Associated Bank
"Kazakhstan – Ziraat International Bank"
Joint Stock Company

Financial statements

Year ended 31 December 2017
together with independent auditor's report

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Independent auditors' report

To the Shareholders and Board of Directors of "Associated Bank "Kazakhstan – Ziraat International Bank" Joint Stock Company

Opinion

We have audited the financial statements of "Associated Bank "Kazakhstan – Ziraat International Bank" Joint Stock Company (the "Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other information included in the Bank's 2017 Annual report

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

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

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

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

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Responsibilities of management and Board of Directors for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Ernst & Young LLP

Bakhtiyor Eshonkulov Auditor/ audit partner Ernst & Young LLP	Gulmira Turmagambetova General director Ernst & Young LLP
Auditor qualification certificate No. МФ – 0000099 dated 27 August 2012	State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of finance of the Republic of Kazakhstan on 15 July 2005

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13 March 2018

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(In thousands of tenge)

	Notes	*2017*	*2016*
Assets			
Cash and cash equivalents	6	**11,175,455**	12,363,387
Receivables under reverse repurchase agreements	7	**6,004,562**	10,006,026
Loans to customers	8	**36,132,728**	31,410,326
Property and equipment	9	**1,211,337**	1,269,548
Intangible assets	10	**126,207**	116,485
Current corporate income tax prepaid		**12,155**	–
Other assets	11	**2,412,569**	2,396,545
Total assets		**57,075,013**	57,562,317
Liabilities			
Amounts due to other banks	12	**9,411,880**	12,608,492
Amounts due to customers	13	**21,801,237**	21,281,501
Current corporate income tax payable		**–**	31,906
Deferred corporate income tax liabilities	14	**259,722**	229,173
Other liabilities	15	**101,158**	80,393
Total liabilities		**31,573,997**	34,231,465
Equity			
Share capital	16	**15,000,000**	15,000,000
Reserve funds	16	**1,750,542**	1,750,542
Revaluation reserve for property and equipment	16	**543,149**	596,955
Retained earnings		**8,207,325**	5,983,355
Total equity		**25,501,016**	23,330,852
Total liabilities and equity		**57,075,013**	57,562,317

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

Arifioglu A. Zeki — Chairman of the Management Board

Zhumakhanova T.N. — Chief accountant

13 March 2018

The accompanying notes on pages 5 to 45 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(In thousands of tenge)

	Notes	*2017*	*2016*
Interest income	17	**4,303,350**	4,138,288
Interest expense	17	**(985,725)**	(562,392)
Net interest income		**3,317,625**	3,575,896
Allowance for loan impairment	8	**(197,591)**	(283,512)
Net interest income after allowance for loan impairment		**3,120,034**	3,292,384
Net fee and commission income	18	**655,255**	666,548
Net gains from transactions in foreign currencies:			
- dealing		**798,386**	777,841
- translation differences		**3,223**	(27,418)
Other impairment	11	**(70,568)**	–
Loss from initial recognition of financial assets at fair value		**(51,968)**	–
Other income		**3,968**	11,260
Administrative and other operating expenses	19	**(1,764,079)**	(1,716,568)
Profit before corporate income tax expense		**2,694,251**	3,004,047
Corporate income tax expense	14	**(602,003)**	(655,188)
Profit for the year		**2,092,248**	2,348,859
Other comprehensive income			
Other comprehensive income not to be subsequently reclassified to profit or loss:			
Revaluation of land and buildings	16	**97,395**	–
Corporate income tax effect	14	**(19,479)**	–
Other comprehensive income for the year, net of tax		**77,916**	–
Total comprehensive income for the year		**2,170,164**	2,348,859
Basic and diluted earnings per share (in tenge)	16	**139.48**	156.59

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

Arifioglu A. Zeki Chairman of the Management Board

Zhumakhanova T.N. Chief accountant

13 March 2018

The accompanying notes on pages 5 to 45 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(In thousands of tenge)

	Share capital	*Revaluation reserve for property and equipment*	*Reserve funds*	*Retained earnings*	*Total equity*
At 31 December 2015	15,000,000	596,955	1,750,542	3,634,496	20,981,993
Profit for the year	–	–	–	2,348,859	2,348,859
Total comprehensive income for the year	–	–	–	2,348,859	2,348,859
At 31 December 2016	15,000,000	596,955	1,750,542	5,983,355	23,330,852
Profit for the year	–	–	–	**2,092,248**	**2,092,248**
Other comprehensive income for the year	–	**77,916**	–	–	**77,916**
Total comprehensive income for the year	–	**77,916**	–	**2,092,248**	**2,170,164**
Transfer from revaluation reserve for property and equipment *(Note 16)*	–	**(131,722)**	–	**131,722**	–
At 31 December 2017	**15,000,000**	**543,149**	**1,750,542**	**8,207,325**	**25,501,016**

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

Arifioglu A. Zeki — Chairman of the Management Board

Zhumakhanova T.N. — Chief accountant

13 March 2018

The accompanying notes on pages 5 to 45 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(In thousands of tenge)

	Note	*2017*	*2016*
Cash flows from operating activities			
Interest received		**3,730,106**	3,782,180
Interest paid		**(952,636)**	(660,666)
Fees and commissions received		**563,405**	679,758
Fees and commissions paid		**(47,079)**	(25,491)
Net gains from dealing in foreign currencies		**798,386**	777,841
Other operating income received		**3,968**	11,260
Personnel expenses paid		**(855,911)**	(946,696)
Administrative and other operating expenses paid		**(759,057)**	(613,865)
Cash flows from operating activities before changes in operating assets and liabilities		**2,481,182**	3,004,321
Net decrease/(increase) in operating assets			
Amounts due from other banks		**–**	998,266
Receivables under reverse repurchase agreements		**3,999,999**	(7,999,998)
Loans to customers		**(4,810,074)**	(913,172)
Other assets		**556,210**	129,762
Net (decrease)/increase in operating liabilities			
Amounts due to other banks		**(3,275,261)**	4,114,014
Amounts due to customers		**626,587**	(6,029,127)
Other liabilities		**115,257**	(104,841)
Net cash flows used in operating activities before corporate income tax		**(306,100)**	(6,800,775)
Corporate income tax paid		**(634,994)**	(627,884)
Net cash flows used in operating activities		**(941,094)**	(7,428,659)
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		**(141,606)**	(116,654)
Proceeds from sale of available-for-sale investment securities		**–**	1,661,222
Net cash flows (used in)/received from investing activities		**(141,606)**	1,544,568
Effect of exchange rate changes on cash and cash equivalents		**(105,232)**	(147,028)
Net decrease in cash and cash equivalents		**(1,187,932)**	(6,031,119)
Cash and cash equivalents, as at 1 January	6	**12,363,387**	18,394,506
Cash and cash equivalents, as at 31 December	6	**11,175,455**	12,363,387
Non-cash transactions			
Repossessed collaterals on loans to customers	8	**626,295**	656,445

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

Arifioglu A. Zeki — Chairman of the Management Board

Zhumakhanova T.N. — Chief accountant

13 March 2018

The accompanying notes on pages 5 to 45 are an integral part of these financial statements.

(In thousands of tenge, unless otherwise is stated)

1. Principal activities

Associated Bank "Kazakhstan – Ziraat International Bank" Joint Stock Company (the "Bank") was registered in 1993 in accordance with the laws of the Republic of Kazakhstan. The Bank conducts its activities under the general bank license No. 163 issued by the National Bank of the Republic of Kazakhstan (the "NBRK") on 29 December 2007. The Bank's activities are regulated by the NBRK.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank is a member of the obligatory deposit insurance system. The system operates under the Law of the Republic of Kazakhstan on "Obligatory Insurance of Second Tier Banks Deposits" dated 7 July 2006 and is governed by the NBRK. Insurance covers the Bank's liabilities: up to 10 million tenge on qualifying deposit in national currency and up to 5 million tenge on qualifying deposit in foreign currency for each individual in the event of business failure and revocation of the NBRK banking licence. Starting from 1993 the Bank is a member of Kazakhstan Stock Exchange foreign exchange market (the "KASE").

