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

Financial statements

Year ended 31 December 2016
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"

Report on the audit of the financial statements

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 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (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 2016 Annual report

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

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available 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.

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

77/7 building, Al-Farabi Ave.
050060, Almaty, Republic of Kazakhstan

17 March 2017

STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

(thousands of tenge)

	Note	2016	2015
Assets			
Cash and cash equivalents	6	**12,363,387**	18,394,506
Amounts due from other banks		**–**	1,025,436
Receivables under reverse repurchase agreements	7	**10,006,026**	2,003,830
Available-for-sale investment securities		**–**	1,687,205
Loans to customers	8	**31,410,326**	31,179,587
Property and equipment	9	**1,269,548**	1,232,020
Intangible assets	10	**116,485**	141,950
Other assets	11	**2,396,545**	2,041,642
Total assets		**57,562,317**	57,706,176
Liabilities			
Amounts due to other banks	12	**12,608,492**	8,632,469
Amounts due to customers	13	**21,281,501**	27,782,180
Current corporate income tax liabilities	14	**31,906**	–
Deferred corporate income tax liabilities	14	**229,173**	233,775
Other liabilities	15	**80,393**	75,759
Total liabilities		**34,231,465**	36,724,183
Equity			
Share capital	16	**15,000,000**	15,000,000
Retained earnings		**5,983,355**	3,634,496
Reserve funds	16	**1,750,542**	1,750,542
Revaluation reserve for property and equipment		**596,955**	596,955
Total equity		**23,330,852**	20,981,993
Total liabilities and equity		**57,562,317**	57,706,176

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

17 March 2017

The accompanying notes on pages 5 to 42 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

(thousands of tenge)

	Note	*2016*	*2015*
Interest income	17	**4,138,288**	2,991,961
Interest expense	17	**(562,392)**	(467,954)
Net interest income		**3,575,896**	2,524,007
Allowance for loan impairment	8	**(283,512)**	(211,439)
Net interest income after allowance for loan impairment		**3,292,384**	2,312,568
Net fee and commission income	18	**666,548**	669,773
Net gains from transactions in foreign currencies:			
- dealing		**777,841**	689,022
- translation differences		**(27,418)**	33,975
Other operating income		**11,260**	13,011
Administrative and other operating expenses	19	**(1,716,568)**	(1,391,886)
Profit before corporate income tax expense		**3,004,047**	2,326,463
Corporate income tax expense	14	**(655,188)**	(491,170)
Profit for the year		**2,348,859**	1,835,293
Other comprehensive income			
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year		**2,348,859**	1,835,293
Basic and diluted earnings per share (in tenge)	16	**156.59**	122.35

The accompanying notes on pages 5 to 42 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

(thousands of tenge)

	Share capital	*Revaluation reserve for property and equipment*	*Reserve funds*	*Retained earnings*	*Total equity*
At 31 December 2014	15,000,000	596,955	1,750,542	1,799,203	19,146,700
Profit for the year	–	–	–	1,835,293	1,835,293
Total comprehensive income for the year	–	–	–	1,835,293	1,835,293
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**

The accompanying notes on pages 5 to 42 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

(thousands of tenge)

	Note	*2016*	*2015*
Cash flows from operating activities			
Interest received		**3,782,180**	2,717,163
Interest paid		**(660,666)**	(239,248)
Fees and commissions received		**679,758**	664,898
Fees and commissions paid		**(25,491)**	(27,785)
Net gains from dealing in foreign currencies		**777,841**	689,022
Other operating income received		**11,260**	13,011
Personnel expenses paid		**(946,696)**	(762,210)
Other administrative and operating expenses paid		**(613,865)**	(526,390)
Cash flows from operating activities before changes in operating assets and liabilities		**3,004,321**	2,528,461
Net decrease / (increase) in operating assets:			
Amounts due from other banks		**998,266**	(991,506)
Receivables under reverse repurchase agreements		**(7,999,998)**	(2,000,001)
Loans to customers		**(913,172)**	(349,931)
Other assets		**129,762**	(178,874)
Net increase/ (decrease) in operating liabilities:			
Amounts due to other banks		**4,114,014**	2,802,709
Amounts due to customers		**(6,029,127)**	6,206,992
Other liabilities		**(104,841)**	1,769
Net cash flows from operating activities before corporate income tax		**(6,800,775)**	8,019,619
Corporate income tax paid		**(627,884)**	(581,911)
Net cash flows from operating activities		**(7,428,659)**	7,437,708
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		**(116,654)**	(148,629)
Proceeds from sale of available-for-sale investment securities		**1,661,222**	–
Net cash flows from investing activities		**1,544,568**	(148,629)
Effect of exchange rate changes on cash and cash equivalents		**(147,028)**	5,817,823
Net (decrease)/increase in cash and cash equivalents		**(6,031,119)**	13,106,902
Cash and cash equivalents as at 1 January	6	**18,394,506**	5,287,604
Cash and cash equivalents as at 31 December	6	**12,363,387**	18,394,506
Non-cash operations			
Repossessed collaterals on loans to customers	8	**656,445**	163,178

