 2 (KZT million)	Level 3 (KZT million)	Fair value as at 31 December 2014 (KZT million)
Investment property at fair value:			
Land	103	-	103
Real estate	660	60,190	60,850
Total	**763**	**60,190**	**60,953**

As at 31 December 2016, investment property under construction amounted to KZT 10,005 million (2015: KZT 6,072 million, 2014: KZT 55,663 million).

21. Assets classified as held for sale

For the year ended 31 December 2016, the Group received long-term assets by taking possession of collateral it held as security as assets held for sale at fair value, to repay principal and accrued interest on loans in the amount of KZT 184,230 million and KZT 31,541 million, respectively (2015: KZT 23,817 million and KZT 6,739 million, 2014: KZT 11,065 million and KZT 6,652 million). 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 has committed to a plan to sell the assets and an active program to locate a buyer and complete the plan has been initiated. The types of assets recognised were land, buildings and constructions. The majority of these assets are located in Almaty and Astana. It was intended that the fair value of these assets would be recovered principally through a sale transaction within one year from the date of classification.

Assets classified as held for sale are as follows:

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Non-current assets held for sale:			
Land plots	155,024	16,789	392,624
Real estate	27,550	24,813	16,915
Construction in progress*	8,154	8,164	8,971
Other assets	3,912	3,299	1,807
Assets of CJSC BTA Bank (Belarus)	-	-	13,907
Total assets classified as held for sale	**194,640**	**53,065**	**434,224**

*Construction in progress is accounted for at historical cost less impairment.

The fair value of the Group's non-current assets held for sale, as at 31 December 2016, 2015 and 2014 was determined by independent appraisers. The following methods were used for the estimation of its fair value: income approach, cost based method and comparative approach. In estimating the fair value of the properties, the highest and best use of the properties is their current use. During 2016, there has been no change to the valuation technique.

As at 31 December 2014, CJSC BTA Bank (Belarus) was accounted for at carrying value as it was lower than fair value less costs to sell. Liabilities directly associated with assets, classified as held for sale are presented by liabilities of CJSC BTA Bank (Belarus).

Details of the Group's non-current assets held for sale and information about the fair value hierarchy as at 31 December 2016, 2015 and 2014 are as follows:

	Level 3 31 December 2016 (KZT million)	Level 3 31 December 2015 (KZT million)	Level 3 31 December 2014 (KZT million)
Non-current assets held for sale at fair value:			
Land	155,024	16,789	16,915
Real estate	27,550	24,813	392,624
Other assets	3,912	3,299	1,807
Total	**186,486**	**44,901**	**411,346**

The impact on the statement of profit or loss from non-current assets held for sale is disclosed in Note 10. The non-current assets are included in the retail banking and corporate banking segments in Note 34.

During the year ended 31 December 2016, the Group made non-cash transfers from assets classified as held for sale to investment property in the amount of KZT 366 million. During the year ended 31 December 2015, the Group made non-cash transfers from assets classified as held for sale to investment property in the amount of KZT 185,930 million and to the other assets in the amount of KZT 340,405 million. During the year ended 31 December 2014, the Group made non-cash transfers from assets classified as held for sale to investment property in the amount of KZT 692 million.

22. Property, equipment and intangible assets

	Buildings and other real estate (KZT million)	Furniture and equip-ment (KZT million)	Intan-gible assets (KZT million)	Construc-tion in progress (KZT million)	Other (KZT million)	Total (KZT million)
At primary/revalued cost:						
31 December 2013	**23,625**	**21,189**	**4,724**	**27**	**1,066**	**50,631**
Additions	3,418	3,037	449	46	13	6,963
Revaluation, including impairment	3,229	-	-	-	-	3,229
Disposals	(632)	(1,682)	(555)	(72)	(595	(3,536)
Foreign exchange differences	(401)	(295)	7	-	(94	(783)
Additions as a result of business combination	8,386	18,389	3,388	1,377	100	31,640
Disposal at discontinued operations	-	-	(25)	-	-	(25)
Transfer to/(from) other assets (including transfer to inventory)	-	9	(8)	101	(10	92
Transfer to investment property	(570)	-	-	-	-	(570)
31 December 2014	**37,055**	**40,647**	**7,980**	**1,479**	**480**	**87,641**
Additions	5,827	4,106	1,264	36	39	11,272
Revaluation, including impairment	970	-	-	-	-	970
Disposals	(5,396)	(11,121)	(584)	(187)	(2	(17,290)
Foreign exchange differences	202	329	35	-	103	669
Additions as a result of business combination	-	-	75	-	-	75
Disposals on discontinued operations	(10,622)	(6,825)	(2,393)	(490)	(100	(20,430)
Transfer to investment property	(1,080)	-	-	-	-	(1,080)
Transfer to other assets (including transfer to inventory)	-	-	-	(710)	(3	(713)
Disposal at sale of the subsidiary	-	(174)	(80)	-	(44	(298)
31 December 2015	**26,956**	**26,962**	**6,297**	**128**	**473**	**60,816**
Additions	29	3,843	936	105	151	5,064
Revaluation, including impairment	8,485	-	-	-	-	8,485
Disposals	(1,028)	(1,705)	(121)	(1)	-	(2,855)
Foreign exchange differences	68	80	(13)	-	54	189
Transfer from long-term assets held for sale	218	-	-	-	-	218
Transfer to investment property	-	-	-	(142)	-	(142)
31 December 2016	**34,728**	**29,180**	**7,099**	**90**	**678**	**71,775**
Accumulated depreciation:						
31 December 2013	171	14,534	2,570	-	668	17,943
Charge for the year	458	2,454	605	-	107	3,624
Write off at disposal	(334)	(1,315)	(526)	-	(595)	(2,770)
Foreign exchange differences	14	(249)	5	-	(20)	(250)
Additions as a result of business combination	1,624	16,916	2,242	-	90	20,872
Disposals on discontinued operations	-	-	(12)	-	-	(12)
Transfer to other assets (including transfer to/(from) inventory)	-	2	-	-	(2)	-
31 December 2014	**1,933**	**32,342**	**4,884**	**-**	**248**	**39,407**
Charge for the year	541	2,586	653	-	49	3,829
Write off at disposal	(280)	(10,750)	(247)	-	(2)	(11,279)
Transferred	(30)	-	-	-	-	(30)
Foreign exchange differences	6	263	14	-	36	319
Additions as a result of business combination	-	-	23	-	-	23
Disposals of subsidiaries	(1,930)	(6,632)	(1,819)	-	(93)	(10,474)
Disposal at sale of the subsidiary	(10)	(125)	(65)	-	(37)	(237)
31 December 2015	**230**	**17,684**	**3,443**	**-**	**201**	**21,558**
Charge for the year	363	2,534	650	-	71	3,618
Write off at disposal	(228)	(1,527)	(51)	-	-	(1,806)
Foreign exchange differences	3	83	(4)	-	21	103
31 December 2016	**368**	**18,774**	**4,038**	**-**	**293**	**23,473**
Net book value:						
31 December 2016	**34,360**	**10,406**	**3,061**	**90**	**385**	**48,302**
31 December 2015	**26,726**	**9,278**	**2,854**	**128**	**272**	**39,258**
31 December 2014	35,122	8,305	3,096	1,479	232	48,234

As at 31 December 2016, property, equipment and intangible assets of the Group included fully depreciated assets at initial cost amounting to KZT 11,769 million (2015: KZT 10,728 million, 2014: KZT 9,355 million), of which KZT 9,961 million pertain to the Bank (2015: KZT 8,944 million, 2014: KZT 8,607 million).

Buildings and other real estate are revalued on a regular cyclical basis, with the last valuation being conducted on 25 December 2016 (2015: 31 December 2015, 2014: 25 December 2014). The valuation was conducted by an independent appraisal company and for determining of the final value on these dates, the observable prices in an active market for the properties were used. These prices are obtained through publications and current market data, and are adjusted based on characteristics of the valued property.

As at 31 December 2016 and 2015, the fair value measurements of the Group's buildings were categorized into Level 3, in the amount of KZT 34,728 million (31 December 2015,Level 3: KZT 26,956 million, 31 December 2014, Level 2: KZT 1,151 million, Level 3: KZT 35,904 million). There were no transfers between Levels 1, 2 and 3 during the year.

If the buildings were accounted for at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value, as at 31 December 2016, would be KZT 19,524 million (2015: KZT 18,614 million, 2014: KZT 20,336 million).

Intangible assets include software, patents and licenses.

23. Other assets

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Other financial assets:			
Receivables on other transactions	21,538	12,585	22,211
Accounts receivable from insurance activity	6,384	5,796	4,232
Accrued commission	1,938	2,478	2,207
Commissions receivable	964	1,212	11,111
Payments for acquired property	-	2,474	45
	30,824	24,545	39,806
Less: allowance for impairment losses	(10,866)	(6,337)	(23,862)
Total other financial assets	**19,958**	**18,208**	**15,944**
Other non-financial assets:			
Inventory	81,911	60,710	64,509
Reinsurance share in insurance reserves (Note 6)	9,227	6,601	9,799
Tax settlements, other than income tax	4,402	4,311	7,827
Prepaid expenses	1,538	1,020	113,270
Income tax assets	707	11,311	3,319
	97,785	83,953	198,724
Less: allowance for impairment losses	(2)	(8)	(10)
Total other non-financial assets	**97,783**	**83,945**	**198,714**
	117,741	102,153	214,658

Movement in allowances for impairment losses for the years ended 31 December 2016, 2015 and 2014 are disclosed in Note 6.

24. Loans and advances from banks and other financial institutions

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Recorded at amortized cost:			
Loans under repurchase agreements	230,630	26,680	659,797
Loans from NBRK	201,875	28	28
Loans from banks and other financial institutions	38,810	75,730	16,887
Correspondent accounts of other banks	19,679	19,477	5,485
Correspondent accounts of organizations that serve certain types of banking operations	511	1,147	589
Deposits with banks	-	1	70
	491,505	**123,063**	**682,856**

As at 31 December 2016, loans under repurchase agreements included in loans and advances from banks and other financial institutions amounted to KZT 230,630 million (2015: KZT 26,680 million, 2014: KZT 659,797 million, including NBRK in the amount of KZT 581,035 million).

As at 31 December 2016, loans from banks and other financial institutions included long-term loans from JSC Development Bank of Kazakhstan in the amount of KZT 17,239 million, for the period from 5 to 20 years (2015: KZT 16,000 million, 2014: KZT 8,000 million). In accordance with the terms of financing, the Bank has to lend the funds, during the year and a half after the origination, to large-scale businesses implementing projects in priority and non-priority sectors.

In December 2016, the Bank received a short-term loan from the National Bank of the Republic of Kazakhstan for a total amount of KZT 400,813 million with maturity in March 2017. On 26 December 2016 the Bank made partial early repayment of the above debt in the principal amount of KZT 200,000 million. The outstanding balance as at 31 December 2016 was KZT 201,847 million.

The fair value of collateral held and carrying value of loans under repurchase agreements as at 31 December 2016, 2015 and 2014 are presented as follows:

	31 December 2016 (KZT million)		31 December 2015 (KZT million)		31 December 2014 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of JSC NWF Samruk-Kazyna	163,269	133,120	-	-	627,741	581,035
NBRK Notes	50,259	50,018	-	-	-	-
Bonds of the Ministry of Finance of the Republic of Kazakhstan	46,850	47,492	28,561	26,680	72,576	67,975
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	4,278	4,014
Bonds of foreign companies	-	-	-	-	3,518	3,265
Bonds of foreign banks	-	-	-	-	2,536	2,415
Municipal bonds of the RF	-	-	-	-	1,110	1,093
	260,378	**230,630**	**28,561**	**26,680**	**711,759**	**659,797**

The maturity of repurchase agreements that were effective, as at 31 December 2016, was in January 2017 (2015: in January 2016, 2014: in January 2015).

25. Customer accounts

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Recorded at amortized cost:			
Time deposits	2,239,540	2,617,235	1,689,999
Demand deposits	672,654	703,619	571,306
Accounts in precious metals	3,244	3,880	2,835
	2,915,438	**3,324,734**	**2,264,140**

On 11 June 2015, the Bank has signed a deposit agreement with JSC Problem Loans Fund for the purpose of involvement of the funds for KZT 38,100 million, with an annual nominal interest rate of 2.99% for 20 years under the state program of refinancing mortgages. The payment of the principal is to be made at maturity, interest payments - annually.