As at 31 December 2017, the Bank's branch network comprises 4 branches located in the Republic of Kazakhstan (31 December 2016: 4 branches).

Registered address of the Bank's head office: 132 Klochkov Str., Almaty, Republic of Kazakhstan.

As at 31 December 2017 and 2016, the Bank's controlling shareholder is T.C. Ziraat Bankasi A.S (Turkey) (the "Parent" or the "Controlling shareholder").

As at 31 December 2017 and 2016, the shareholders of the Bank were as follows:

Shareholder	*2017, %*	*2016, %*
T.C. Ziraat Bankasi A.S.	**99.58**	99.58
Emlak Pazarlama Insaat Proje Yonetimi ve Ticaret A.S.	**0.25**	0.25
T. Emlak Bankasi A.S. Munzam Sosyal Guvenlik Ve Yardim Vakfi	**0.17**	0.17
Total	**100.00**	100.00

2. Basis of preparation

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

The financial statements are prepared under the historical cost convention except as mentioned in Summary of significant accounting policies. For example, land and buildings within property and equipment were measured at the fair value.

These financial statements are presented in thousands of Kazakhstani tenge ("tenge" or "KZT"), unless otherwise is stated.

3. Summary of significant accounting policies

Changes in accounting policies

The Bank applied for the first time certain amendments to standards, which are effective for annual periods beginning on or after 1 January 2017. The Bank has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective. The nature and impact of each amendment are described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). Application of the amendments has no effect on the Bank's financial statements as the Bank has no liabilities related to financing activities.

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

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Bank's financial position and performance as the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Amendment to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments did not affect the Bank's financial statements.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as land and buildings, at fair value at each balance sheet date. Information on fair values of financial instruments measured at amortised cost are disclosed in *Note 22*.

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

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

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

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

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

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

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Loans to customers and receivables

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

Reclassification of financial assets

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

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

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRK and amounts due from other banks that mature within 90 (ninety) days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements

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

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties. In this case the purchase and sale are recorded within gains less losses from trading securities in the statement of comprehensive income. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

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

Leases

Operating – Bank as lessee

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

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Measurement of financial instruments at initial recognition

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

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

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

Offsetting of financial assets

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

- in the normal course of business;
- in case of failure to discharge an obligation; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

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

Impairment of financial assets

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

Amounts due from other banks and loans to customers

For amounts due from other banks and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

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

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from other banks and loans to customers (continued)

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

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

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

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

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

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

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are recorded within administrative and other operating expenses in the statement of comprehensive income.

Property and equipment

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

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

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation of buildings and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised within profit or loss. In which case the increase is recognised in the profit or loss. A revaluation deficit is recognised within profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

The Bank has also elected not to transfer the revaluation surplus to retained earnings in relation to actual use of respective asset.

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

	Years
Buildings	50
Office equipment and computer hardware	2.5
Vehicles	4
Other fixed assets	4-6.7

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in administrative and other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets comprise computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 6.7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group). An active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Bank measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. These expenses are charged in the reporting period the related salaries are earned, and are accounted for in "Administrative and other operating expenses" in the statement of comprehensive income. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Equity

Share capital

Ordinary shares are shown within equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid capital.

Dividends

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

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Corporate banking and Retail banking.

Contingent assets and liabilities

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

Revenue and expense recognition

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

Interest and similar income and expense

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

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

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Recognition of income and expense (continued)

Fee and commission income

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

Fee and commission income earned from services provided over a certain period of time

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

Commission income from providing transaction services

Fees arising from settlement transactions, transactions with cash and other services are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Kazakhsatni tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate established and published by KASE ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the official KASE exchange rate on the date of the transaction are included in net gains from dealing in foreign currencies. The KASE market exchange rates at 31 December 2017 and 2016 were KZT 332.33 and KZT 333.29 to USD 1, respectively.

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

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

The Bank plans to adopt the new standard by recognising the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. The Bank is in the process of quantifying the effect of adoption of IFRS 9, however no reasonable estimate of this effect is yet available.

(a) Classification and Measurement

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

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

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

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

The Bank expects to continue measuring at fair value all financial assets currently measured at fair value.

The loans to customers are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost

(b) Impairment

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL

IFRS 15 Revenue from Contracts with Customers

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

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

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

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

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

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

The IASB issued amendments to IFRS 2 *Share-based Payments* that address three main areas: The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application is permitted. The Bank does not expect a material effect from application of these amendments.

IAS 16 Leases

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

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

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

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

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

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 17 Insurance Contracts

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

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank will assess the potential effect of IFRS 17 on its financial statements, including treatment of non-financial guarantees issued by the Bank.

Transfers of Investment Property – amendments to IAS 40

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

Annual IFRS improvements, 2014-2016 cycle (issued in December 2016)

These improvements comprise the following:

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

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

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

The amendments clarify that:

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

These amendments are applied retrospectively and take effect from 1 January 2018. The Bank does not expect a material effect from application of these amendments.

(In thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual IFRS improvements, 2014-2016 cycle (issued in December 2016) (continued)

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

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which will replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: temporary exemption from applying IFRS 9 and overlay approach. The temporary exepmption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Bank.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

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

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

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

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Allowance for impairment of loans to customers

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

(In thousands of tenge, unless otherwise is stated)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Taxation

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

5. Segment information

Operating segments are components of the Bank that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which discrete financial information is available. Management Board of the Bank is the operating decision maker of the Bank.

Description of products and services from which each reportable segment derives its revenue

The Bank is established based on one major business segment – corporate banking, representing direct debit instruments, current accounts, deposits, overdrafts, loans and other credit instruments and foreign exchange products. The Bank also conducts retail banking transactions that represent private banking services, private customer current accounts, savings, deposits, consumer loans.

Information on income and expenses, assets and liabilities for reportable segments

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

	Corporate banking	*Retail banking*	*Total*
Assets			
Cash and cash equivalents	11,175,455	–	11,175,455
Receivables under reverse repurchase agreements	6,004,562	–	6,004,562
Loans to customers	32,290,833	3,841,895	36,132,728
Total assets of reportable segments	**49,470,850**	**3,841,895**	**53,312,745**
Liabilities			
Amounts due to other banks	9,411,880	–	9,411,880
Amounts due to customers	16,830,633	4,970,604	21,801,237
Total liabilities of reportable segments	**26,242,513**	**4,970,604**	**31,213,117**

(In thousands of tenge, unless otherwise is stated)

5. Segment information (continued)

Information on income and expenses, assets and liabilities for reportable segments (continued)

	Corporate banking	*Retail banking*	*Total*
Interest income	**3,692,406**	**610,944**	**4,303,350**
Interest expense	**(926,040)**	**(59,685)**	**(985,725)**
Net interest income	**2,766,366**	**551,259**	**3,317,625**
Allowance for loan impairment	**(250,319)**	**52,728**	**(197,591)**
Net interest income after allowance for loan impairment	**2,516,047**	**603,987**	**3,120,034**
Fee and commission income	**518,825**	**183,509**	**702,334**
Fee and commission expense	**(47,079)**	**–**	**(47,079)**
Net gains from transactions in foreign currencies:			
- dealing	**798,386**	**–**	**798,386**
- translation differences	**3,223**	**–**	**3,223**
Other impairment	**(50,288)**	**(20,280)**	**(70,568)**
Loss from initial recognition of financial assets at fair value	**(5,962)**	**(46,006)**	**(51,968)**
Other income	**3,968**	**–**	**3,968**
Administrative and other operating expenses	**(1,764,079)**	**–**	**(1,764,079)**
Segment results	**1,973,041**	**721,210**	**2,694,251**

Segment information for the reportable segments for the year ended 31 December 2016 is set out below:

	Corporate banking	*Retail banking*	*Total*
Assets			
Cash and cash equivalents	12,363,387	–	12,363,387
Receivables under reverse repurchase agreements	10,006,026	–	10,006,026
Loans to customers	27,191,151	4,219,175	31,410,326
Total assets of reportable segments	49,560,564	4,219,175	53,779,739
Liabilities			
Amounts due to other banks	12,608,492	–	12,608,492
Amounts due to customers	15,931,035	5,350,466	21,281,501
Total liabilities of reportable segments	28,539,527	5,350,466	33,889,993

	Corporate banking	*Retail banking*	*Total*
Interest income	3,582,375	555,913	4,138,288
Interest expense	(513,648)	(48,744)	(562,392)
Net interest income	3,068,727	507,169	3,575,896
Allowance for loan impairment	(293,579)	10,067	(283,512)
Net interest income after allowance for loan impairment	2,775,148	517,236	3,292,384
Fee and commission income	489,888	202,151	692,039
Fee and commission expense	(25,491)	–	(25,491)
Net gains from transactions in foreign currencies:			
- dealing	777,841	–	777,841
- translation differences	(27,418)	–	(27,418)
Other income	11,260	–	11,260
Administrative and other operating expenses	(1,716,568)	–	(1,716,568)
Segment results	2,284,660	719,387	3,004,047

(In thousands of tenge, unless otherwise is stated)

5. Segment information (continued)

Information on income and expenses, assets and liabilities for reportable segments (continued)

A reconciliation of income and expenses, assets and liabilities of reportable segments with the data reflected in the financial statements is presented below:

	2017	*2016*
Total assets of reportable segments	**53,312,745**	53,779,739
Property and equipment and intangible assets	**1,337,544**	1,386,033
Current corporate income tax prepaid	**12,155**	–
Other assets	**2,412,569**	2,396,545
Total assets	**57,075,013**	57,562,317
Total liabilities of reportable segments	**31,213,117**	33,889,993
Current corporate income tax payable	**–**	31,906
Deferred corporate income tax liabilities	**259,722**	229,173
Other liabilities	**101,158**	80,393
Total liabilities	**31,573,997**	34,231,465

	2017	*2016*
Total segment results	**2,694,251**	3,004,047
Corporate income tax expense	**(602,003)**	(655,188)
Total profit for the year	**2,092,248**	2,348,859

Income of the Bank, other than interest income from deposits with other banks, is generated in the Republic of Kazakhstan. Geographic areas of the Bank's activities are presented in *Note 21* to these financial statements on the basis of the actual location of the counterparty, i.e. on the basis of economic risk rather than legal risk of the counterparty. The Bank has no customers, which would bring more than ten percent of the total income earned in 2017 and 2016.

6. Cash and cash equivalents

As at 31 December 2017 and 2016 cash and cash equivalents comprise:

	2017	*2016*
Cash on hand	**1,473,314**	1,630,739
Current accounts with the NBRK	**3,202,624**	6,453,122
Current accounts with other banks	**6,499,517**	4,279,526
Cash and cash equivalents	**11,175,455**	12,363,387

Under Kazakhstani legislation, the Bank is required to maintain reserve assets, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current account with the NBRK and/or physical cash computed based on average monthly balances of the aggregate of cash balances on current account with the NBRK and/or physical cash in national currency during the period of reserve creation. As at 31 December 2017, such obligatory reserves amounted to KZT 1,145,148 thousand (31 December 2016: KZT 1,331,438 thousand).

7. Receivables under reverse repurchase agreements

As at 31 December 2017, the Bank entered into reverse repurchase agreements on the KASE with the carrying amount of KZT 6,004,562 thousand (as at 31 December 2016: KZT 10,006,026 thousand). The subject of these agreements are bonds of the Ministry of Finance of the Republic of Kazakhstan with the fair value of KZT 6,309,312 thousand as at 31 December 2017 (as at 31 December 2016: KZT 10,082,618 thousand) *(Note 23)*.

(In thousands of tenge, unless otherwise is stated)

8. Loans to customers

As at 31 December 2017 and 2016, loans to customers comprise:

	2017	*2016*
Loans to small and medium businesses	**30,615,064**	25,097,142
Loans to major customers	**2,354,128**	2,980,534
Mortgage loans	**2,334,143**	2,603,086
Consumer loans	**1,953,367**	2,459,720
Total gross loans to customers before allowance for impairment	37,256,702	33,140,482
Less: allowance for impairment	**(1,123,974)**	(1,730,156)
Loans to customers	36,132,728	31,410,326

In 2017, the Bank revised the criteria for classifying loans to customers by types of lending.

As at 31 December 2017, the Bank classified loans to customers with an average annual number of employees of no more than two hundred and fifty people and (or) an average annual revenue of no more than 3,000,000 monthly calculation index as "loans to small and medium businesses" (as at 31 December 2016: having an average annual total assets of less than 60,000 monthly calculation index). As at 31 December 2017, the monthly calculation index was equal to KZT 2,269 (31 December 2016: KZT 2,121).

As at 31 December 2016, in accordance with the new classification criteria, loans previously shown as issued to major customers in the amount of KZT 17,528,080 thousand were recorded as loans to small and medium businesses.

Allowance for loan impairment

The movements in allowance for loan impairment in 2017 were as follows:

	Loans to major customers	*Loans to small and medium businesses*	*Mortgage loans*	*Consumer loans*	*Total*
31 December 2016	**28,636**	**857,889**	**285,693**	**557,938**	**1,730,156**
Charge/(reversal) for the year	**192,551**	**57,768**	**34,648**	**(87,376)**	**197,591**
Amounts written off	**–**	**(462,553)**	**–**	**(344,817)**	**(807,370)**
Translation difference	**–**	**4,067**	**(3,466)**	**2,996**	**3,597**
At 31 December 2017	**221,187**	**457,171**	**316,875**	**128,741**	**1,123,974**
Individual impairment	**221,187**	**366,756**	**170,211**	**–**	**758,154**
Collective impairment	**–**	**90,415**	**146,664**	**128,741**	**365,820**
	221,187	**457,171**	**316,875**	**128,741**	**1,123,974**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**2,103,883**	**1,918,382**	**214,534**	**102,061**	**4,338,860**

(In thousands of tenge, unless otherwise is stated)

8. Loans to customers (continued)

Allowance for loan impairment (continued)

The movements in allowance for loan impairment in 2016 were as follows:

	Loans to major customers	*Loans to small and medium businesses*	*Mortgage loans*	*Consumer loans*	*Total*
At 31 December 2015	92,072	504,679	190,430	676,819	1,464,000
Charge/(reversal) for the year	123,082	170,497	101,969	(112,036)	283,512
Translation difference	(146)	(3,659)	(6,706)	(6,845)	(17,356)
Transfer between categories	(186,372)	186,372	–	–	–
31 December 2016	28,636	857,889	285,693	557,938	1,730,156
Individual impairment	28,636	616,698	122,523	197,814	965,671
Collective impairment	–	241,191	163,170	360,124	764,485
	28,636	857,889	285,693	557,938	1,730,156
Total amount of loans, individually determined to be impaired, before deducting any individually assessed allowance for impairment	1,431,811	1,735,771	122,523	213,597	3,503,702

Collateral and other credit enhancements

The following table shows an analysis of loans to customers by type of collateral as at 31 December 2017:

	Loans to major customers	*Loans to small and medium businesses*	*Mortgage loans*	*Consumer loans*	*Total*
Loans secured by:					
- real estate	**2,354,128**	**25,956,756**	**2,325,943**	**1,771,588**	**32,408,415**
- other property	**–**	**107,260**	**–**	**39,102**	**146,362**
Loans secured by third parties guarantees	**–**	**4,513,549**	**–**	**95,202**	**4,608,751**
Unsecured loans	**–**	**37,499**	**8,200**	**47,475**	**93,174**
Total gross loans to customers before allowance for impairment	**2,354,128**	**30,615,064**	**2,334,143**	**1,953,367**	**37,256,702**

The following table shows an analysis of loans to customers by type of collateral as at 31 December 2016:

	Loans to major customers	*Loans to small and medium businesses*	*Mortgage loans*	*Consumer loans*	*Total*
Loans secured by:					
- real estate	1,887,274	23,368,018	2,593,182	2,127,946	29,976,420
- other property	–	243,839	9,904	89,782	343,525
Loans secured by third parties guarantees	1,093,260	1,485,285	–	202,316	2,780,861
Unsecured loans	–	–	–	39,676	39,676
Total gross loans to customers before impairment allowance	2,980,534	25,097,142	2,603,086	2,459,720	33,140,482

(In thousands of tenge, unless otherwise is stated)

8. Loans to customers (continued)

Collateral and other credit enhancements (continued)

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

Guarantees from third parties are not recorded by the Bank in assessing the impairment.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment.