The accompanying notes on pages 5 to 42 are an integral part of these financial statements.

(thousands of tenge)

1. Principal activities

Joint Stock Company Subsidiary Bank "Kazakhstan – Ziraat International Bank" (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 2016, the Bank's branch network comprises 4 branches located in the Republic of Kazakhstan (as at 31 December 2015: 4 branches).

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

As at 31 December 2016 and 2015, the Bank's controlling shareholder is T.C. Ziraat Bankasi A.S (Turkey) (the "Parent" or the "Controlling shareholder").

As at 31 December 2016 and 2015, the shareholders of the Bank were as follows:

Shareholder	***2016, %***	***2015, %***
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, available-for-sale investment securities, land and buildings within property and equipment were measured at the fair value.

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

3. Summary of significant accounting policies

Changes in accounting policies

The Bank applied the following IFRS amendments, which became effective for annual periods on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

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

- IAS 1 requirements to definition of materiality;
- that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

(thousands of tenge)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IAS 1 Disclosure Initiative (continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments are effective for annual reporting periods beginning on or after 1 January 2016. These amendments had no impact to the Bank.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception.

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its profit in subsidiaries.

The amendments must be applied retrospectively and are effective for annual reporting periods beginning on or after 1 January 2016. The amendments had no impact to the Bank as the Bank does not have any subsidiaries.

Annual improvements cycle – 2012-2014

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

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

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. This amendment shall be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

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 value of financial instruments measured at amortized cost is disclosed in *Note 22 'Fair value measurement'*.

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.

(thousands of tenge)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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 – techniques for which all inputs that relate to the lower hierarchy level which have a significant effect on the fair value are not observable.

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.

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 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.

Available-for-sale financial assets

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

Reclassification of financial assets

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

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

(thousands of tenge)

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets (continued)

A financial asset classified as available for sale that would have met the definition of loans to customers and receivables may be reclassified to loans to customers 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 as at the date of reclassification becomes its new cost or amortised cost.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from 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 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 clients. 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 the instruments are derecognised, as well as through the amortisation process.

Leases

Operating – Bank as lessee

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

Measurement of financial instruments at initial recognition

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

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

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group 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.

(thousands of tenge)

3. Summary of accounting policies (continued)

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.

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.

(thousands of tenge)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

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.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from other comprehensive income to income statement. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recognised in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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.

(thousands of tenge)

3. Summary of accounting policies (continued)

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.

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 value is recognised in profit or loss.

Financial guarantees

In the ordinary course of business, the Bank gives 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 values 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.

(thousands of tenge)

3. Summary of accounting policies (continued)

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 values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings and land 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.

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 to transfer the revaluation surplus to retained earnings as the asset is being used.

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	3-5
Vehicles	5
Other property and equipment	3-10

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 include 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 3 to 10 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.

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.

(thousands of tenge)

3. Summary of accounting policies (continued)

Share capital

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-in capital.

Dividends

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

Fee and commission income

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

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

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

- *Commission income from providing transaction services*

Fees arising from 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.

(thousands of tenge)

3. Summary of accounting policies (continued)

Foreign currency translation

The financial statements are presented in 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 the 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 2016 and 2015, were 333.29 KZT and 340.01 KZT to 1 USD, respectively.

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 the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* as well as all previous version of IFRS 9. The standard introduces new requirements to classification and measurement, impairment and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Early application is permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

(thousands of tenge)

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 becomes effective for financial years beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

These amendments are effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. These amendments are not expected to have any impact to the Bank.

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

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Bank.