On 23 June 2015, the Bank signed a deposit agreement with the JSC Problem Loans Fund for the placement of a deposit in the amount of KZT 250,000 million, with an annual nominal interest rate of 5.5% for 10 years, with the payment of principal made at maturity, interest payments - annually. As the Bank has fulfilled all the terms of this agreement, funds are available for use by the Bank, without any restrictions. According to the deposit agreement, a portion or the entire amount of the deposit is subject to withdrawal only upon agreement with the Bank. As the rate on the deposit is lower than the rates on financial instruments with similar terms and conditions offered by the second-tier banks in Kazakhstan, the Bank recognized a discount of KZT 58,228 million as at the date of deposit placement, which is recognized in interest income in the line item "Discount on customer accounts". As at 31 December 2016 and 2015, the carrying value of the deposit amounted to KZT 197,763 and KZT 193,774 million, accordingly.

In the second quarter of 2016, the Bank has signed a deposit agreement with JSC Unified Accumulative Pension Fund for the purpose of involvement of the funds for KZT 20,900 million, with an annual nominal interest rate of 16.5% for 42 months within the framework of the state program of business support and business development "Business Road Map 2020", defined by the State Program of Industrial and Innovative Development of the Republic of Kazakhstan for 2015-2019, approved by the Decree of the President of the Republic of Kazakhstan. Payment of the deposit is made at the end of the term, interest payment - once every six months.

As at 31 December 2016, a portion of customer accounts held as guarantees on issued letters of credit and other transactions related to contingent liabilities amounted to KZT 52,186 million (2015: KZT 55,215 million, 2014: KZT 7,794 million).

As at 31 December 2016, the total amount of funds placed under state programs in the form of deposits from JSC NWF Samruk-Kazyna, JSC National Managing Company Baiterek, JSC Problematic Loans Fund and JSC Unified Accumulative Pension Fund excluding accrued interest was KZT 405,397 million (2015: KZT 406,363 million, 2014: KZT 95,332 million). The funds were received for the following purposes:

- refinancing mortgage loans;
- completion of construction projects in Almaty and Astana;
- financing the improvement of loan portfolio quality;
- the state program of business support and development "Business Road Map 2020".

As at 31 December 2016, customer accounts of KZT 1,367,026 million or 46.89% (2015: KZT 1,422,092 million or 42.77%, 2014: KZT 932,335 million or 41.18%), were due to 10 customers, which represents a significant concentration. The management of the Group believes that in the event of withdrawal of funds, the Group would be given sufficient notice as to realize its liquid assets to enable repayment.

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Analysis by sector:			
Individuals	1,440,081	1,470,221	1,005,280
Government related entities	464,326	428,250	207,465
Chemical and petrochemical industry	282,343	215,145	293,540
Investments and finance	152,346	179,595	108,519
Construction	142,724	121,211	56,343
Services	89,160	75,391	56,950
Mining and metallurgy	83,914	55,801	21,179
Wholesale and retail trade	81,712	83,517	63,944
Transport and communication	50,782	93,373	50,543
Education	32,383	90,226	55,512
Agriculture	23,014	11,972	9,917
Distribution of electricity, gas and water	13,935	17,408	21,010
Public organizations and unions	6,875	402,603	216,943
Other	51,843	80,021	96,995
	2,915,438	**3,324,734**	**2,264,140**

26. Debt securities issued

	Currency	Maturity date	Annual coupon rate %	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Eurobonds:						
Issued in February 2007 at the price of 99.277%	EUR	February 2017	6.88	130,954	138,384	82,553
Issued in May 2011, at the price 99.353%	USD	May 2018	8.50	98,378	101,039	53,561
Issued in November 2006 at the price of 98.282%	USD	November 2016	7.50	-	97,646	52,366
Issued in November 2005 at the price of 98.32%	USD	November 2015	8.00	-	-	49,584
				229,332	337,069	238,064
(Less)/including:						
Discount on Eurobonds issued				(390)	(1,128)	(1,172)
Accrued interest on Eurobonds issued				9,059	10,165	6,576
Total issued Eurobonds				238,001	346,106	243,468
Debt securities previously issued by JSC BTA Bank at the price 100.00%	USD	December 2022	5.50	184,147	180,365	102,162
Debt securities issued by JSC Kazkommertsbank at the price 99.95%	KZT	January 2022	8.75	101,382	101,372	-
Debt securities issued by JSC Kazkommertsbank at the price 99.97%	KZT	November 2019	8.40	60,513	60,509	60,514
Issued bonds of Moscow Stars B.V. at the price of 99.00%	USD	December 2020	5.95	2,403	4,231	3,310
Issued promissory notes of JSC CB Moskommertsbank	USD, EUR, RUR	March 2017	4.50-12.00	515	518	1,185
Debt securities issued by JSC Kazkommertsbank at the price 102.21%-104.48%	KZT	April 2016	9.00	-	2,382	2,403
Debt securities issued of JSC BTA Bank at the price 100.00%	KZT	February 2016	4.00-8.50	-	-	3,878
				586,961	**695,483**	**416,920**

As at 31 December 2016, the nominal value of bonds previously issued by JSC BTA Bank is KZT 247,180 million, with a discount of KZT 63,033 million (2015: KZT 252,940 million and KZT 72,575 million, respectively; 2014: KZT 136,364 million and KZT 34,202 million, respectively).

During 2016, the Group repurchased debt securities issued in the total amount of KZT 9,091 million (2015: KZT 3,287 million, 2014: KZT 737 million) with maturity dates in 2022.

During 2016, the Group sold debt securities issued in the total amount of KZT 7,482 million (2015: KZT 3,539 million, 2014: KZT 120 million) with maturity dates in 2022.

On 11 April 2016, the Bank has repaid debt securities issued in April 2010 for the original amount of KZT 2,338 million. Debt securities issued were repaid in full on the date of its maturity from the Bank's own funds.

On 29 November 2016, the Bank repaid debt securities, issued in November 2006, for the original amount of USD 500 million. The bonds were repaid in full from the Bank's own funds.

27. Other borrowed funds

	Currency	Maturity	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Loans from JSC Entrepreneurship Development Fund Damu	KZT	March 2035	42,037	65,714	44,125
Loans from JSC NWF Samruk-Kazyna	KZT	July 2017	39,271	35,881	170,523
Loans from JSC Kazakhstan Mortgage Company	KZT	March 2029	-	-	2,045
			81,308	101,595	216,693

As at 31 December 2016, loans from JSC Entrepreneurship Development Fund Damu ("Damu") included a loan in the amount of KZT 35,528 million at interest rate from 2.0% to 4.5% maturing in 2035 (as at 31 December 2015 in the amount of KZT 32,000 million at 2.0% interest rate with maturity in 2035 and as at 31 December 2014 KZT 26,000 million at 2.0% interest rate with maturity in 2034), with possibility of early repayment. Loans in the total amount of KZT 3,528 million were received in accordance with the Program of Regional Financing of Small and Medium-Sized Entrepreneurs at the interest rate for the ultimate borrower in the amount of 7.0% to 8.5% per annum, with a credit period of no more than 7 years.

The Group is obligated to comply with covenants in relation to other borrowed funds disclosed above. These covenants include stipulated ratios and various other financial performance ratios. The Group has not breached any of these covenants as at 31 December 2016, 2015 and 2014.

28. Other liabilities

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Other financial liabilities:			
Payables to employees	18,705	8,132	2,984
Settlements on other transactions	9,054	5,438	13,100
Accounts payable to re-insurers	5,629	5,224	3,139
Accrued expenses	1,735	2,091	3,957
Accrued commission expense	73	60	18
Accrued payable to deposits and insurance payment guarantee funds	13	39	1,053
Dividends payable	3	1	31
Accounts payable	-	-	14,042
	35,212	20,985	38,324
Other non-financial liabilities			
Income tax payable	7,305	3,889	1,217
Advances received	5,531	3,709	4,786
Taxes, other than income tax	3,775	5,276	3,753
	51,823	**33,859**	**48,080**

29. Subordinated debt

	Currency	Maturity date	Interest rate %	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Subordinated bonds	KZT	2017 - 2025	9.50-10.50	126,002	123,797	35,131
Subordinated debt	USD	2017	5.95	70,440	71,800	38,448
Perpetual bonds	USD	-	7.08	18,848	18,764	13,297
Debt component of preference shares	USD	-	-	15,147	15,453	8,287
Subordinated debt	USD	2016	6.77	-	51,421	27,693
				230,437	**281,235**	**122,856**

On 2 June 2016, the Bank partially repurchased subordinated Eurobonds issued in July 2006 with an initial placement amount of USD 200 million.

On 27 July 2016, the Bank repurchased subordinated bonds issued in July 2006 with an initial placement amount of USD 200 million. Repayment of subordinated bonds was made entirely at the expense of the Bank's own funds.

In the event of bankruptcy or liquidation of the Bank repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

30. Share capital

As at 31 December 2016, 2015 and 2014, authorized share capital consisted of 1,100 million ordinary shares and 175 million preference shares.

As at 31 December 2016, the Group's share capital comprised the following:

	Authorized share capital (Number of shares)	Authorized but not issued share capital (Number of shares)	Repurchased share capital (Number of shares)	Issued share capital (Number of shares)
Ordinary shares	1,100,000,000	(192,863,203)	(110,149,252)	796,987,545
Preference shares	175,000,000	(50,000,000)	(1,015,436)	123,984,564
	1,275,000,000	**(242,863,203)**	**(111,164,688)**	**920,972,109**

As at 31 December 2015, the Group's share capital comprised the following:

	Authorized share capital (Number of shares)	Authorized but not issued share capital (Number of shares)	Repurchased share capital (Number of shares)	Issued share capital (Number of shares)
Ordinary shares	1,100,000,000	(192,863,203)	(110,200,515)	796,936,282
Preference shares	175,000,000	(50,000,000)	(1,839,876)	123,160,124
	1,275,000,000	**(242,863,203)**	**(112,040,391)**	**920,096,406**

As at 31 December 2014, the Group's share capital comprised the following:

	Authorized share capital (Number of shares)	Authorized but not issued share capital (Number of shares)	Repurchased share capital (Number of shares)	Issued share capital (Number of shares)
Ordinary shares	1,100,000,000	(320,661,823)	(109,811,012)	669,527,165
Preference shares	175,000,000	(50,000,000)	(2,726,598)	122,273,402
	1,275,000,000	**(370,661,823)**	**(112,537,610)**	**791,800,567**

The preference shares carry no voting rights, unless preference dividends are not paid, but rank ahead of the ordinary shares in the event of liquidation of the Bank. The annual dividend is determined by the preference shares issuance rules in the amount of USD 0.04 per share. According to legislation on Joint Stock Companies of the Republic of Kazakhstan, additional dividend payments on the preference shares cannot be less than the dividends paid on ordinary shares. These shares are cumulative and not redeemable.

During 2016, dividends declared on preference shares amounted to KZT 1,697 million (2015: KZT 1,071 million, 2014: KZT 878 million). In 2016, 2015 and 2014 dividends on ordinary shares of the Bank have not been declared.

The table below provides a reconciliation of the number of shares outstanding as at 31 December 2016, 2015 and 2014:

	Preference shares (Number of shares)	Ordinary shares (Number of shares)	Preference shares (KZT million)	Ordinary shares (KZT million)
31 December 2013	**122,135,445**	**777,777,907**	**12,526**	**200,086**
Sale/(repurchase) of treasury shares	137,957	(108,250,742)	11	(51,678)
31 December 2014	**122,273,402**	**669,527,165**	**12,537**	**148,408**
Share issue	-	127,798,620	-	73,510
Sale/(repurchase) of treasury shares	886,722	(389,503)	145	(80)
31 December 2015	**123,160,124**	**796,936,282**	**12,682**	**221,838**
Sale/(repurchase) of treasury shares	824,440	51,263	32	37
31 December 2016	**123,984,564**	**796,987,545**	**12,714**	**221,875**

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

The Group's profit distributable among shareholders is limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by Kazakhstan regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

31. Transferred financial assets

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2016, 2015 and 2014 are disclosed below:

Securities lending and repurchase agreements

The Group has a plan to borrow and lend securities and to sell securities under agreements to repurchase (repos) and to purchase securities under agreements to resell (reverse repos). The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets.

The Group 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.

Similarly, the Group may sell or re-pledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Group, which instead record a separate asset for any possible cash collateral provided.

	Financial assets at fair value through profit or loss (KZT million) (Note 15)	Investments available-for-sale (KZT million) (Note 18)	Investments held to maturity (KZT million) (Note 19)	Bonds of JSC NWF Samruk-Kazyna (KZT million)
As at 31 December 2016:				
Carrying amount of assets	89,399	-	172,628	-
Carrying amount of associated liabilities (loans under repurchase agreements)	89,523	-	141,107	-
As at 31 December 2015:				
Carrying amount of assets	27,469	-	1,163	-
Carrying amount of associated liabilities (loans under repurchase agreements)	25,691	-	989	-
As at 31 December 2014:				
Carrying amount of assets	73,763	4,095	6,118	627,741
Carrying amount of associated liabilities (loans under repurchase agreements)	69,194	3,858	5,710	581,035

32. Commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and credit commitments, in the event of non-performance or in the event of impairment by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the standardized approach provided for under Basel II standards.