Repossessed collaterals

During 2017, the Bank obtained real estate with the carrying amount of KZT 626,295 thousand (2016: KZT 656,445 thousand) by taking possession of collateral for loans to customers *(Note 11)*. It is the Bank's policy to dispose repossessed collaterals as soon as it is practicable.

Concentration of loans to customers

As at 31 December 2017 the Bank had ten major borrowers, which accounted for 62% (31 December 2016: equal to 63%) of the total amount of loans to customers before allowance for impairment. The total aggregate amount of these loans was KZT 23,194,663 thousand (at 31 December 2016: KZT 20,714,460 thousand).

The structure of the loan portfolio by industries is as follows:

	2017		***2016***	
	Amount	***%***	Amount	%
Trade	**14,910,277**	**40.0%**	15,827,600	47.8%
Hospitality	**8,507,976**	**22.8%**	7,906,498	23.9%
Leasing	**4,744,627**	**12.7%**	833,815	2.5%
Individuals	**4,287,510**	**11.6%**	5,062,806	15.3%
Construction	**1,698,604**	**4.6%**	943,993	2.9%
Manufacturing	**1,203,582**	**3.2%**	1,306,505	3.9%
Transportation and communication	**67,938**	**0.2%**	78,866	0.2%
Mining industry/metallurgy	**–**	**0.0%**	42,511	0.1%
Other	**1,836,188**	**4.9%**	1,137,888	3.4%
Total gross loans to customers before allowance for impairment	**37,256,702**	**100.0%**	33,140,482	100.0%

(In thousands of tenge, unless otherwise is stated)

9. Property and equipment

The movements in property and equipment were as follows:

	Land	*Buildings*	*Office and computer equipment*	*Vehicles*	*Other*	*Total*
Cost						
At 31 December 2015	641,579	434,345	25,057	38,799	181,796	1,321,576
Additions	–	52,497	19,286	2,498	44,634	118,915
Disposals	–	–	(10,430)	(7,074)	(20,244)	(37,748)
31 December 2016	641,579	486,842	33,913	34,223	206,186	1,402,743
Additions	**–**	**51,433**	**14,936**	**–**	**49,839**	**116,208**
Disposals	**(167,098)**	**–**	**(16,086)**	**(2,499)**	**(43,792)**	**(229,475)**
Effect of revaluation	**84,235**	**(9,406)**	**–**	**–**	**–**	**74,829**
At 31 December 2017	**558,716**	**528,869**	**32,763**	**31,724**	**212,233**	**1,364,305**
Accumulated depreciation						
At 31 December 2015	–	(7,070)	(13,614)	(14,632)	(54,240)	(89,556)
Charge for the year	–	(17,299)	(11,717)	(10,584)	(37,866)	(77,466)
Disposals	–	–	10,430	7,074	16,323	33,827
At 31 December 2016	–	(24,369)	(14,901)	(18,142)	(75,783)	(133,195)
Charge for the year	**–**	**(18,628)**	**(12,106)**	**(8,087)**	**(42,520)**	**(81,341)**
Disposals	**–**	**–**	**11,532**	**365**	**27,105**	**39,002**
Effect of revaluation	**–**	**22,566**	**–**	**–**	**–**	**22,566**
At 31 December 2017	**–**	**(20,431)**	**(15,475)**	**(25,864)**	**(91,198)**	**(152,968)**
Net book value						
At 31 December 2015	641,579	427,275	11,443	24,167	127,556	1,232,020
31 December 2016	641,579	462,473	19,012	16,081	130,403	1,269,548
At 31 December 2017	**558,716**	**508,438**	**17,288**	**5,860**	**121,035**	**1,211,337**

The Bank engaged an independent valuer, Crowe Horwath Ocenka LLP, to determine fair value of its land and buildings. Fair value is determined by reference to market-based evidence. The date of revaluation was 1 November 2017. More details about the fair value of buildings are disclosed in *Note 22.*

If the land and buildings were accounted for at historical cost less impairment and accumulated depreciation for buildings, then their carrying amount would be KZT 45,080 thousand and KZT 176,296 thousand, respectively (as at 31 December 2016: KZT 45,080 thousand and KZT 179,346 thousand, respectively).

As at 31 December 2017, cost of fully amortised property and equipment, including office and computer equipment, vehicles and other fixed assets that are in use by the Bank was equal to KZT 73,691 thousand (at 31 December 2016: KZT 30,430 thousand).

(In thousands of tenge, unless otherwise is stated)

10. Intangible assets

The movements in intangible assets were as follows:

	Licenses and software	*Total*
Cost		
At 31 December 2015	210,243	210,243
Additions	7,359	7,359
Disposals	(6,316)	(6,316)
At 31 December 2016	211,286	211,286
Additions	**40,417**	**40,417**
Disposal	**(8,794)**	**(8,794)**
At 31 December 2017	**242,909**	**242,909**
Accumulated amortization		
At 31 December 2015	(68,293)	(68,293)
Charge for the year	(27,125)	(27,125)
Disposals	617	617
At 31 December 2016	(94,801)	(94,801)
Charge for the year	**(30,482)**	**(30,482)**
Disposals	**8,581**	**8,581**
At 31 December 2017	**(116,702)**	**(116,702)**
Net book value		
At 31 December 2015	141,950	141,950
At 31 December 2016	116,485	116,485
At 31 December 2017	**126,207**	**126,207**

11. Other assets

As at 31 December 2017 and 2016, other assets comprise:

	2017	*2016*
Fees and commissions receivable	**15,705**	72,227
KASE shares	**7,001**	7,001
Other debtors on bank activities	**27,898**	18,047
Other financial assets	**50,604**	97,275
Repossessed collaterals	**2,058,579**	2,168,673
Asset held for sale	**167,098**	–
Prepaid taxes other than corporate income tax	**95,882**	98,876
Prepayment for utilities	**28,414**	27,222
Prepayment for other services	**7,530**	1,970
Inventories	**4,462**	1,886
Other	–	643
Other non-financial assets	**2,361,965**	2,299,270
Other assets	**2,412,569**	2,396,545

As at 31 December 2017 and 2016, repossessed collaterals comprise properties received by the Bank as settlement of loan obligations by borrowers. Although the Bank is currently actively trying to sell these assets, most of them were not sold within a short period of time. The management still intends to sell these assets in the foreseeable future.

In 2017, the Bank entered into an agreement on transfer of a land plot in exchange for office premises, which are under construction. The land plot transfer will be completed by the end of 2018. As at 31 December 2017, this land lot with a carrying amount of KZT 167,098 thousand was classified as an asset held for sale and transferred from property and equipment to other assets.

In 2017, charge for impairment losses on other assets was equal to KZT 70,568 thousand (in 2016: KZT nil).

(In thousands of tenge, unless otherwise is stated)

12. Amounts due to other banks

As at 31 December 2017 and 2016, amounts due to other banks comprise:

	2017	*2016*
Term deposits	**9,411,880**	12,608,492
Amounts due to other banks	**9,411,880**	12,608,492

As at 31 December 2017, amounts due to other banks mainly included short-term deposits of the Parent totalling KZT 9,411,385 thousand (as at 31 December 2016: KZT 12,607,897 thousand) and deposits of other banks totalling KZT 495 thousand (as at 31 December 2016: KZT 595 thousand). Deposits of the Parent are placed in US Dollars for a period of 6 (six) months (as at 31 December 2016: 6 (six) months) and have interest rates of 4.20%-4.75% per annum (31 December 2016: 3.50%-4.75% per annum).