As at 31 December 2016, 2015 and 2014, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Contingent liabilities and commitments:			
Guarantees issued and similar commitments	137,628	130,047	70,029
Letters of credit and other transaction related to contingent obligations	48,084	53,815	4,250
Commitments on loans and unused credit lines (irrevocable)	25,849	15,667	12,491
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	16	18	21
Total contingent liabilities and commitments	**211,577**	**199,547**	**86,791**
Less: collateral in cash*	(58,523)	(90,598)	(15,754)
Less: provision for contingent liabilities and commitments (Note 6)	(5,070)	(5,894)	(686)
Total contingent liabilities and commitments, net of provisions and cash collateral	**147,984**	**103,055**	**70,351**

*Of these, KZT 52,186 million were taken into account as customer accounts, and as other borrowed funds KZT 6,337 million (2015: KZT 55,215 million and KZT 35,383 million, respectively, in 2014: KZT 7,794 million and KZT 7,960 million, respectively).

The decision to issue loans to customers within open credit lines is made by the Group at each request of a customer for the borrowed funds and depends on the financial position of the borrower, credit history and other factors. As at 31 December 2016, the amount of contingent liabilities on such revocable unused credit lines equals to KZT 196,574 million (2015: KZT 314,230 million, 2014: KZT 271,750 million). The decision to issue further funds is not obligatory since the Group is entitled to suspend or stop providing the borrower with a credit line or deny the borrower the credit for any reason including in case the borrower violates the obligations before the Group; insufficiency of the collateral when revaluing the collateral due to a decrease in its pledge value or change of prices in the market; or as a result of provision of the credit line (provision of credit) the Group will violate any of the prudential norms established by the regulatory authorities for the second-tier banks; without warning the borrower.

Capital commitments

As at 31 December 2016, capital commitments amounted to KZT 202 million (2015: KZT 1,468 million, 2014: KZT 530 million).

Operating lease commitments

As at 31 December 2016, 2015 and 2014, there were no material operating lease commitments outstanding.

Fiduciary activities

In the normal course of its business the Group enters into agreements with limited rights on decision making with clients for the management of assets in accordance with specific criteria established by them. The Group is liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. As at 31 December 2016, these amounts represent balances of clients' funds under management of Group, including assets, which are under responsible custody in the amount of KZT 88,301 million (2015: KZT 169,416 million, 2014: KZT 81,504 million) respectively.

Legal proceedings and claims

From time to time and in the normal course of business, claims against the Group 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 consolidated financial statements.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reliably measured. No provision has been made in these consolidated financial statements for any of the contingent liabilities mentioned below.

Sekerbank TAS

In accordance with the decision of the Commercial Court of Istanbul dated 7 February 2012 at the request of Türkiye Vakiflar Bankasi TAO, a provisional arrest was imposed on 101,726,214 shares of Şekerbank TAŞ belonging to Subsidiary BTA Bank JSC BTA Securities Joint Stock Company ("BTA Securities") together with the prohibition to transfer these shares to third parties. The issue regarding removal of seizure of shares belonging to BTA Securities was considered during court sessions on 13 May 2013, 11 September 2013, 5 February 2014 and 2 June 2014.

On 5 February 2015, a regular hearing took place. Due to the absence of one of the main judges, the next court session was postponed to 9 April 2015. However, the Commercial Court of Istanbul decided that the petition regarding the removal of the arrest on shares will be reviewed by convocation of an extraordinary meeting.

On 13 March 2015, 86.47% of BTA Securities' share in Sekerbank was blocked by the decision of Commercial court of Istanbul, Turkey, including shares acquired and gratuitously received during 2015.

On 3 December 2015, the First Commercial Court of the First Instance in Istanbul, Turkey, issued a ruling in favor of Turkiye Vakiflar Bank T.A.O. and upheld its lawsuit. The ruling decreed that the amount due on loan guaranteed by JSC BTA Bank should be recovered jointly from the defendants JSC BTA Bank and the BTA Securities with 22.5% interest per annum in favor of the plaintiff.

On 11 March 2016, as a result of the decision at the First Commercial Court of the First Instance in Istanbul, Turkey, the remaining 13.53% of Shekerbank shares out of encumbrance in the quantity of 17,083,367 shares were also blocked as the provision of guarantee of JSC BTA Bank on the loan to ELT LojistikLtd. Şti. (Turkey) issued by TurkiyeVakiflarBank T.A.O. (Turkey).

On 29 April 2016, a tender was held to sell the Sekerbank T.A.S. in the amount of 9.43% owned by BTA Securities, as part of the execution of this court decision. Sekerbank T.A.S. itself took part in the given trades, which became the winner of the auctions.

On 5 May 2016, an application was filed to cancel the auction in connection with the sale of shares of Sekerbank T.A.S. and thus freeze the transfer of a block of shares for the period of the trial to the buyer and the money to the Claimant (TurkiyeVakiflarBank T.A.O. (Turkey)) until a final verdict is issued.

On 29 June 2016, a letter was sent to legal advisers about the refusal of the submitted application for cancellation of bidding, since in the event of a decision on this trial in favor of Turkiye Vakiflar Bank TAO, the court would oblige defendants to pay a state duty of 10% of the auction amount.

Simultaneously, on 20 June 2016, BTA Bank and BTA Securities filed an appeal against the court's decision to satisfy the claims of Turkiye Vakiflar Bank T.A.O. According to the consultants, this court decision and further actions of TurkiyeVakiflarBank T.A.O. (Turkey) on its execution contain a large number of violations of Turkish law. In this regard, BTA Bank and BTA Securities believe that they have a good chance of restoring their violated legal rights and interests.

According to the official notification of the 14th Directorate for Execution of Judgements in Istanbul, which indicates the entry into force of the conducted tenders, it became necessary to re-issue shares in the amount of 9.43% on Sekerbank TAS, owned by BTA Securities earlier, as a result, based on the above document on 19 August 2016, the shares were written off. For the remaining 1.48% of the shares of Sekerbank T.A.S, owned by BTA Securities, the enforcement proceedings on the decision from 3 December 2015 continues. The Group recognised the corresponding losses in the consolidated statement of profit or loss for the year ended 31 December 2016 (Note 15).

Taxation

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses 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, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all probable tax amounts due. Income tax related provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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 and 2015, the oil price decreased significantly, which led to a significant decrease in the national export revenue. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on a free floating tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016, the tenge depreciated significantly against major foreign currencies.

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

33. Transactions with related parties

Related parties or transactions with related parties are assessed in accordance with IAS 24.

In considering each possible related party relationship, special attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Note 2 contains information on operations concluded with JSC BTA Bank, related party, in 2015 and 2014.

Details of transactions between the Group and other related parties are disclosed below:

	31 December 2016 (KZT million)		31 December 2015 (KZT million)		31 December 2014 (KZT million)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Financial assets at fair value through profit or loss	-	210,538	10,783	365,277	-	175,927
- other related parties	-		10,783		-	
Loans and advances to banks and other financial institutions	7,019	109,832	-	296,677	3,531	208,550
-associates	-		-		3,531	
Loans to customers, before allowance	2,542,237	4,330,152	2,376,155	4,144,178	9	2,630,424
- key management personnel of the Bank	1,625		5		9	
- BTA Bank	2,465,831		2,312,385		-	
- other related parties	74,781		63,765		-	
Allowance for impairment losses on loans to customers	(14,960)	(573,447)	(41,927)	(314,442)	(2)	(508,276)
- key management personnel of the Bank	(67)		-		(2)	
- BTA Bank	(13,851)		(34,474)		-	
- other related parties	(1,042)		(7,453)		-	
Investments available for sale	-	19,724	174	34,544	-	94,606
- other related parties	-		174		-	
Other assets, before allowance	1,263	128,609	-	108,498	-	238,530
- BTA Bank	85		-			
- other related parties	1,178		-		-	
Allowance for other assets	(1,263)	(10,868)	-	(6,345)	-	(23,872)
- BTA Bank	(85)		-		-	
- other related parties	(1,178)		-		-	
Loans and advances from banks and other financial institutions	873	491,505	1	123,063	20	682,856
- associates	-		-		20	
- other related parties	873		1		-	
Customer accounts	9,167	2,915,438	49,085	3,324,734	6,079	2,264,140
- parties with significant influence	-		127		1,896	
- key management personnel of the Bank	828		3,353		4,072	
- BTA Bank	5,230		43,997		-	
- other related parties	3,109		1,608		111	
Commitments on loans and unused credit lines (irrevocable)	410	25,849	112	15,667	215	12,491
- key management personnel of the Bank	410		112		215	
Guarantees issued and similar commitments	6,815	137,628	6,810	130,047	-	70,029
- BTA Bank	6,811		6,810		-	
- other related parties	4		-		-	
Allowance for guarantees issued and similar commitments	(83)	(5,070)	-	(5,894)	-	(686)
- BTA Bank	(83)		-		-	
Letters of credit and other operations, related to contingent liabilities	-	48,084	17	53,815	-	4,250
- other related parties	-		17		-	

As at 31 December 2016, contingent liabilities amount of irrevocable undrawn credit lines of related parties were equal to KZT nil (2015: KZT nil, 2014: KZT 10 million).

Included in the consolidated statement of profit or loss for the years ended 31 December 2016, 2015 and 2014 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2016 (KZT million)		Year ended 31 December 2015 (KZT million)		Year ended 31 December 2014 (KZT million)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	238,735	434,384	81,090	378,053	111	313,579
- entities with a joint control	-		12		-	
- key management personnel of the Bank	71		1		111	
- BTA Bank	219,254		78,121		-	
- other related parties	19,410		2,956		-	
Interest expense	(73)	(231,011)	(154)	(190,967)	(345)	(159,547)
- parties with significant influence	-		(3)		(175)	
- entities with a joint control	-		(19)		-	
- key management personnel of the Bank	(70)		(127)		(169)	
- BTA Bank	-		(5)		-	
- other related parties	(3)		-		(1)	
Operating expenses	(8,121)	(84,050)	(333)	(78,546)	(1,301)	(64,891)
- short-term employee benefits	(8,121)	(49,406)	(333)	(33,306)	(1,301)	(27,445)
Recovery of/(provision for) impairment losses on interest bearing assets, other transactions, guarantees and other contingencies	4,296	(78,101)	(31,639)	(193,767)	(112)	(72,455)
- key management personnel of the Bank	(67)		5		(112)	
- BTA Bank	14,217		(26,113)		-	
- other related parties	4,363		(5,531)		-	

Key management personnel compensation for the years ended 31 December 2016, 2015 and 2014 is represented by salary and bonuses.

As at 31 December 2016, 2015 and 2014 the Group does not pledge any assets in connection with guarantees issued to Management.

34. Segment reporting

Operating segments

The Group is managed and reported on the basis of four main operating segments. The Group's segments are strategic business units that offer different products and services which are managed separately.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, documentary credits.
- Investment banking – representing financial instruments trading, structured financing, and merger and acquisitions advice, foreign currency and derivative products.
- Other – representing insurance operations and other activities.

Retail banking offers a range of personal banking, savings and mortgage products and services. Corporate banking offers business banking services principally to small and mid-sized companies and commercial loans to larger corporate and commercial customers. Investment banking consists of assets and liabilities required to support the liquidity and funding requirements of the Group, Asset and Liability Management activities.

Transactions between the business segments are performed on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Internal charges and transfer pricing adjustments, if any, have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, except tax assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

More specific information on the revenues from external customers for each product and service, or each group of similar products and services is not available and the cost to develop it is high. Hence the Group presents operating segments on the basis of four main segments.

Segment information about these businesses is presented below.

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	As at and for the year ended 31 December 2016 (KZT million)
External interest income	51,559	322,570	59,429	826	-	-	434,384
Internal interest income	102,462	50,837	300,346	-	-	(453,645)	-
External interest expenses	(63,357)	(46,265)	(120,918)	-	-	(471)	(231,011)
Internal interest expenses	(27,183)	(247,837)	(178,624)	-	-	453,644	-
Net interest income before recovery/(provision) of provision for impairment losses on interest bearing assets	63,481	79,305	60,233	826	-	(472)	203,373
Recovery of provision/(provision) for impairment losses on interest bearing assets	32,525	(96,356)	(5,023)	(5)	-	-	(68,859)
NET INTEREST INCOME/(EXPENSE)	96,006	(17,051)	55,210	821	-	(472)	134,514
Net gain on financial assets and liabilities at fair value though profit or loss	-	-	7,970	-	-	-	7,970
Loss on write-off of financial assets and liabilities at fair value though profit or loss	-	-	(16,810)	-	-	-	(16,810)
Net (loss)/gain on foreign exchange and precious metals operations	(21)	(11)	(16,975)	1	-	-	(17,006)
Fee and commission income	33,188	15,577	260	-	-	-	49,025
Fee and commission expense	(16,809)	(487)	(2,734)	(628)	-	-	(20,658)
Net (loss)/gain on investments available-for-sale	-	-	(561)	942	-	-	381
Dividend income	-	33	836	-	-	-	869
Income from sale of inventory	-	18,639	-	-	-	-	18,639
Other income/(expenses)	17,590	(13,697)	3,021	10,833	-	-	17,747
Revaluation of assets classified as held for sale	(2,392)	(53,110)	-	-	-	-	(55,502)
NET NON-INTEREST INCOME/(EXPENSE)	31,556	(33,056)	(24,993)	11,148	-	-	(15,345)
OPERATING EXPENSES	(37,762)	(35,025)	(2,678)	(8,585)	-	-	(84,050)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	89,800	(85,132)	27,539	3,384	-	(472)	35,119
Provision for impairment losses on other transactions	-	(6,649)	(3)	(3,370)	-	(1)	(10,023)
Recovery of provision/(provision) for guarantees and other contingencies	-	783	-	-	-	(2)	781
PROFIT/(LOSS) BEFORE INCOME TAX	89,800	(90,998)	27,536	14	-	(475)	25,877
Segment assets	371,395	3,752,052	809,502	93,484	2,805	(163,487)	4,865,751
Segment liabilities	1,451,418	1,605,890	1,529,275	65,192	9,992	(177,296)	4,484,471

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	As at and for the year ended 31 December 2015 (KZT million)
External interest income	60,890	270,992	45,452	719	-	-	378,053
Internal interest income	65,016	49,769	230,319	-	-	(345,104)	-
External interest expenses	(41,612)	(62,255)	(87,054)	(46)	-	-	(190,967)
Internal interest expenses	(39,417)	(174,385)	(131,302)	-	-	345,104	-
Net interest income before (provision)/recovery of provision for impairment losses on interest bearing assets	44,877	84,121	57,415	673	-	-	187,086
(Provision)/recovery of provision for impairment losses on interest bearing assets	(27,836)	(148,981)	(25)	1	-	-	(176,841)
NET INTEREST INCOME/(EXPENSE)	17,041	(64,860)	57,390	674	-	-	10,245
Net gain on financial assets and liabilities at fair value though profit or loss	-	-	56,969	29	-	-	56,998
Net gain/(loss) on foreign exchange and precious metals operations	3,698	(9,630)	(8,313)	92	-	-	(14,153)
Fee and commission income	28,927	14,929	1,567	2,137	-	-	47,560
Fee and commission expense	(14,103)	(1,884)	(2,373)	(777)	-	-	(19,137)
Net loss on investments available-for-sale	-	-	(68)	172	-	-	104
Dividend income	-	-	1,297	-	-	-	1,297
Income from sale of inventory	-	1,201	-	-	-	-	1,201
Other income	269	2,118	4,808	8,605	-	-	15,800
Revaluation of assets classified as held for sale	-	(5,335)	-	-	-	-	(5,335)
NET NON-INTEREST INCOME	18,791	1,399	53,887	10,258	-	-	84,335
OPERATING EXPENSES	(33,085)	(34,082)	(1,880)	(9,499)	-	-	(78,546)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	2,747	(97,543)	109,397	1,433	-	-	16,034
Recovery/(provision) of provision for impairment losses on other transactions	36	(2,035)	3	(9,789)	-	-	(11,785)
Recovery of provision for guarantees and other contingencies	-	(5,141)	-	-	-	-	(5,141)
PROFIT/(LOSS) BEFORE INCOME TAX	2,783	(104,719)	109,400	(8,356)	-	-	(892)
Segment assets	296,522	3,731,367	1,167,842	105,530	13,793	(220,719)	5,094,335
Segment liabilities	1,474,668	1,982,528	1,332,376	87,063	5,098	(160,666)	4,721,067

Segment information about these businesses is presented below.

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	As at and for the year ended 31 December 2014 (KZT million)
External interest income	61,080	218,964	31,574	1,961	-	-	313,579
Internal interest income	49,225	43,671	205,386	-	-	(298,282)	-
External interest expenses	(45,835)	(40,077)	(73,576)	(59)	-	-	(159,547)
Internal interest expenses	(26,706)	(143,916)	(127,660)	-	-	298,282	-
Net interest income before (provision)/recovery of provision for impairment losses on interest bearing assets	37,764	78,642	35,724	1,902	-	-	154,032
(Provision)/recovery of provision for impairment losses on interest bearing assets	(29,039)	(47,049)	2,049	-	-	-	(74,039)
NET INTEREST INCOME	8,725	31,593	37,773	1,902	-	-	79,993
Net loss on financial assets and liabilities at fair value though profit or loss	(15)	(15)	(30,034)	(106)	-	-	(30,170)
Net gain/(loss) on foreign exchange and precious metals operations	2,169	(2,443)	7,760	1,272	-	-	8,758
Fee and commission income	24,731	15,237	1,236	112	-	-	41,316
Fee and commission expense	(13,932)	(945)	(1,619)	(153)	-	-	(16,649)
Net gain/(loss) on investments available-for-sale	-	-	1,245	(109)	-	-	1,136
Dividend income	-	94	1,289	55	-	-	1,438
Income from sale of inventory	-	2	-	-	-	-	2
Other (expenses)/income	(30,423)	6,803	26,348	5,385	-	-	8,113
Revaluation of assets classified as held for sale	-	-	(252)	-	-	-	(252)
NET NON-INTEREST (EXPENSE)/INCOME	(17,470)	18,733	5,973	6,456	-	-	13,692
OPERATING EXPENSES	(26,834)	(24,421)	(10,152)	(3,484)	-	-	(64,891)
(LOSS)/PROFIT BEFORE OTHER OPERATING PROVISIONS	(35,579)	25,905	33,594	4,874	-	-	28,794
Recovery of provision/(provision) for impairment losses on other transactions	31,306	(13,001)	(15,961)	(5,749)	-	-	(3,405)
Recovery of provision for guarantees and other contingencies	-	4,988	1	-	-	-	4,989
Share of profits of associates	-	-	300	-	-	-	300
(LOSS)/PROFIT BEFORE INCOME TAX	(4,273)	17,892	17,934	(875)	-	-	30,678
Segment assets	796,544	2,198,807	1,492,044	129,073	16,537	(385,928)	4,247,077
Segment liabilities	1,043,437	1,897,175	1,684,900	19,693	2,602	(816,771)	3,831,036

For the year ended 31 December 2016, operating expenses included depreciation and amortization: in segment "Retail banking" amounted to KZT 1,327 million (2015: KZT 1,406 million, 2014: KZT 1,324 million), in segment "Corporate banking" amounted to KZT 2,153 million (2015: KZT 2,071 million, 2014: KZT 2,059 million), in segment "Investment banking" amounted to KZT 18 million (2015: KZT 28 million, 2014: KZT 39 million), in segment "Other" amounted to KZT 120 million (2015: KZT 324 million, 2014: KZT 202 million).

Geographical segments

Segment information for the main geographical segments of the Group is set out below for the years ended 31 December 2016, 2015 and 2014. The financial results disclosed below has been allocated based on domicile of the company within the Group.

	Kazakhstan (KZT million)	CIS (KZT million)	For the year ended 31 December 2016 Total (KZT million)
Interest income and commission income	469,425	13,984	483,409
Long-term assets	328,775	9,133	337,908

	Kazakhstan (KZT million)	CIS (KZT million)	For the year ended 31 December 2015 Total (KZT million)
Interest income and commission income	414,016	11,597	425,613
Long-term assets	155,660	5,858	161,518

	Kazakhstan (KZT million)	CIS (KZT million)	OECD Countries (KZT million)	For the year ended 31 December 2014 Total (KZT million)
Interest income and commission income	339,660	14,984	251	354,895
Long-term assets	590,957	25,438	-	616,395

Long-term assets are represented by fixed assets and intangible assets, investment property, assets for sale, investments in associates.

35. Fair value 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 Group's financial assets and financial liabilities measured at fair value on a recurring basis.

The Group classifies its financial instruments using a fair value hierarchy that reflects the significance of the inputs used in measuring the fair value of those instruments. The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Some of the Group'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/financial liabilities	Fair value as at 31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Derivative financial assets (Note 15)	13,959	14,720	11,030	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) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
2) Derivative financial assets (Note 15)	5,316	195,766	6,639	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	N/A. Internal rate of return in KZT is determined at initial recognition of instrument and subsequently not recalculated.
3) Non-derivative financial assets at fair value through profit or loss (Note 15)							
Debt securities	160,164	100,866	112,276	Level 1	Quoted bid prices in an active market.	N/A	N/A
Debt securities	-	-	81	Level 3	Discounted cash flows based on contractual terms of debt securities and yield of similar instruments of counterparties with credit risk adjustment using internal model.	Credit risk adjustment based on internal model.	The greater the credit risk adjustment the lower the fair value of instrument.
Equity investments	31,099	53,925	45,901	Level 1	Quoted bid prices in an active market.	N/A	N/A
4) Investments available-for-sale (Note 18)	19,706	34,513	94,606	Level 1	Quoted bid prices in an active market.	N/A	N/A
5) Investments available-for-sale (Note 18)	18	31	-	Level 3	The book value of shares based on the forecasted capital of the merged bank (materials of the restructuring plan and association of banks)	Fair value adjustment based on an individual approach due to the complex structure of the merger and restructuring of banks.	The increase in the equity of the merged bank increases the value of shares.
6) Derivative financial liabilities (Note 15)	59,890	69,956	20,791	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) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
7) Derivative financial liabilities (Note 15)	4,385	5,453		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.

There were no transfers of financial instruments between Level 1 and 2 during the years ended 31 December 2016, 2015 and 2014.

Reconciliation from the beginning balances to the ending balances in Level 3 of fair value hierarchy for financial assets measured at fair value on recurring basis for the years ended 31 December 2016, 2015 and 2014 was presented as follows:

	Financial assets at fair value through profit or loss		Financial assets available-for-sale	Financial liabilities at fair value through profit or loss
	Trading assets Debt securities (KZT million)	Derivative financial instruments (KZT million)	Equity instruments Available-for-sale (KZT million)	Derivative financial instruments (KZT million)
31 December 2013	87	-	-	-
Additions	-	9,852	-	-
Total gains or (losses)				
- to profit or loss	16	(3,213)	-	-
Redemption	(4)	-	-	-
Business combination	(18)	-	-	-
31 December 2014	81	6,639	-	-
Additions	-	827	84	-
Total gains or (losses)				
- to profit or loss	1	188,300	-	5,504
-to other comprehensive income	-	-	(53)	-
Exchange for shares	(81)	-	-	-
Disposal of subsidiary	14	-	-	-
Redemption	(15)	-	-	(51)
31 December 2015	**-**	**195,766**	**31**	**5,453**
Additions	-	4,952	-	-
Total gains or (losses)				
- to profit or loss	-	25,206	-	25,334
-to other comprehensive income	-	-	(13)	-
Redemption	-	(220,608)	-	(26,402)
31 December 2016	**-**	**5,316**	**18**	**4,385**

As at 31 December 2016, 2015 and 2014, the Group used quoted market prices from independent information sources for all of its financial assets at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on market data and unobservable data, and certain debt securities, which are valued using valuation models not based on observable market data.

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 Group to estimate the fair value of financial instruments not measured at fair value:

Loans and advances to and from banks and other financial institutions and other borrowed funds – for assets and liabilities maturing within three months, 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 three months, the fair value in relation to repurchase and reverse repurchase agreements was estimated as the fair value of collateral pledged and received. For all other loans and advances and other borrowed funds the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates and making adjustments for credit risk of the Group or counterparty.

Loans to customers – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using market rates as at the respective year-end and does not consider future expected losses or disposal of loans to customers to a third parties.

Debt securities issued – market values have been used, where available, to determine the fair value of debt securities traded on an active market.

Subordinated debt – market values have been used, where available, to determine the fair value of subordinated bonds issued and perpetual debt.