13. Amounts due to customers

As at 31 December 2017 and 2016, amounts due to customers comprise:

	2017	*2016*
Term deposits	**11,088,837**	8,779,446
Current accounts	**10,712,400**	12,502,055
Amounts due to customers	**21,801,237**	21,281,501
Held as security against guarantees *(Note 20)*	**210,027**	21,123

As at 31 December 2017 the Bank had ten major clients, which accounted for 52% of the gross balance of current accounts and deposits of clients (at 31 December 2016: 44%). The aggregate balance of amounts due to such customers as at 31 December 2017 was equal to KZT 11,328,720 thousand (31 December 2016: KZT 9,310,623 thousand).

	2017	*2016*
Current accounts		
Legal entities	**7,799,574**	9,300,261
Individuals	**2,654,323**	3,013,004
State and public organisations	**258,503**	188,790
Term deposits		
Legal entities	**8,772,556**	6,441,984
Individuals	**2,316,281**	2,337,462
Amounts due to customers	**21,801,237**	21,281,501

Included in time deposits are deposits of individuals in the amount of KZT 2,316,281 thousand (as at 31 December 2016: KZT 2,337,462 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to its maturity, interest is not paid or paid at considerably at lower interest rate depending on the terms specified in the agreement.

Below is the breakdown of due to customers by industries:

	2017		*2016*	
	Amount	*%*	Amount	%
Trade and services	**6,054,837**	**27.8%**	5,621,223	26.4%
Individuals	**4,970,604**	**22.8%**	5,350,466	25.1%
Construction	**4,651,569**	**21.3%**	5,775,450	27.1%
Transport and communications	**1,951,934**	**9.0%**	2,655,865	12.5%
Manufacturing	**1,374,720**	**6.3%**	332,589	1.6%
Professional services	**714,299**	**3.3%**	609,430	2.9%
Mining	**353,028**	**1.6%**	91,410	0.4%
State and public organisations	**258,503**	**1.2%**	188,790	0.9%
Sports and tourism	**32,998**	**0.2%**	76,627	0.4%
Other	**1,438,745**	**6.5%**	579,651	2.7%
Amounts due to customers	**21,801,237**	**100.0%**	21,281,501	100.0%

(In thousands of tenge, unless otherwise is stated)

14. Taxation

The corporate income tax expenses comprise:

	2017	*2016*
Current corporate income tax expenses	**590,933**	633,817
Deferred corporate income tax charge/(benefit) – origination and reversal of temporary differences	**30,549**	(4,602)
Less: deferred tax recognised in other comprehensive income	**(19,479)**	–
Adjustment of current corporate income tax of prior years	–	25,973
Corporate income tax expense	**602,003**	655,188

The Republic of Kazakhstan was only one tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation, corporate income tax rate applied is 20.0% in 2017 and 2016.

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax multiplied by the statutory tax rate for 2017 and 2016 is as follows:

	2017	*2016*
Profit before corporate income tax expense	**2,694,251**	3,004,047
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**538,850**	600,809
Non-deductible administrative and other operating expenses	**38,362**	28,934
Non-deductible impairment charges	**14,118**	2,787
Adjustment of current corporate income tax of prior years	–	25,973
Non-taxable income from state securities and securities included in the official listing of KASE	–	(5,713)
Other permanent differences	**10,673**	2,398
Corporate income tax expense	**602,003**	655,188

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

		Origination and decrease of temporary differences			*Origination and decrease of temporary differences*		
	2015	*in profit or loss*	*in other compre-hensive income*	*2016*	*in profit or loss*	*in other compre-hensive income*	*2017*
Tax effect of deductible temporary differences							
Other liabilities	14,161	2,346	–	16,507	**(1,835)**	–	**14,672**
Deferred corporate income tax assets	14,161	2,346	–	16,507	(1,835)	–	14,672
Tax effect of taxable temporary differences							
Loans to customers	(115,647)	–	–	(115,647)	–	–	**(115,647)**
Property and equipment and intangible assets	(132,289)	2,256	–	(130,033)	**(9,235)**	**(19,479)**	**(158,747)**
Deferred corporate income tax liabilities	(247,936)	2,256	–	(245,680)	(9,235)	(19,479)	(274,394)
Net deferred corporate income tax liability	(233,775)	4,602	–	(229,173)	**(11,070)**	**(19,479)**	**(259,722)**

(In thousands of tenge, unless otherwise is stated)

15. Other liabilities

As at 31 December 2017 and 2016, other liabilities comprise:

	2017	*2016*
Obligations on guarantees issued	**19,892**	11,528
Amounts payable on non-operating activities	**9,694**	14,681
Other financial liabilities	**29,586**	26,209
Unused vacations reserve	**38,591**	47,767
Taxes other than corporate income tax payable	**30,341**	3,730
Other liabilities	**2,640**	2,687
Other non-financial liabilities	**71,572**	54,184
Other liabilities	**101,158**	80,393

16. Equity

As at 31 December 2017 and 2016, the total amount of authorized, issued and fully paid common shares of the Bank comprised 15,000,000 pieces. The placement value was KZT 1,000 per share. Shareholders have the right to receive dividends and allocate capital in tenge.

In 2017 and 2016, the Bank did not declare or pay dividends based on the performance results for 2016 and 2015, respectively.

Nature and purpose of other reserves

Reserve funds

As at 31 December 2017, the Bank has a general banking reserve for unforeseen expenses and future losses in the amount of KZT 1,177,175 thousand (as at 31 December 2016: KZT 1,177,175 thousand). The funds from the general banking reserve could be allocated only upon the Bank's shareholders' official authorization.

In accordance with the Resolution of NBRK No. 137 dated 27 May 2013 (hereinafter, "Resolution"), the Bank calculates the dynamic reserves since 30 September 2013. As at 31 December 2017, dynamic reserves calculated in accordance with the Resolution were equal to KZT 573,367 thousand (as at 31 December 2016: KZT 573,367 thousand).

The general banking reserve and dynamic reserve are included in "Reserve funds" in the statement of financial position and the statement of changes in equity.

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of land and buildings owned by the Bank and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Based on the revaluation of land and buildings performed in 2017, the Bank recognized an increase in value from revaluation within other comprehensive income in the amount of KZT 97,395 thousand, the tax effect was amounted to KZT 19,479 thousand.

In 2017, the Bank entered into an agreement on transfer of a land plot in exchange for office premises, which are under construction. As at 31 December 2017, the Bank classified this land as an asset held for sale and transferred the accumulative positive revaluation of this asset in the amount of KZT 131,722 thousand from the revaluation reserve for property and equipment to retained earnings.