The fair value of financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position compared with the corresponding carrying value in the consolidated financial statements of the Group are presented below:

	31 December 2016		31 December 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(KZT million)		(KZT million)		(KZT million)	
Financial assets:						
Loans to customers	3,756,705	3,747,919	3,829,736	3,853,164	2,122,148	2,227,656
Bonds of JSC NWF Samruk-Kazyna	-	-	-	-	659,116	665,099
Investments held to maturity	222,434	219,946	209,936	208,611	18,440	18,482
Financial liabilities:						
Customer accounts	2,915,438	2,919,247	3,324,734	3,328,690	2,264,140	2,283,364
Debt securities issued	586,961	580,396	695,483	690,614	416,920	390,566
Other borrowed funds	81,308	54,990	101,595	74,265	216,693	218,110
Subordinated debt	230,437	219,955	281,235	269,296	122,856	107,623

				31 December 2016
	Level 1 (KZT million)	Level 2 (KZT million)	Level 3 (KZT million)	Total (KZT million)
Financial assets:				
Loans to customers	-	-	3,747,919	3,747,919
Investments held to maturity	219,946	-	-	219,946
Financial liabilities:				
Customer accounts	-	2,919,247	-	2,919,247
Debt securities issued	580,396	-	-	580,396
Other borrowed funds	-	54,990	-	54,990
Subordinated debt	219,955	-	-	219,955

				31 December 2015
	Level 1 (KZT million)	Level 2 (KZT million)	Level 3 (KZT million)	Total (KZT million)
Financial assets:				
Loans to customers	-	-	3,853,164	3,853,164
Investments held to maturity	208,611	-	-	208,611
Financial liabilities:				
Customer accounts	-	3,328,690	-	3,328,690
Debt securities issued	690,614	-	-	690,614
Other borrowed funds	-	74,265	-	74,265
Subordinated debt	269,296	-	-	269,296

				31 December 2014
	Level 1 (KZT million)	Level 2 (KZT million)	Level 3 (KZT million)	Total (KZT million)
Financial assets:				
Loans to customers	-	-	2,227,656	2,227,656
Bonds of JSC NWF Samruk-Kazyna	-	665,099	-	665,099
Investments held to maturity	18,482	-	-	18,482
Financial liabilities:				
Customer accounts	-	2,283,364	-	2,283,364
Debt securities issued	390,566	-	-	390,566
Other borrowed funds	-	218,110	-	218,110
Subordinated debt	107,623	-	-	107,623

Financial assets and liabilities at fair value through profit or loss and investments available-for-sale are carried at fair value in the consolidated statement of financial position. The carrying amounts of cash and balances with national (central) banks, other financial assets and other financial liabilities, loans and advances to banks and other financial institutions and loans and advances from banks and financial institutions approximates fair value due to the short-term nature and concluding of such financial instruments contracts on market terms.

36. Capital risk management

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total and tier 1 capital to risk weighted assets.

Capital adequacy requirements are set by the NBRK and controlled using the principles, methods and factors identified by the Basel III starting from 2015.

	31 December 2016 (KZT million)	31 December 2015 (KZT million)
Regulatory capital:		
Share capital (ordinary shares)	221,983	221,983
Additional paid-in capital	(6,405)	(6,405)
Reserves	244,079	212,919
Deductions from share capital	(18,524)	(2,637)
Total share capital	**441,133**	**425,860**
Termless financial instruments, net of investments in the Bank's own termless instruments directly and indirectly	18,657	24,703
Paid preferred shares, net of repurchased preferred shares of the Bank	12,779	12,779
Total additional capital	**31,436**	**37,482**
Total qualifying tier 1 capital	472,569	463,342
Subordinated debt, net of repurchased subordinated debt of the Bank	147,936	179,644
Total qualifying tier 2 capital	147,936	179,644
Total capital	**620,505**	**642,986**
Risk weighted assets	4,720,509	4,598,870
Share capital adequacy ratio	9.3%	9.3%
Ratio of tier 1 capital adequacy	10.0%	10.1%
Capital adequacy ratio	13.1%	14.0%

Before 2015, capital adequacy requirements were set by the NBRK and controlled using the principles, methods and factors identified by the Basel II.

	31 December 2014 (KZT million)
Regulatory capital:	
Share capital (ordinary shares)	161,252
Additional paid-in capital	(6,405)
Reserves	191,314
Deductions from tier 1 capital	(2)
Termless financial instruments included in tier 1 capital	13,248
Total qualifying tier 1 capital	**359,407**
Profit for the year	35,458
Revaluation of property and securities	17,314
Subordinated debt of the Bank, net of repurchased subordinated debt included in tier 2 capital	53,458
Total qualifying tier 2 capital	106,230
Total capital	**465,637**
Risk weighted assets	2,822,090
Ratio of tier 1 capital adequacy	12.7%
Capital adequacy ratio	16.5%

During the years ended 31 December 2016, 2015 and 2014, the Bank complied with all set capital requirements.

The Bank manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes subordinated and perpetual debt, and equity comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board of the Bank reviews its capital structure on quarterly basis. Based on the recommendations of the Management Board by making decisions on the Board of Directors or shareholders meeting, the Bank balances its overall capital structure through new share issues, issues of new debt or the redemption of existing debt, and the payment of dividends.

In 2016 the Bank's overall capital risk management policy remains unchanged in comparison with 2015 and 2014.

37. Risk management policies

Management of risks is fundamental to the Group's business. The risk management functions include:

- Risk identification: The risks, which the Group is exposed to in its daily activities, are identified by the risk management system.
- Measuring risks: The Group measures the risks using various quantitative and qualitative methodologies, which include risk based profitability analysis, calculation of possible loss amounts, and utilization of specialized models. Measurement models and associated assumptions are periodically reviewed to ensure that the tools represent the risks adequately and reasonably.
- Risk monitoring: Group's policies and procedures determine the processes for mitigating and minimizing the risks and establish limits on various types of operations. Such limits are reviewed on a periodic basis set forth in internal documents of the Group.
- Risk reporting: Risk reporting is performed on a line of business and on a consolidated basis. This information is periodically presented to the management.

The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Interest rate risk;
- Liquidity risk;
- Market risk;
- Currency risk;
- Operational risk.

Credit risk

The Group is exposed to credit risk which is the risk that counterparty to a financial instrument will fail to fulfill its obligation to the Group. This covers actual payment defaults as well as losses in value resulting from a decrease in credit quality of the counterparty.

Risk management and monitoring is performed within set procedures and limits by the Credit Committees and the management of the Group. Risk management coordination is performed by the risk management specialist or Risk Management Departments. Daily risk management is performed by the Head of the Credit Departments or Credit Divisions of branches and subsidiaries.

The Management Board of the Bank:

- develops a Credit Policy;
- monitors the compliance of the Bank and its employees with the Credit Policy, as well as monitoring and analysis of the quality of the loan portfolio of the bank;
- based on monitoring results (at least once a quarter), it creates a report on the compliance of the Bank and its employees with the Credit Policy, as well as the quality of the loan portfolio, and sends it to the Committee for Strategic Planning and Risk Review of the Board of Directors for consideration and issuance of recommendations to the Board of Directors of the Bank.

To measure credit risk, the Group employs several methodologies for estimating the likelihood of borrower or counterparty default. Methodologies differ depending on types of assets (e.g. consumer loans versus corporate term loans), risk measurement parameters (e.g. delinquency status and credit bureau reports versus corporate risk rating), and risk management and collection procedures (e.g. consumer lending collection center versus centrally managed workout groups).

The Group determines the level of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. The exposure to any individual borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committees.

Off-balance sheet credit commitments represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk of off-balance sheet financial instruments is defined as the probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on off-balance sheet instruments, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. The actual amount of this loss is likely to be less than the total unused commitments since the commitments are contingent upon customers maintaining certain credit standards. The Group applies the same credit policy to contingent liabilities as it does to the on-balance sheet financial instruments.

Structure of credit committees

The Group has developed policies and guidelines that are designed to preserve the independence and integrity of the approval and decision making of extending credit and are aimed at accurate assessment of credit risk and its proper and timely monitoring. The policy frameworks (separate for retail lending and corporate lending) establish credit approval authorities, risk-rating methodologies, credit review parameters and guidelines for management of distressed loans.

The Group has centralized decision making in the Bank's Head Office over the past several years. In particular, authorities of branches and regional directorates on approval of small entrepreneurship and retail loans have been transferred to Decision Making Centers ("DMCs") in the Head office. Furthermore, most of the branch and regional directorate authorities on corporate loan approvals have also been transferred to the Head Office of the Bank.

The Group currently has the following credit committees:

Head Office Committees:

- Board of Directors. All loans exceeding 10% of the Bank's total assets as well as all transactions with related parties have to be approved by the Board of Directors.
- Management Board
- Commercial Directorate (hereinafter - CD). The goal of the CD activity is coordination and control over the implementation by the Bank's subdivisions of a unified policy in the field of lending, organization of the credit process, minimization of credit risk, and increasing the efficiency of using the Bank's resources. The main objectives of the CD are: making decisions on the provision of any type of financing in accordance with the Bank's Credit Policy; making decisions on loan applications of the Bank's divisions; Initiation and consideration of issues related to improving the credit process in the Bank, improving procedures for the financial analysis of borrowers, interaction of units when reviewing applications and subsequent monitoring of borrowers; management of the process of recovery and recovery of problem loans, determined on the basis of the volume, completeness, quality of the loan project and the timeliness of the implementation of debt repayment measures, including on the basis of the proposals of the Project Office.
- Credit Committee of the Head Office. This committee is authorized to review corporate loans up to an amount equivalent to 5 million USD. The Committee also considers credit applications of individuals and loans to small and medium-sized businesses that exceed the limits and authorities established for the DMC.
- The Problem Loans Committee of the Head Office is entitled to make decisions on problem loans of the Corporate Business, Retail Business and Small and Medium Business of the Head Office, Branches, Subsidiary Banks to the Borrowers or their group within Regulation of the Committee and decision of the higher authorized bodies of the Bank. Decisions on problem loans of Corporate Business and Subsidiary Banks are accepted by the Committee within the limits established by a separate decision of the Bank's Management Board.

Branch Committees. Each of the Group's branches has a credit committee. The branches have limited authorities to grant loans.

Corporate loans

While considering loan applications of corporate borrowers, the related Credit Committees take into account the analysis and conclusions of Risk Management Department №1, Collateral Valuation, Legal and Security Departments.

- Risk Management Department №1. The analytic group within the Head Office, which provides advice on commercial loans based on their assessment of the borrower's business and/or the project, to which the loan relates. Their assessment takes into account a number of industry and borrower specific factors, future cash flows of the potential borrower and anticipated risk-adjusted returns for the Group. For the purpose of the analysis, risk managers utilize the rating model described below. Furthermore, the Department of Risk Management №1 is involved in the Group's loan portfolio monitoring and in the development of procedures and guidelines with respect to the Group's lending.
- Collateral Valuation Department. The Group requires collateral for almost all of its loans. According to legislation of the Republic of Kazakhstan, collateral valuation should be performed by independent collateral valuation companies ("IVCs"). The collateral Valuation Department reviews appraisal reports issued by IVCs and carries out certification and monitoring of IVCs.
- Legal Department. The Group obtains legal advice from the Legal Department regarding proposed loans and receives confirmation as to the valid corporate existence of the potential borrower and its authority to enter into loan transactions and collateral agreements.
- Security Department. The Security Department provides information on assets, credit history and reputation of potential borrowers. A central credit bureau has recently been established in Kazakhstan and this should improve the quality of information on the credit history of potential borrowers.

Retail, small and medium entrepreneurship loans

Loans to retail, small and medium entrepreneurship loans are subject to a standardized approval procedure. The Group has established two divisions in Risk Management Departments - the Decision Making Centers. One DMC processes consumer loan applications, while the second unit makes decisions on small and medium entrepreneurship loans. In order to approve or decline an application, the DMCs analyze payment ability and creditworthiness of a potential borrower on the basis of standard terms, criteria and procedures set forth by the Group.

The DMC on retail is authorized to approve applications within the delegated authority and up to the equivalent of USD 200,000 per one borrower. The DMC on small entrepreneurship has authorities to approve applications within the delegated authority and up to the equivalent of USD 500,000. Applications with larger exposures and/or exceeding delegated authority are referred to one of the relevant credit committees in the Head Office. The DMCs conduct analysis of the applications exceeding their limits and/or delegated authority, and the relevant credit committee takes their conclusions into account in decision making.

Allowance for credit losses

The Group establishes an allowance for impairment losses on loans and off-balance liabilities where there is objective evidence that a financial asset is impaired. In order to assess the quality of an asset and to classify it for provisioning purposes, the Bank takes into account a number of criteria, including financial performance of the borrower, terms of the loan, collateral value and debt service of the borrower. In relation to loans, classified in collective portfolio, portfolio approach is applied and the quality of debt service is considered.

Maximum exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks of certain financial assets and general market economy risks.

The following tables present the maximum exposure to credit risk of loans to customers, loans to banks and other financial institutions and commitments. For other financial assets, not presented in the tables, the maximum exposure is equal to its carrying value of those assets prior to any offset or collateral. For financial guarantees and other commitments the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. The information in relation to financial guarantees and other contingent liabilities is disclosed in Note 32.

	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged (KZT million)	31 December 2016 Net exposure after offset and collateral (KZT million)
Loans and advances to banks and other financial institutions	109,832	-	109,832	(44,074)	65,758
Loans to customers	3,756,705	(6,920)	3,749,785	(1,304,618)	2,445,167
Contingent liabilities and other credit commitments	211,577	(58,523)	153,054	(53,084)	99,970

31 December 2015	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged (KZT million)	Net exposure after offset and collateral (KZT million)
Loans and advances to banks and other financial institutions	296,677	-	296,677	(1,194)	295,483
Loans to customers	3,829,736	(12,039)	3,817,697	(1,465,586)	2,352,111
Contingent liabilities and other credit commitments	199,547	(90,598)	108,949	(41,701)	67,248

31 December 2014	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged (KZT million)	Net exposure after offset and collateral (KZT million)
Loans and advances to banks and other financial institutions	208,550	-	208,550	(64,871)	143,679
Loans to customers	2,122,148	(4,308)	2,117,840	(512,851)	1,604,989
Contingent liabilities and other credit commitments	86,791	(15,754)	71,037	(23,867)	47,170

The collateral pledged amount on loans to banks and other financial institutions is determined on the basis of fair value of collateral and capped by outstanding amount of loan.

The collateral pledged amount for loans to customers is represented by its fair value adjusted for costs to sell, including financial costs and adjusted for the period required to sell collateral and capped by outstanding amount of loan. Fair value of collateral is reviewed on a semi-annual basis.

As at 31 December 2016, loans and advances to banks and other financial institutions also include loans under reverse repurchase agreements in amount of KZT 44,074 million (2015: KZT 596 million, 2014: KZT 64,506 million).

As at 31 December 2016, 2015 and 2014, there were no loans to customers under reverse repurchase agreements.

Credit ratings

Financial assets are graded according to the current credit rating of international rating agencies. The highest possible rating is AAA. Investment grade of the financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as a speculative grade.

The following table details the credit ratings of financial assets held by the Group:

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2016 Total (KZT million)
Cash equivalents[1]	-	-	-	48,124	-	2,013	50,137
Financial assets at fair value through profit or loss[2]	-	1,285	-	153,139	10,891	14,124	179,439
Loans and advances to banks and other financial institutions	-	6,562	24,647	54,976	15,565	8,082	109,832
Loans to customers	-	-	-	-	10,233	3,746,472	3,756,705
Investments available-for-sale[3]	-	-	-	3,567	6,813	8,047	18,427
Investments held to maturity	-	-		199,016	15,097	8,321	222,434
Other financial assets	-	-	-	-	201	19,757	19,958

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2015 Total (KZT million)
Cash equivalents[1]	-	-	-	24,526	-	2,680	27,206
Financial assets at fair value through profit or loss[2]	-	103	-	281,112	14,064	16,073	311,352
Loans and advances to banks and other financial institutions	-	70,619	5,813	22,091	182,404	15,750	296,677
Loans to customers	-	-	-	-	998	3,828,738	3,829,736
Investments available-for-sale[3]	1,531	-	-	15,358	9,046	7,208	33,143
Investments held to maturity	-	153	-	206,305	2,437	1,041	209,936
Other financial assets	-	2	-	85	170	17,951	18,208

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2014 Total (KZT million)
Cash equivalents[1]	-	-	-	106,924	-	1,436	108,360
Financial assets at fair value through profit or loss[2]	393	450	1,358	105,421	8,152	14,252	130,026
Loans and advances to banks and other financial institutions	-	44,483	10,603	88,745	36,023	28,696	208,550
Loans to customers	-	-	-	-	43,803	2,078,345	2,122,148
Bonds of JSC NWF Samruk-Kazyna	-	-	-	659,116	-	-	659,116
Investments available-for-sale[3]	-	850	36,256	26,318	14,200	13,945	91,569
Investments held to maturity	-	-	155	15,532	1,792	961	18,440
Other financial assets	-	3	-	243	183	15,515	15,944

[1]Amount represents unrestricted balances on correspondent and time deposit accounts with national (central) banks, which are considered as cash equivalents.
[2] Financial assets at fair value through profit or loss are presented excluding equity investments.
[3] Investments available-for-sale are presented excluding equity investments.

Since not all counterparties of the Group have credit ratings from international rating agencies, the Group has developed its own methodologies allowing it to assign internal credit ratings. Such methodologies include a rating model for large corporate borrowers and scoring models for retail banking clients and small and medium enterprises. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan.

Loans to customers are classified by the responsible departments on the basis of internal assessment and other analytical procedures. Taking into account past experience, in December 2010 there was an improvement of the assessment methodology of probability of default of the loans based on a deeper analysis of the financial position of the borrower and future cash flows. As a result of this improvement, added to this analysis were qualitative and quantitative factors of the borrowers, such as operational efficiency, liquidity, capital adequacy ratios, cash flows and debt servicing ratios, quality of the management, risk of the industry, presence of facts of misapplication of funds and the customers' credit history.

The Group uses the rating model for the classification of non-impaired loans to corporate borrowers.

The collectively assessed loan portfolio includes both partly retail portfolio and partly SME portfolio. Collectively assessed loans: loans to customers with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults and other factors). Collective assessment is performed on loans that were determined not to be individually significant and on individually significant loans that did not exhibit credit losses based on the individual assessment.

The Group uses the classification of unimpaired loans to customers as follows:

Ratings BBB and BBB-: acceptable or relatively acceptable quality of loan. The borrower has adequate resources to discharge its financial liabilities, relatively stable financial position, however, potential weaknesses are possible.

Ratings BB+, BB and BB-: quality of loan ranges from "sufficient" to "relatively sufficient". Unfavourable economic conditions or worsening business conditions may have an effect on the ability of the borrower to discharge its financial liabilities in the medium term.

Ratings B+, B and B: quality of loan ranges from "relatively weak" to "very weak". The ability of the borrower to discharge its financial liabilities ranges from "will probably worsen in case of unfavorable conditions" to "financial indicators and structural deficiencies worsened to such a low level that they signify that restructuring of business and/or finance may be needed".

Rating C: substandard quality of loan and evident susceptibility to default. Financial indicators and structural deficiencies worsened to such a low level that they signify that restructuring of business and/or finance may be needed.

	31 December 2016 (KZT million)	31 December 2015 (KZT million)	31 December 2014 (KZT million)
Collectively assessed not impaired loans	2,868,317	2,804,557	706,354
BBB-, BBB	167,245	72,186	24,738
BB+, BB, BB-	107,685	149,545	163,070
B+, B, B-	99,617	120,140	90,121
C	12,085	5,328	16,939
Not impaired loans to customers	3,254,949	3,151,756	1,001,222

Impairment of financial assets

The following table details the carrying value of assets that are impaired and not impaired:

	Financial assets that are not impaired (KZT million)	Impaired financial assets that have been assessed individually for impairment (KZT million)	Collectively impaired financial assets (KZT million)	31 December 2016 Total (KZT million)
Loans and advances to banks and other financial institutions	109,832	-	-	109,832
Loans to customers	3,254,949	433,324	68,432	3,756,705
Investments available-for-sale	19,724	-	-	19,724
Investments held to maturity	222,434	-	-	222,434
Other financial assets	19,958	-	-	19,958

	Financial assets that are not impaired including collective not impaired loans (KZT million)	Impaired financial assets that have been assessed individually for impairment (KZT million)	Collectively impaired financial assets (KZT million)	31 December 2015 Total (KZT million)
Loans and advances to banks and other financial institutions	296,677	-	-	296,677
Loans to customers	3,151,756	592,497	85,483	3,829,736
Investments available-for-sale	34,544	-	-	34,544
Investments held to maturity	209,936	-	-	209,936
Other financial assets	18,208	-	-	18,208

	Financial assets that are not impaired (KZT million)	Impaired financial assets that have been assessed individually for impairment (KZT million)	Collectively impaired financial assets (KZT million)	31 December 2014 Total (KZT million)
Loans and advances to banks and other financial institutions	208,550	-	-	208,550
Loans to customers	1,001,222	1,078,676	42,250	2,122,148
Bonds of JSC NWF Samruk-Kazyna	659,116	-	-	659,116
Investments available-for-sale	93,725	881	-	94,606
Investments held to maturity	18,440	-	-	18,440
Other financial assets	15,212	732	-	15,944

Geographical concentration

The relevant Credit Committee exercise control over the risk in the legislation and regulatory arena and assess its influence on the Group's activity. The Group sets country limits for all countries with ratings below A- according to the Standard and Poor's classification.

The management of the Group considers the main segment to be the Republic of Kazakhstan.

The geographical concentration of financial assets and financial liabilities is set out in tables below:

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Non-OECD countries* (KZT million)	31 December 2016 Total (KZT million)
FINANCIAL ASSETS AND PRECIOUS METALS:					
Cash and balances with national (central) banks	139,934	11,974	-	-	151,908
Precious metals	-	-	3,255	-	3,255
Financial assets at fair value through profit or loss	192,662	583	17,293	-	210,538
Loans and advances to banks and other financial institutions	20,731	49,074	38,808	1,219	109,832
Loans to customers	3,547,372	188,599	20,593	141	3,756,705
Investments available-for-sale	15,175	4,004	545	-	19,724
Investments held to maturity	215,150	7,284	-	-	222,434
Other financial assets	18,093	1,839	25	1	19,958
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	**4,149,117**	**263,357**	**80,519**	**1,361**	**4,494,354**
FINANCIAL LIABILITIES:					
Loans and advances from banks and other financial institutions	483,330	3,600	4,261	314	491,505
Customer accounts	2,797,073	74,855	26,838	16,672	2,915,438
Financial liabilities at fair value through profit or loss	7,925	1	56,349	-	64,275
Debt securities issued	161,878	515	424,568	-	586,961
Other borrowed funds	81,308	-	-	-	81,308
Other financial liabilities	33,793	576	843	-	35,212
Subordinated debt	141,092	-	89,345	-	230,437
TOTAL FINANCIAL LIABILITIES	**3,706,399**	**79,547**	**602,204**	**16,986**	**4,405,136**
NET POSITION	442,718	183,810	(521,685)	(15,625)	

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Non-OECD countries* (KZT million)	31 December 2015 Total (KZT million)
FINANCIAL ASSETS AND PRECIOUS METALS:					
Cash and balances with national (central) banks	108,087	15,821	-	-	123,908
Precious metals	-	-	3,908	-	3,908
Financial assets at fair value through profit or loss	330,117	2,518	32,642	-	365,277
Loans and advances to banks and other financial institutions	203,271	13,981	79,276	149	296,677
Loans to customers	3,564,847	199,319	65,349	221	3,829,736
Investments available-for-sale	27,473	5,540	1,531	-	34,544
Investments held to maturity	209,784	-	152	-	209,936
Other financial assets	12,119	5,374	714	1	18,208
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	**4,455,698**	**242,553**	**183,572**	**371**	**4,882,194**
FINANCIAL IIABILITIES:					
Loans and advances from banks and other financial institutions	117,619	3,520	91	1,833	123,063
Customer accounts	3,218,818	56,948	30,364	18,604	3,324,734
Financial liabilities at fair value through profit or loss	26,750	44	48,615	-	75,409
Debt securities issued	182,588	518	512,377	-	695,483
Other borrowed funds	101,595	-	-	-	101,595
Other financial liabilities	20,073	633	279	-	20,985
Subordinated debt	138,410	-	142,825	-	281,235
TOTAL FINANCIAL LIABILITIES	**3,805,853**	**61,663**	**734,551**	**20,437**	**4,622,504**
NET POSITION	649,845	180,890	(550,979)	(20,066)	

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Non-OECD countries* (KZT million)	31 December 2014 Total (KZT million)
FINANCIAL ASSETS AND PRECIOUS METALS:					
Cash and balances with national (central) banks	186,140	6,222	-	-	192,362
Precious metals	-	-	2,826	-	2,826
Financial assets at fair value through profit or loss	140,805	5,257	29,327	538	175,927
Loans and advances to banks and other financial institutions	124,559	24,613	56,661	2,717	208,550
Loans to customers	1,844,978	145,172	43,144	88,854	2,122,148
Bonds of JSC NWF Samruk-Kazyna	659,116	-	-	-	659,116
Investments available-for-sale	47,716	6,570	39,635	685	94,606
Investments held to maturity	17,909	376	155	-	18,440
Other financial assets	12,475	2,297	606	566	15,944
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	**3,033,698**	**190,507**	**172,354**	**93,360**	**3,489,919**
FINANCIAL IIABILITIES:					
Loans and advances from banks and other financial institutions	666,222	9,366	1,962	5,306	682,856
Customer accounts	2,185,869	35,017	31,541	11,713	2,264,140
Financial liabilities at fair value through profit or loss	46	229	20,516	-	20,791
Debt securities issued	85,303	1,224	330,393	-	416,920
Other borrowed funds	216,693	-	-	-	216,693
Other financial liabilities	28,090	743	9,484	7	38,324
Subordinated debt	43,408	-	79,448	-	122,856
TOTAL FINANCIAL LIABILITIES	**3,225,631**	**46,579**	**473,344**	**17,026**	**3,762,580**
NET POSITION	(191,933)	143,928	(300,990)	76,334	

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Main credit risk exposure of the Group 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 Group's risk management policy are not breached.