Earnings per share

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

(In thousands of tenge, unless otherwise is stated)

16. Equity (continued)

Earnings per share (continued)

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

	2017	*2016*
Net profit for the year attributable to the shareholder of the Bank	**2,092,248**	2,348,859
Weighted average number of common shares for basic and diluted earnings per share computation	**15,000,000**	15,000,000
Basic and diluted earnings per share (in tenge)	**139.48**	156.59

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

17. Interest income and interest expense

Interest income and interest expense comprise:

	2017	*2016*
Loans to customers	**3,555,733**	3,292,504
Receivables under reverse repurchase agreements	**739,504**	804,929
Amounts due from other banks	**6,988**	11,531
Available-for-sale investment securities	**–**	28,567
Other	**1,125**	757
Interest income	**4,303,350**	4,138,288
Amounts due to other banks	**(544,297)**	(279,300)
Amounts due to customers	**(441,428)**	(283,092)
Interest expense	**(985,725)**	(562,392)
Net interest income	**3,317,625**	3,575,896

18. Net fee and commission income

Net fee and commission income comprises:

	2017	*2016*
Settlement transactions	**333,618**	339,941
Cash transactions	**175,926**	164,328
Guarantees and letters of credit	**150,805**	127,916
Maintenance of bank accounts	**25,819**	37,506
Safe transactions	**4,836**	5,124
Other	**11,330**	17,224
Fee and commission income	**702,334**	692,039
Settlement operations	**(38,313)**	(17,858)
Other	**(8,766)**	(7,633)
Fee and commission expense	**(47,079)**	(25,491)
Net fee and commission income	**655,255**	666,548

(In thousands of tenge, unless otherwise is stated)

19. Administrative and other operating expenses

Administrative and other operating expenses comprise:

	2017	*2016*
Salaries and bonuses	**820,725**	880,038
Taxes, other than income tax	**184,906**	146,630
Leases	**87,669**	82,537
Social security contributions	**82,238**	83,867
Depreciation of property and equipment *(Note 9)*	**81,341**	77,466
Security	**71,776**	73,428
Technical support and software	**70,146**	66,337
Professional services	**55,593**	25,453
Communication and information services	**48,468**	43,766
Amortisation of intangible assets *(Note 10)*	**30,482**	27,125
Travel expenses	**27,175**	21,022
Deposit insurance	**17,698**	11,043
Membership fees	**16,655**	14,537
Insurance	**9,481**	10,469
Office supplies	**9,260**	5,840
Encashment	**9,180**	6,973
Maintenance of buildings	**8,493**	15,486
Vehicles	**6,561**	5,453
Customer related expenses	**5,734**	5,354
Fines and penalties	**3,888**	5,562
Advertising and marketing	**3,837**	5,049
Sponsorships	**1,626**	7,793
Repair and maintenance	**796**	7,247
Other	**110,351**	88,093
Administrative and other operating expenses	**1,764,079**	1,716,568

20. Commitments and contingencies

Political and economic environment

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

The volatility of crude oil prices and tenge's exchange rate against major foreign currencies continue to have a negative impact on the Kazakhstan economy. Interest rates of attracted financing in tenge remain high. Combination of these factors resulted in a limited access to capital, high cost of capital, high inflation rate and uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal actions and claims

In the ordinary course of business, the Bank is subject to legal actions and complaints. The Bank believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or results of operations of the Bank.

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the above described contingent liabilities.

(In thousands of tenge, unless otherwise is stated)

20. Commitments and contingencies (continued)

Tax contingencies

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

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

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2017. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

Commitments and contingencies

At 31 December the Bank's commitments and contingencies comprise the following:

	2017	*2016*
Credit related commitments		
Undrawn loan facilities	**22,287,785**	13,023,299
Guarantees	**9,694,112**	4,193,549
	31,981,897	17,216,848
Operating lease commitments		
Not later than 1 year	**98,546**	93,640
Later than 1 year but not later than 5 years	**67,198**	101,884
	165,744	195,524
Commitments and contingencies (before collateral)	**32,147,641**	17,412,372
Less: amounts due to customers held as security against guarantees *(Note 13)*	**(210,027)**	(21,123)
Commitments and contingencies	**31,937,614**	17,391,249

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

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

Credit related commitments are expressed in the following currencies:

	2017	*2016*
US Dollars	**21,923,724**	13,228,975
Tenge	**9,978,527**	3,987,873
Euro	**79,646**	–
	31,981,897	17,216,848

Operating lease commitments are expressed in tenge.

(In thousands of tenge, unless otherwise is stated)

21. Risk management

Introduction

Risk is inherent in the Bank's activities. The Bank manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

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

Risk management process comprises identification, measuring, control and limitation of risks that are carried out by the Bank on a regular basis.

Risk management structure

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

Board of Directors

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

Management Board

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

Risk management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

The main purpose of the unit is generating and functioning of the Bank's effective risk management system providing application of methods of risk detection and control, ensuring effective determination, evaluation and limitation of the Bank's risks considering the type and scope of transactions conducted by the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

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

Internal audit

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

Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

(In thousands of tenge, unless otherwise is stated)

21. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, Management Board, Asset and Liability Management Committee, Credit Committee, and the head of each business unit. The report includes aggregate credit exposure, forecast credit indicators, hold limit exceptions, liquidity ratios, interest rate risk ratios and risk profile changes.

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

A regular meeting is held with the Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Excessive risk concentration

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

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

Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

Credit-related commitments risks

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

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

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in *Note 8* and *Note 20*.

(In thousands of tenge, unless otherwise is stated)

21. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for statement of financial position lines, based on the Bank's credit rating system. Amounts are presented before deducting any allowance for impairment.

	2017			
	Neither past due nor individually impaired	*Past due, but not individually impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	**9,702,141**	**–**	**–**	**9,702,141**
Receivables under reverse repurchase agreements	**6,004,562**	**–**	**–**	**6,004,562**
Loans to customers	**30,937,050**	**1,980,792**	**4,338,860**	**37,256,702**
Other financial assets	**50,604**	**–**	**–**	**50,604**
Total	**46,694,357**	**1,980,792**	**4,338,860**	**53,014,009**

	2016			
	Neither past due nor individually impaired	*Past due, but not individually impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	10,732,648	–	–	10,732,648
Receivables under reverse repurchase agreements	10,006,026	–	–	10,006,026
Loans to customers	26,748,729	2,888,051	3,503,702	33,140,482
Other financial assets	97,275	–	–	97,275
Total	47,584,678	2,888,051	3,503,702	53,976,431

Ageing analysis of past due but not individually impaired loans per types of loans issued

	2017				
	Less than 30 days	*31-90 days*	*90-180 days*	*Over 180 days*	*Total*
Loans to customers					
Loans to small and medium-sized businesses	**814,666**	**440,423**	**1,319**	**139,367**	**1,395,775**
Consumer loans	**62,651**	**38,198**	**7,746**	**117,024**	**225,619**
Mortgage loans	**9,545**	**189,745**	**11,617**	**148,491**	**359,398**
Total	**886,862**	**668,366**	**20,682**	**404,882**	**1,980,792**

	2016				
	Less than 30 days	*31-90 days*	*90-180 days*	*Over 180 days*	*Total*
Loans to customers					
Loans to small and medium-sized businesses	1,437,460	276,482	22,941	239,600	1,976,483
Consumer loans	213,625	43,027	39,098	342,657	638,407
Mortgage loans	69,999	20,644	12,927	169,591	273,161
Total	1,721,084	340,153	74,966	751,848	2,888,051

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

(In thousands of tenge, unless otherwise is stated)

21. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, and expected receipts and recoveries once impaired.

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

Below is the geographical concentration of the Bank's financial assets and liabilities as at 31 December 2017:

	Kazakhstan	*OECD countries*	*Non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	**5,012,192**	**6,078,996**	**84,267**	**11,175,455**
Receivables under reverse repurchase agreements	**6,004,562**	–	–	**6,004,562**
Loans to customers	**36,090,519**	**42,209**	–	**36,132,728**
Other financial assets	**48,552**	**2,052**	–	**50,604**
Total financial assets	**47,155,825**	**6,123,257**	**84,267**	**53,363,349**
Liabilities				
Amounts due to other banks	**495**	**9,411,385**	–	**9,411,880**
Amounts due to customers	**17,953,224**	**3,786,109**	**61,904**	**21,801,237**
Other financial liabilities	**9,694**	–	–	**9,694**
Total financial liabilities	**17,963,413**	**13,197,494**	**61,904**	**31,222,811**
Net position	**29,192,412**	**(7,074,237)**	**22,363**	**22,140,538**

(In thousands of tenge, unless otherwise is stated)

21. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

Below is the geographical concentration of the Bank's financial assets and liabilities as at 31 December 2016:

	Kazakhstan	*OECD countries*	*Non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	8,185,173	4,106,750	71,464	12,363,387
Receivables under reverse repurchase agreements	10,006,026	–	–	10,006,026
Loans to customers	31,341,323	68,856	147	31,410,326
Other financial assets	89,373	7,902	–	97,275
Total financial assets	49,621,895	4,183,508	71,611	53,877,014
Liabilities				
Amounts due to other banks	595	12,607,897	–	12,608,492
Amounts due to customers	16,203,634	3,684,698	1,393,169	21,281,501
Other financial liabilities	25,785	424	–	26,209
Total financial liabilities	16,230,014	16,293,019	1,393,169	33,916,202
Net position	33,391,881	(12,109,511)	(1,321,558)	19,960,812

Assets and credit related commitments have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the management has arranged diversified funding sources in addition to its core deposit base. Also, it manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

(In thousands of tenge, unless otherwise is stated)

21. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

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

	2017					
Financial liabilities	***On demand***	***Less than 3 months***	***From 3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to other banks	**495**	**6,461,127**	**3,062,405**	**–**	**–**	**9,524,027**
Amounts due to customers	**10,712,400**	**1,179,665**	**10,118,043**	**–**	**–**	**22,010,108**
Other financial liabilities	**385**	**2,711**	**3,787**	**2,630**	**181**	**9,694**
Total undiscounted financial liabilities	**10,713,280**	**7,643,503**	**13,184,235**	**2,630**	**181**	**31,543,829**

	2016					
Financial liabilities	***On demand***	***Less than 3 months***	***From 3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to other banks	595	3,062,666	9,718,795	–	–	12,782,056
Amounts due to customers	12,510,083	3,046,579	5,930,335	–	–	21,486,997
Other financial liabilities	5,815	3,466	1,274	15,583	71	26,209
Total undiscounted financial liabilities	12,516,493	6,112,711	15,650,404	15,583	71	34,295,262

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

Included in due to customers are term deposits of individuals. In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obligated to repay such deposits upon demand of a depositor *(Note 13)*.

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

	On demand and less than 3 months	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
2017	**4,517,722**	**2,244,545**	**19,121,123**	**6,098,507**	**31,981,897**
2016	2,131,289	2,964,179	11,352,475	768,905	17,216,848

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

Market risk

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

The Bank is exposed to market risk related to open currency positions, interest rate risk and securities portfolio subject to general and specific changes on the market. The Bank's management establishes limits with respect to minimum level of accepted risk and monitors the compliance with those limits on a daily basis.

(In thousands of tenge, unless otherwise is stated)

21. Risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank has no non-trading financial assets and financial liabilities with a floating interest rate available at 31 December 2017 and 2016.

Currency risk

Currency risk is the risk of losses due to changes in foreign exchange rates when the Bank performs its ordinary activities. Risk of losses arises due to revaluation of bank's position in foreign currencies in monetary terms. The Bank's management establishes limits with respect to minimum level of accepted risk by currencies and monitors the compliance with those limits on a daily basis.

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

	2017		*2016*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
Russian Rouble	**16.0%**	**3,656**	23.0%	8,197
Euro	**13.5%**	**5,642**	15.0%	6,091
US Dollar	**10.0%**	**11,697**	13.0%	2,228

	2017		*2016*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
Russian Rouble	**-16.0%**	**(3,656)**	-19.0%	(6,771)
Euro	**-9.5%**	**(3,970)**	-15.0%	(6,091)
US Dollar	**-10.0%**	**(11,697)**	-13.0%	(2,228)

During the year currency position had approximately equal values due to the fact that the Bank set limits on open foreign exchange positions and the position was within the set limit.

The currency position of the Bank as at 31 December 2017 is presented below:

	Tenge	*US Dollar*	*Russian Rouble*	*Euro*	*Other currency*	*Total*
Assets						
Cash and cash equivalents	**2,222,740**	**8,523,813**	**84,339**	**282,131**	**62,432**	**11,175,455**
Receivables under reverse repurchase agreements	**6,004,562**	**–**	**–**	**–**	**–**	**6,004,562**
Loans to customers	**21,119,670**	**14,137,649**	**–**	**875,409**	**–**	**36,132,728**
Other monetary assets	**49,452**	**1,152**	**–**	**–**	**–**	**50,604**
	29,396,424	**22,662,614**	**84,339**	**1,157,540**	**62,432**	**53,363,349**
Liabilities						
Amounts due to other banks	**495**	**9,411,385**	**–**	**–**	**–**	**9,411,880**
Amounts due to customers	**7,488,730**	**13,134,257**	**61,488**	**1,115,748**	**1,014**	**21,801,237**
Other monetary liabilities	**9,694**	**–**	**–**	**–**	**–**	**9,694**
	7,498,919	**22,545,642**	**61,488**	**1,115,748**	**1,014**	**31,222,811**
Net position	**21,897,505**	**116,972**	**22,851**	**41,792**	**61,418**	**22,140,538**

(In thousands of tenge, unless otherwise is stated)

21. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The currency position of the Bank as at 31 December 2016 is presented below:

	Tenge	*US Dollar*	*Russian Rouble*	*Euro*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	3,262,042	8,338,444	71,649	593,295	97,957	12,363,387
Receivables under reverse repurchase agreements	10,006,026	–	–	–	–	10,006,026
Loans to customers	14,526,374	16,078,550	–	805,402	–	31,410,326
Other monetary assets	97,121	154	–	–	–	97,275
	27,891,563	24,417,148	71,649	1,398,697	97,957	53,877,014
Liabilities						
Amounts due to other banks	595	11,774,315	–	833,582	–	12,608,492
Amounts due to customers	8,104,359	12,606,388	36,010	524,349	10,395	21,281,501
Other monetary liabilities	6,748	19,304	–	157	–	26,209
	8,111,702	24,400,007	36,010	1,358,088	10,395	33,916,202
Net position	19,779,861	17,141	35,639	40,609	87,562	19,960,812

Operational risk

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

22. Fair value measurement

Investment committee of the Bank determines the policies and procedures for recurring measurement of the fair value of real estate owned by the Bank.

External appraisers are engaged to evaluate buildings and land of the Bank. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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

(In thousands of tenge, unless otherwise is stated)

22. Measurement of fair value (continued)

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

		Fair value measurement with the use of			
2017	***Date of measurement***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant non-observable inputs (Level 3)***	***Total***
Assets measured at fair value					
Property and equipment – land and buildings	1 November 2017	–	**1,067,154**	–	**1,067,154**
Assets for which fair value are disclosed					
Cash and cash equivalents	31 December 2017	**11,175,455**	–	–	**11,175,455**
Receivables under reverse repurchase agreements	31 December 2017	–	**6,004,562**	–	**6,004,562**
Loans to customers	31 December 2017	–	–	**35,352,281**	**35,352,281**
Other financial assets	31 December 2017	–	**50,604**	–	**50,604**
Liabilities for which fair value are disclosed					
Amounts due to other banks	31 December 2017	–	**9,411,880**	–	**9,411,880**
Amounts due to customers	31 December 2017	–	**21,838,384**	–	**21,838,384**
Other financial liabilities	31 December 2017	–	**9,694**	–	**9,694**

(In thousands of tenge, unless otherwise is stated)

22. Measurement of fair value (continued)

2016	*Date of measurement*	*Fair value measurement with the use of* Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant non-observable inputs (Level 3)	*Total*
Assets measured at fair value					
Property and equipment – land and buildings	31 December 2016	–	1,104,052	–	1,104,052
Assets for which fair value are disclosed					
Cash and cash equivalents	31 December 2016	12,363,387	–	–	12,363,387
Receivables under reverse repurchase agreements	31 December 2016	–	10,006,026	–	10,006,026
Loans to customers	31 December 2016	–	–	30,590,619	30,590,619
Other financial assets	31 December 2016	–	97,275	–	97,275
Liabilities for which fair value are disclosed					
Amounts due to other banks	31 December 2016	–	12,608,492	–	12,608,492
Amounts due to customers	31 December 2016	–	21,412,831	–	21,412,831
Other financial liabilities	31 December 2016	–	26,209	–	26,209

There were no movements among the fair value hierarchy levels during 2017 and 2016.