Asset and liability management risks

Effective assets and liabilities management is fundamental to the Group, which allows the Group to offer competitive products in the market while maintaining the risk and profitability balance on the level creating additional value for shareholders.

The following are defined by the bank as key areas within asset and liability management:

- Structural risk management: structural interest rate and currency risks;
- Liquidity risk management;
- Market risk management in trading portfolio; and
- Capital management.

The Group's Assets and Liabilities Management Committee ("the ALMC") is responsible for managing risks the bank is exposed to while managing assets and liabilities.

The ALMC is responsible for making strategic and operational decisions with respect to managing asset and liabilities with the purpose of:

- Maintaining and further increasing net income while keeping risk exposure at an acceptable level; and
- Ensuring continuity of the Group operations.

In order to fulfill the objectives set above, short meetings of the ALMC take place not less than once a month. Operational asset and liability management questions including trading portfolio performance and liquidity management are considered at the weekly meetings. At the monthly meetings the ALMC discusses more strategic questions including balance sheet structure management. Various reports are presented to the ALMC's attention including, but not limited to, trading portfolio reports, open currency positions, liquidity gaps, cash flows, stress tests, and other.

Structural interest rate risk

To define and manage overall interest rate risk the Group applies an approach, which implies distinguishing interest rate risk in the trading portfolio from structural interest rate risk, since they impact equity and profit or loss differently. These two subtypes of the risk are now measured and managed separately. This section covers structural interest rate risk. Interest rate risk in the trading portfolio is measured and managed by the Group as a part of market risks.

Structural interest rate risk is a risk of possible decline in interest income generated on balance and off-balance sheet positions accounted at amortized cost as a result of changes in market interest rates. Thus managing structural interest rate risk implies managing the exposure of the Group's net interest income and hence capital to market interest rate changes with the purpose of limiting and controlling possible income reductions or losses and ensuring optimal and stable interest income inflow.

To manage structural interest rate risk the ALMC monitors and analyzes re-pricing gap and earnings at risk as well as interest rate margins. This helps the Group to mitigate exposure to the structural interest rate risk and maintain positive interest rate margins. The Risk Management Department monitors financial activity of the Group, regularly assessing its exposure to changes in interest rates and income impact of the changes.

Currently most of the loans extended by the Group are at fixed rate agreements. At the same time the loan agreements allow the Group to change the interest rate, thus allowing the Group to decrease interest rate risks.

The following table presents an analysis of interest rate risk. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2016			31 December 2015			31 December 2014		
	% in KZT	% in USD	% in other curren-cies	% in KZT	% in USD	% in other curren-cies	% in KZT	% in USD	% in other curren-cies
ASSETS:									
Financial assets at fair value through profit or loss	2.07	1.19	6.86	5.87	3.24	1.02	5.55	2.22	2.23
Loans and advances to banks and other financial institutions	9.62	1.54	3.12	8.43	2.10	0.87	12.56	2.20	0.53
Loans to customers	12.04	8.44	8.99	11.39	9.04	14.86	10.36	11.53	12.46
Investments available-for-sale and held to maturity	6.35	6.99	0.03	6.11	5.50	8.41	8.70	5.06	8.32
LIABILITIES:									
Loans and advances from banks and other financial institutions	11.50	-	-	45.16	2.50	-	6.83	1.01	11.20
Customer accounts	7.06	2.13	2.97	5.51	2.65	2.62	5.22	4.54	4.22
Debt securities issued	8.61	6.54	6.88	8.62	6.75	6.88	8.16	7.04	6.89
Other borrowed funds	1.64	-	-	3.25	-	-	0.87	-	-
Subordinated debt	9.61	6.89	-	8.83	6.78	-	8.27	7.18	-

The Group uses derivative financial instruments to mitigate the interest rate risk and control the interest rate margin by different types of products. Management monitors the interest rate margin of the Group and believes that the Group is not exposed to significant risk of change in interest rates and related cash flow interest rate risk.

Interest rate risk sensitivity analysis

The Risk Management Department periodically estimates the Group's sensitivity to changes in market interest rates and their influence on the Group's profitability. If necessary, the Risk Management Department suggests decreasing the relevant risk levels to the ALMC of the Group.

In calculating and analyzing sensitivity of net profit of the Group to structural interest rate risk, the Group applies the earnings at risk ratio (EaR). EaR is based on interest rate gap and measures the potential fluctuations in earnings over a given time interval under normal market conditions and based on the following assumptions:

- the period when possible losses are incurred, is one year. One year is viewed as a period, within which the Group may raise new funding or restructure its assets and liabilities with a purpose of returning and keeping its risks level within its risk appetite;
- EaR is calculated based on the assumption that each interest rate gap will be reassessed at a new interest rate.

As at the reporting date, in calculating EaR, as reasonably possible, the Group applied the range of interest rate fluctuations in 200 bp across the yield curve.

The following table presents the sensitivity of the Group's consolidated statement of profit or loss to the above changes to interest rates, in which all other parameters are assumed to be constant:

Earnings at risk (EaR)	31 December 2016 (KZT million)
Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	(17,946)
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	17,946

Earnings at risk (EaR)	31 December 2015 (KZT million)
Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	(2,728)
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	2,728

Earnings at risk (EaR)	31 December 2014 (KZT million)
Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	(9,018)
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	9,018

At the reporting date, the Group's equity is not sensitive to interest rate fluctuations, since the interest rate swaps hedging relationship became ineffective in 2009 and, accordingly, changes in fair value of these instruments are recognised in the consolidated statement of profit or loss.

Liquidity risk

Liquidity risk is the risk that the Group will not have enough funding at reasonable price to meet all cash outflows (on- and off-balance sheet).

The ALMC controls these types of risks by means of weekly liquidity gap analysis and taking appropriate decisions to reduce liquidity risk. Current liquidity is managed by the Treasury Department through deals in the money markets, with placement of available funds in liquid securities in line with instructions of the ALMC.

The Group maintains the compliance to regulatory requirements, including term liquidity ratios and foreign exchange liquidity. The Group considers these requirements to be strict, and, as such, this measure guarantees maintaining appropriate liquidity level.

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 contractual maturity date.

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2016 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	9,204	14,603	85,152	42,484	12,098	-	163,541
Loans and advances to banks and other financial institutions	89,374	376	735	14,477	3,605	1,165	109,732
Loans to customers	46,622	62,900	126,991	330,918	2,570,134	95	3,137,660
Debt securities included in investments available-for-sale	189	718	2,368	12,909	641	-	16,825
Investments held to maturity	5,189	2,811	1,626	200,110	8,505	-	218,241
Total interest bearing assets	150,578	81,408	216,872	600,898	2,594,983	1,260	3,645,999
Cash and balances with national (central) banks	146,345	-	-	1	5,562	-	151,908
Precious metals	3,255	-	-	-	-	-	3,255
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	31,099	31,099
Equity securities in the investments available-for-sale	-	-	-	-	-	1,297	1,297
Accrued interest income on interest-bearing assets	43,026	348,576	43,348	19,750	186,117	21	640,838
Other financial assets	5,107	3,579	4,486	3,801	1,968	1,017	19,958
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	**348,311**	**433,563**	**264,706**	**624,450**	**2,788,630**	**34,694**	**4,494,354**
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	250,693	200,813	21,000	1,240	15,989	-	489,735
Customer accounts	218,202	169,904	656,186	608,594	521,468	-	2,174,354
Debt securities issued	368	131,047	-	160,280	277,656	-	569,351
Other borrowed funds	-	-	39,268	6,955	34,911	-	81,134
Subordinated debt	-	-	80,214	14,040	94,325	39,362	227,941
Total interest bearing liabilities	469,263	501,764	796,668	791,109	944,349	39,362	3,542,515
Financial liabilities at fair value through profit or loss	359	55,830	-	4,385	195	3,506	64,275
Customer accounts	725,445	-	-	-	-	-	725,445
Accrued interest expense on interest-bearing liabilities	13,154	12,714	11,749	72	-	-	37,689
Other financial liabilities	12,490	2,604	17,730	1,932	-	456	35,212
TOTAL FINANCIAL LIABILITIES	**1,220,711**	**572,912**	**826,147**	**797,498**	**944,544**	**43,324**	**4,405,136**
Liquidity gap	(872,400)	(139,349)	(561,441)	(173,048)	1,844,086		
Interest sensitivity gap	(318,685)	(420,356)	(579,796)	(190,211)	1,650,634		
Cumulative interest sensitivity gap	(318,685)	(739,041)	(1,318,837)	(1,509,048)	141,586		
Cumulative interest sensitivity gap as a percentage of total financial assets and precious metals	(7.1%)	(16.4%)	(29.3%)	(33.6%)	3.2%		
Contingent liabilities and credit commitments	9,106	11,447	43,341	120,708	1,126	25,849	

Based on the results of the calculations, the report recorded a cumulative negative GAP for the year in the amount of KZT 1,318,837 million or 29.3% of the total financial assets. The main reasons for the occurrence of the negative GAP are the following:

- commitments are recorded on contractual terms and do not take into account prolongations in the future;
- assets are accounted for by the date of the last repayment and do not take into account cash flows from the repayment schedule during the life.

As a result, there is a high concentration of liabilities, compared to assets, in temporary baskets of up to a year.

At the moment, the Bank's management has signed a Memorandum of Understanding, one party of which is the National Bank of the Republic of Kazakhstan, regarding the early repayment of BTA's debt. As a result of the implementation of the Memorandum, the Bank will be able to fully cover the negative GAP.

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2015 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	63,338	129,436	9,110	56,227	35,504	-	293,615
Loans and advances to banks and other financial institutions	82,691	140,575	54,580	9,384	5,750	1,786	294,766
Loans to customers	65,523	90,898	409,615	264,421	2,552,115	85	3,382,657
Debt securities included in investments available-for-sale	82	1,340	1,524	17,339	11,963	-	32,248
Investments held to maturity	-	150	629	187,706	17,580	-	206,065
Total interest bearing assets	211,634	362,399	475,458	535,077	2,622,912	1,871	4,209,351
Cash and balances with national (central) banks	121,069	-	-	1	2,835	3	123,908
Precious metals	3,908	-	-	-	-	-	3,908
Equity securities in the financial assets at fair value through profit or loss	-	-	241	-	-	53,684	53,925
Equity securities in the investments available-for-sale	-	-	-	-	-	1,401	1,401
Accrued interest income on interest-bearing assets	26,253	144,958	49,250	248,991	2,036	5	471,493
Other financial assets	6,395	3,553	5,111	2,596	552	1	18,208
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	**369,259**	**510,910**	**530,060**	**786,665**	**2,628,335**	**56,965**	**4,882,194**
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	79,807	8,400	15,456	1,777	16,000	-	121,440
Customer accounts	203,553	383,112	378,158	1,047,118	513,181	-	2,525,122
Debt securities issued	515	-	99,666	298,452	278,083	-	676,716
Other borrowed funds	-	2,923	7,997	57,630	32,258	-	100,808
Subordinated debt	-	-	49,983	93,592	93,698	40,156	277,429
Total interest bearing liabilities	**283,875**	**394,435**	**551,260**	**1,498,569**	**933,220**	**40,156**	**3,701,515**
Financial liabilities at fair value through profit or loss	3,125	-	7,901	50,579	408	13,396	75,409
Customer accounts	769,052						769,052
Accrued interest expense on interest-bearing liabilities	11,213	12,194	18,037	14,087	11	-	55,542
Other financial liabilities	8,573	4,649	5,265	1,930	568	-	20,985
TOTAL FINANCIAL LIABILITIES	**1,075,838**	**411,278**	**582,463**	**1,565,165**	**934,207**	**53,552**	**4,622,503**
Liquidity gap	(706,579)	99,632	(52,403)	(778,500)	1,694,128		
Interest sensitivity gap	(72,241)	(32,036)	(75,802)	(963,492)	1,689,692		
Cumulative interest sensitivity gap	(72,241)	(104,277)	(180,079)	(1,143,571)	546,121		
Cumulative interest sensitivity gap as a percentage of total financial assets and precious metals	(1.5%)	(2.1%)	(3.7%)	(23.4%)	11.2%		
Contingent liabilities and credit commitments	2,907	10,571	37,334	104,436	28,631	15,667	

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2014 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	1,921	9,298	10,961	52,419	42,539	-	117,138
Loans and advances to banks and other financial institutions	146,273	11,230	30,993	2,026	17,047	-	207,569
Loans to customers	43,322	25,672	198,178	759,110	372,467	-	1,398,749
Bonds of JSC NWF Samruk-Kazyna	-	-	-	-	647,901	-	647,901
Debt securities included in investments available-for-sale	780	36,277	6,598	23,828	22,176	-	89,659
Investments held to maturity	144	-	958	4,206	12,788	-	18,096
Total interest bearing assets	**192,440**	**82,477**	**247,688**	**841,589**	**1,114,918**	**-**	**2,479,112**
Cash and balances with national (central) banks	190,990	-	-	-	1,372	-	192,362
Precious metals	2,826	-	-	-	-	-	2,826
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	45,901	45,901
Equity securities in the investments available-for-sale	-	-	-	-	-	3,037	3,037
Accrued interest income on interest-bearing assets	61,452	33,039	360,189	257,467	38,590	-	750,737
Other financial assets	2,803	2,842	7,088	2,968	243	-	15,944
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	**450,511**	**118,358**	**614,965**	**1,102,024**	**1,155,123**	**48,938**	**3,489,919**
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	85,433	1,057	4,759	2,131	588,003	-	681,383
Customer accounts	152,407	270,111	865,828	134,296	265,584	-	1,688,226
Debt securities issued	349	206	51,918	253,165	103,887	-	409,525
Other borrowed funds	-	-	1,622	50,745	163,825	-	216,192
Subordinated debt	-	7,013	18,768	74,031	-	21,505	121,317
Total interest bearing liabilities	238,189	278,387	942,895	514,368	1,121,299	21,505	3,116,643
Financial liabilities at fair value through profit or loss	943	1,822	7,359	10,215	452	-	20,791
Customer accounts	559,143	-	-	-	-	-	559,143
Accrued interest expense on interest-bearing liabilities	3,705	8,918	9,616	1,771	3,669	-	27,679
Other financial liabilities	23,903	1,011	2,926	10,422	62	-	38,324
TOTAL FINANCIAL LIABILITIES	**825,883**	**290,138**	**962,796**	**536,776**	**1,125,482**	**21,505**	**3,762,580**
Liquidity gap	(375,372)	(171,780)	(347,831)	565,248	29,641		
Interest sensitivity gap	(45,749)	(195,910)	(695,207)	327,221	(6,381)		
Cumulative interest sensitivity gap	(45,749)	(241,659)	(936,866)	(609,645)	(616,026)		
Cumulative interest sensitivity gap as a percentage of total financial assets and precious metals	(1.3%)	(6.9%)	(26.8%)	(17.5%)	(17.7%))		
Contingent liabilities and credit commitments	5,980	5,656	25,562	34,514	2,588	12,491	

Based on prior experience, the management of the Group considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over.

A further analysis of the liquidity 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 consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities, which indicates the total remaining contractual payments, including interest payments, which are not recognised in the consolidated statement of financial position under the effective interest rate method. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curves at the end of the reporting period.

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2016 Total (KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	250,693	200,813	21,000	1,240	15,989	-	489,735
Customer accounts	218,202	169,904	656,186	608,594	521,468	-	2,174,354
Debt securities issued	368	131,047	-	160,280	277,656	-	569,351
Other borrowed funds	-	-	39,268	6,955	34,911	-	81,134
Subordinated debt	-	-	80,214	14,040	94,325	39,362	227,941
Total interest bearing financial liabilities	469,263	501,764	796,668	791,109	944,349	39,362	3,542,515
Financial liabilities at fair value through profit or loss	359	55,830	-	4,385	195	3,506	64,275
Customer accounts	725,445	-	-	-	-	-	725,445
Accrued interest expense on interest-bearing liabilities	31,938	34,815	96,716	291,237	206,811	-	661,517
Other financial liabilities	12,490	2,604	17,730	1,932	-	456	35,212
TOTAL FINANCIAL LIABILITIES	**1,239,495**	**595,013**	**911,114**	**1,088,663**	**1,151,355**	**43,324**	**5,028,964**
Contingent liabilities and other credit commitments	9,106	11,447	43,341	120,708	1,126	25,849	211,577
Derivative financial assets	-	230,060	412	2,476	-	-	232,948
Derivative financial liabilities	-	283,377	979	1,748	-	-	286,104

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2015 Total (KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	79,807	8,400	15,456	1,777	16,000	-	121,440
Customer accounts	203,553	383,112	378,158	1,047,118	513,181	-	2,525,122
Debt securities issued	515	-	99,666	298,452	278,083	-	676,716
Other borrowed funds	-	2,923	7,997	57,630	32,258	-	100,808
Subordinated debt	-	-	49,983	93,592	93,698	40,156	277,429
Total interest bearing financial liabilities	283,875	394,435	551,260	1,498,569	933,220	40,156	3,701,515
Financial liabilities at fair value through profit or loss	3,125	-	7,901	50,579	408	13,396	75,409
Customer accounts	769,052	-	-	-	-	-	769,052
Accrued interest expense on interest-bearing liabilities	30,958	29,497	121,571	349,022	272,658	-	803,706
Other financial liabilities	8,573	4,649	5,265	1,930	568	-	20,985
TOTAL FINANCIAL LIABILITIES	**1,095,583**	**428,581**	**685,997**	**1,900,100**	**1,206,854**	**53,552**	**5,370,667**
Contingent liabilities and other credit commitments	2,907	10,571	37,334	104,436	28,631	15,668	199,547
Derivative financial assets	-	417,982	-	326,980	-	-	744,962
Derivative financial liabilities	-	236,275	-	375,639	-	-	611,914

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2014 Total (KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	85,433	1,057	4,759	2,131	588,003	-	681,383
Customer accounts	152,407	270,111	865,828	134,296	265,584	-	1,688,226
Debt securities issued	349	206	51,918	253,165	103,887	-	409,525
Other borrowed funds	-	-	1,622	50,745	163,825	-	216,192
Subordinated debt	-	7,013	18,768	74,031	-	21,505	121,317
Total interest bearing financial liabilities	238,189	278,387	942,895	514,368	1,121,299	21,505	3,116,643
Financial liabilities at fair value through profit or loss	943	1,822	7,359	10,215	452	-	20,791
Customer accounts	559,143	-	-	-	-	-	559,143
Accrued interest expense on interest-bearing liabilities	40,889	65,980	116,532	133,511	279,645	-	636,557
Other financial liabilities	23,903	1,011	2,926	10,422	62	-	38,324
TOTAL FINANCIAL LIABILITIES	**863,067**	**347,200**	**1,069,712**	**668,516**	**1,401,458**	**21,505**	**4,371,458**
Contingent liabilities and other credit commitments	5,980	5,656	25,562	34,514	2,588	12,491	86,791
Derivative financial assets	-	-	-	362,854	-	-	362,854
Derivative financial liabilities	-	-	-	372,886	-	-	372,886

Market risk

The Group defines market risk as currency, equity, commodity and interest rate risks related to its trading and available-for-sale portfolios, as well as currency positions.

The Risk Management Department measures the risks and generates treasury position reports, which are presented to the ALMC of the Group. The Risk Management Department calculates VaR to measure the market risk on equity, fixed income and currency positions and breaks it down to individual risk factors (currency risk, interest rate risk, equity risk etc.). This allows the Group to analyze exposure to each risk factor and make further decisions to mitigate a particular exposure. For internal reporting purposes, in addition to VaR analysis discussed above, the Group also performs sensitivity analysis on its currency risk and interest rate exposures. This sensitivity analysis is presented in these financial statements.

Currency risk

Currency risk is defined as the risk of taking losses from open currency positions and financial instruments in foreign currencies as a result of changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on its open currency positions and trading portfolio.

The ALMC controls currency risk by managing its open currency positions on the basis of macroeconomic analysis and exchange rate forecasts, which give the Group an opportunity to minimize losses from significant currency fluctuations. Similar to liquidity risk management, the Treasury Department manages open currency positions of the Group using data generated by the Prudentials Monitoring and Credit Reporting Division on a daily basis.

The NBRK sets strict limits on open currency positions. This measure also limits the currency risk. In addition, the Treasury Department uses various hedging strategies including cross currency swaps in order to mitigate currency risks.

Currency risk sensitivity analysis

The Group estimates the possible effect of a 20% fluctuation in foreign currency rates on the consolidated statement of profit or loss and consolidated equity based on the sensitivity analysis of the internally prepared open currency position report, which includes derivative financial instruments.

The analysis is based on the calculation of the impact of possible fluctuations in USD, Euro and Russian Rouble currency rates on the consolidated statements of profit or loss and consolidated equity. This is due to the fact that, as at 31 December 2016, these were the main currencies in which the Group had open positions. A 20% fluctuation is determined as a "reasonably possible change in the risk variable" by the management of the Group. All other parameters were assumed to be constant. Negative and positive amounts in the table reflect the potential probable effect on the consolidated statement of profit or loss of such fluctuations.

						31 December 2016 (KZT million)
	USD/KZT		EUR/KZT		RUR/KZT	
	+20%	-20%	+20%	-20%	+20%	-20%
Impact on profit or loss before tax	28,759	(28,759)	249	(249)	1,108	(1,108)

						31 December 2015 (KZT million)
	USD/KZT		EUR/KZT		RUR/KZT	
	+20%	-20%	+20%	-20%	+20%	-20%
Impact on profit or loss before tax	59,153	(59,153)	3,185	(3,185)	499	(499)
Impact on equity	(482)	482	-	-	(42)	42

						31 December 2014 (KZT million)
		USD/KZT		EUR/KZT		RUR/KZT
	+20%	-20%	+20%	-20%	+20%	-20%
Impact on profit or loss before tax	(13,991)	13,991	5,178	(5,178)	1,630	(1,630)
Impact on equity	(311)	311	-	-	(35)	35

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key risk factor while all other things held constant. 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 impacts should not be extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary depending on any actual market movements, since the Group's financial risk management strategy aims to manage the exposure to market fluctuations. In instances where there are significant or unexpected changes in market conditions, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the risk factors may be different from those shown above.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with a fair degree of certainty; and the assumption that all interest rates move in an identical fashion.

Operational Risk

The Bank is exposed to operational risk - the risk of losses as a result of deficiencies or errors in the implementation of internal processes committed by employees, the operation of information systems and technologies, as well as external events.

The Operational Risk Management Policy of JSC Kazkommertsbank, reflecting the requirements for managing operational risks and ways of neutralizing, limiting and / or minimizing them, was developed for effective operation of the Bank in order to ensure the stability of the Bank's activities.

To identify, measure, monitor and control operational risk, the Bank uses the following tools for identifying and measuring operational risks that correspond to the best global practices:

- Database on operational risks (Corporate Loss Database);
- Risk Self Assessment;
- Scenario analysis;
- Key Risk Indicators;
- Map of operational risks (Heat Map Monitors);
- Evaluation of innovations and/or changes in the processes/systems of the Bank (Operational Risk Assessment Process);
- The results of audit reports on inspections of bank units, service investigations and other sources/reports of the bank to identify operational risks, which are an additional source of information in the process of managing the operational risk of the bank; and
- Collection and analysis of external data on losses, by searching for events in open sources on Internet resources about incidents of losses in other organizations.

Operational risk management tools allow the Bank to identify the types of activities most at risk of operational risk, to assess and monitor the Bank's losses caused by operational risks, and to establish appropriate controls and develop preventive measures to minimize such risk.

Information on the management of the Bank's operational risk is provided for consideration by the Bank's Authorized Body (the Management Board, the Strategic Planning and Risk Review Committee/Audit Committee and the Board of Directors) at a set frequency. When organizing the operational risk management system, the Board of Directors of the bank, UCO, the Board of the bank analyzes the external operating environment in which the bank operates, reviews the strategy, assesses the size and complexity of the bank's operations and develops internal documents covering the components of the operational risk management system.

38. Subsequent events

On 13 February 2017, the Bank repaid the eurobonds issued in February 2007 with an initial amount of EUR 750 million. Repayment of the issued bonds was made at the expense of the Bank's own funds.

On 2 March 2017, Bank signed a non-binding Memorandum of Understanding ("MoU") with respect to a potential acquisition by JSC Halyk Savings Bank of Kazakhstan of a controlling interest in Bank. The parties to the MoU include, amongst others, the Government of the Republic of Kazakhstan, the National Bank of the Republic of Kazakhstan, KKB, Halyk Bank, JSC BTA Bank and Mr. Kenes Rakishev.

On 14 March 2017, the Bank has repaid a loan from the NBRK in the amount of KZT 200,000 million. From 9 February 2017 to 17 March 2017, the Bank received an additional three-month tranches from the NBRK's special purpose loan in the total amount of KZT 495,000 million at a rate equal to the level of the lower boundary of the interest rate corridor for monetary policy operations of the Republic of Kazakhstan at the time of issue of each tranche of the loan. As at the date of these consolidated financial statements, the outstanding balance of the NBRK's special purpose loan amounted to KZT 495,000 million.