Financial instruments not carried at fair value in the statement of financial position

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position.

The table does not include the fair values of non-financial assets and non-financial liabilities.

	2017			*2016*		
	Carrying amount	*Fair value*	*Unrecognised loss*	*Carrying amount*	*Fair value*	*Unrecognised loss*
Financial assets						
Cash and cash equivalents	**11,175,455**	**11,175,455**	–	12,363,387	12,363,387	–
Receivables under reverse repurchase agreements	**6,004,562**	**6,004,562**	–	10,006,026	10,006,026	–
Loans to customers	**36,132,728**	**35,352,281**	**(780,447)**	31,410,326	30,590,619	(819,707)
Other financial assets	**50,604**	**50,604**	–	97,275	97,275	–
Financial liabilities						
Amounts due to other banks	**9,411,880**	**9,411,880**	–	12,608,492	12,608,492	–
Amounts due to customers	**21,801,237**	**21,838,384**	**(37,147)**	21,281,501	21,412,831	(131,330)
Other financial liabilities	**9,694**	**9,694**	–	26,209	26,209	–
Total unrecognised change in unrealised fair value			**(817,594)**			(951,037)

(In thousands of tenge, unless otherwise is stated)

22. Measurement of fair value (continued)

Methods of measurement and assumptions

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

Property and equipment – land and buildings

The fair value of property items owned by the Bank is based on valuations performed by an accredited independent valuer. The fair value of the Bank's land and buildings was determined by using market comparable method. This means that appraisal performed by individual appraiser was based on market transactions prices adjusted with respect to differences in the nature, location or condition of certain real estate item. As at the date of revaluation, 1 November 2017, the properties' fair values are based on valuations performed by are based on valuations performed by Crowe Horwath Ocenka LLP, an accredited independent valuer.

Assets for which fair value approximates to carrying value

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

Fixed rate financial instruments

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, due to customers, amounts due to other banks, other financial assets and obligations is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

23. Offsetting of financial instruments

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

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

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received can be pledged or sold during the term of the transaction but must be returned before maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral. The table below shows financial assets subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017.

				Related amounts not set off in the statement of financial position	
At 31 December 2017	***Gross amount of recognized financial assets***	***Gross amount of recognised financial liabilities offset in the statement of financial position***	***Net amount of financial assets presented in the statement of financial position***	***Financial instruments***	***Net amount***
Receivables under reverse repurchase agreements	**6,004,562**	**–**	**6,004,562**	**(6,309,312)**	**(304,750)**
	6,004,562	**–**	**6,004,562**	**(6,309,312)**	**(304,750)**

(In thousands of tenge, unless otherwise is stated)

23. Offsetting of financial instruments (continued)

At 31 December 2016	*Gross amount of recognized financial assets*	*Gross amount of recognised financial liabilities offset in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position — Financial instruments*	*Net amount*
Receivables under reverse repurchase agreements	10,006,026	–	10,006,026	(10,082,618)	(76,592)
	10,006,026	–	10,006,026	(10,082,618)	(76,592)

24. Maturity analysis of assets and liabilities

The table below shows the expected maturity profile of assets and liabilities as at 31 December 2017 and 2016. See *Note 21* for the Bank's contractual undiscounted repayment obligations.

	2017			*2016*		
	Less than 12 months	*Over 12 months*	*Total*	*Less than 12 months*	*Over 12 months*	*Total*
Assets						
Cash and cash equivalents	**11,175,455**	**–**	**11,175,455**	12,363,387	–	12,363,387
Receivables under reverse repurchase agreements	**6,004,562**	**–**	**6,004,562**	10,006,026	–	10,006,026
Loans to customers	**5,494,846**	**30,637,882**	**36,132,728**	5,516,055	25,894,271	31,410,326
Property and equipment	**–**	**1,211,337**	**1,211,337**	–	1,269,548	1,269,548
Intangible assets	**–**	**126,207**	**126,207**	–	116,485	116,485
Current corporate income tax prepaid	**12,155**	**–**	**12,155**	–	–	–
Other assets	**2,410,511**	**2,058**	**2,412,569**	2,386,057	10,488	2,396,545
Total assets	**25,097,529**	**31,977,484**	**57,075,013**	30,271,525	27,290,792	57,562,317
Liabilities						
Amounts due to other banks	**9,411,880**	**–**	**9,411,880**	12,608,492	–	12,608,492
Amounts due to customers	**21,801,237**	**–**	**21,801,237**	21,281,501	–	21,281,501
Current corporate income tax payable	**–**	**–**	**–**	31,906	–	31,906
Deferred corporate income tax liabilities	**–**	**259,722**	**259,722**	–	229,173	229,173
Other liabilities	**78,455**	**22,703**	**101,158**	64,739	15,654	80,393
Total liabilities	**31,291,572**	**282,425**	**31,573,997**	33,986,638	244,827	34,231,465
Net position	**(6,194,043)**	**31,695,059**	**25,501,016**	(3,715,113)	27,045,965	23,330,852

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As at 31 December 2017 the Bank has a negative liquidity gap of KZT 6,194,043 thousand within a year (at 31 December 2016: KZT 3,715,113 thousand).

Liabilities, which are payable on demand are treated in the table above as if the demand of repayment was claimed. However, the Bank expects that many of the customers will not demand repayments on the earliest date on which the Bank would be required to make repayment and the table does not reflect the expected cash flows estimated by the Bank based on the history of repayments of amounts due to customers of prior periods.

(In thousands of tenge, unless otherwise is stated)

25. Related party transactions

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

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

The amount of related party transactions and balances as of 31 December 2017 and 2016, as well as the respective amounts of income and expenses for the years than ended are as follows:

	2017			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*
Assets				
Cash and cash equivalents	**390,376**	**–**	**971**	**391,347**
Loans to customers	**–**	**140,486**	**–**	**140,486**
Liabilities				
Amounts due to other banks	**9,411,385**	**–**	**–**	**9,411,385**
Amounts due to customers	**–**	**3,393**	**–**	**3,393**

	2016			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*
Assets				
Cash and cash equivalents	81,924	–	983	82,907
Loans to customers	–	214,487	–	214,487
Liabilities				
Amounts due to other banks	12,607,897	–	–	12,607,897
Amounts due to customers	–	7,076	–	7,076

The income and expense items on transactions with related parties for the years ended 31 December 2017 and 2016 were as follows:

	2017			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*
Interest income	**–**	**15,071**	**–**	**15,071**
Interest expense	**(544,297)**	**–**	**–**	**(544,297)**

	2016			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*
Interest income	–	9,119	–	9,119
Interest expense	(279,300)	–	–	(279,300)

(In thousands of tenge, unless otherwise is stated)

25. Related party transactions (continued)

Details regarding the terms of attraction of funds from the Controlling shareholder are disclosed in *Note 12*. As at 31 December 2017, loans to the key management personnel have interest rates of 8-17% per annum (at 31 December 2016: 8-17% per annum) with maturity in 2018-2027 (at 31 December 2016: in 2018-2026).

Below is the information for 2017 about remuneration to 11 members (2016: 11 members) of key management personnel:

	2017	*2016*
Salaries and other short-term benefits	**122,178**	127,041
Social security contributions	**11,616**	12,403
Total	**133,794**	139,444

26. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the National Bank of the Republic of Kazakhstan.

During 2017 and 2016 the Bank had complied in full with all its externally imposed capital requirements.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

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

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

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

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2017 and 2016:

	2017	*2016*
Tier 1 capital	**25,432,592**	23,242,765
Tier 2 capital	**–**	–
Deduction of positive difference with regulatory reserves	**(134,483)**	–
Total statutory capital	**25,298,109**	23,242,765
Risk weighted assets, contingencies and commitments, possible claims and liabilities	**57,993,402**	42,804,606
Capital adequacy ratio k1 (at least 5.5%)	**44%**	54%
Capital adequacy ratio k1-2 (at least 6.5%)	**44%**	54%
Capital adequacy ratio k2 (at least 8%)	**44%**	54%