(thousands of tenge)

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

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

Taxation

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

5. Segment information

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 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

(thousands of tenge)

5. Segment information (continued)

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

	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 operating 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

Segment information for the reportable segments for the year ended 31 December 2015 is set out below:

	Corporate banking	*Retail banking*	*Total*
Assets			
Cash and cash equivalents	18,394,506	–	18,394,506
Amounts due from other banks	1,025,436	–	1,025,436
Receivables under reverse repurchase agreements	2,003,830	–	2,003,830
Available-for-sale investment securities	1,687,205	–	1,687,205
Loans to customers	26,826,108	4,353,479	31,179,587
Total assets of reportable segments	49,937,085	4,353,479	54,290,564
Liabilities			
Amounts due to other banks	8,632,469	–	8,632,469
Amounts due to customers	21,699,560	6,082,620	27,782,180
Total liabilities of reportable segments	30,332,029	6,082,620	36,414,649

	Corporate banking	*Retail banking*	*Total*
Interest income	2,392,964	598,997	2,991,961
Interest expense	(436,859)	(31,095)	(467,954)
Net interest income	1,956,105	567,902	2,524,007
Allowance for loan impairment	21,843	(233,282)	(211,439)
Net interest income after allowance for loan impairment	1,977,948	334,620	2,312,568
Fee and commission income	455,818	241,740	697,558
Fee and commission expense	(27,785)	–	(27,785)
Net gains from transactions in foreign currencies:			
- dealing	689,022	–	689,022
- translation differences	33,975	–	33,975
Other operating income	13,011	–	13,011
Administrative and other operating expenses	(1,391,886)	–	(1,391,886)
Segment results	1,750,103	576,360	2,326,463

(thousands of tenge)

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:

	2016	*2015*
Total assets of reportable segments	**53,779,739**	54,290,564
Property and equipment and intangible assets	**1,386,033**	1,373,970
Other assets	**2,396,545**	2,041,642
Total assets	**57,562,317**	57,706,176
Total liabilities of reportable segments	**33,889,993**	36,414,649
Current corporate income tax liabilities	**31,906**	–
Deferred corporate income tax liabilities	**229,173**	233,775
Other liabilities	**80,393**	75,759
Total liabilities	**34,231,465**	36,724,183

	2016	*2015*
Total segment results	**3,004,047**	2,326,463
Corporate income tax expenses	**(655,188)**	(491,170)
Total profit for the year	**2,348,859**	1,835,293

Income of the Bank, other than interest income from deposits with other banks, is generated in Kazakhstan. Geographic areas of the Bank's activities are presented in *Note 21 "Risk Management"* 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 2016 and 2015.

6. Cash and cash equivalents

As at 31 December 2016 and 2015, cash and cash equivalents comprised the following:

	2016	*2015*
Cash on hand	**1,630,739**	1,829,450
Current accounts with the NBRK	**6,453,122**	8,959,188
Current accounts with other banks	**4,279,526**	7,605,868
Cash and cash equivalents	**12,363,387**	18,394,506

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current account with the NBRK or physical cash computed based on average monthly balances of the aggregate of cash balances on current account with the NBRK or physical cash in national and hard currencies during the period of reserve creation. As at 31 December 2016, obligatory reserves amounted to KZT 1,331,438 thousand (31 December 2015: KZT 1,250,383 thousand).

7. Receivables under reverse repurchase agreements

As at 31 December 2016, the Bank entered into reverse repurchase agreements on the KASE. The subject of these agreements are bonds of the Ministry of Finance of the Republic of Kazakhstan with the fair value of KZT 10,082,618 thousand as at 31 December 2016 (as at 31 December 2015: KZT 2,107,720 thousand).

(thousands of tenge)

8. Loans to customers

As at 31 December 2016 and 2015, loans to customers comprise:

	2016	*2015*
Loans to major customers	**20,508,614**	19,551,597
Loans to small and medium-sized businesses	**7,569,062**	7,871,262
Mortgage loans	**2,603,086**	2,302,579
Consumer loans	**2,459,720**	2,918,149
Total gross loans to customers before allowance for loan impairment	**33,140,482**	32,643,587
Less: allowance for loan impairment	**(1,730,156)**	(1,464,000)
Loans to customers	**31,410,326**	31,179,587

The Bank classifies loans to borrowers that have average total assets of more than 60,000 minimum calculation index as "loans to major customers". As at 31 December 2016, the minimum calculation index was KZT 2,121 (as at 31 December 2015: KZT 1,982 thousand).

Allowance for loan impairment

The movements in allowance for impairment of loans in 2016 is as follows:

	Loans to major customers	*Loans to small and medium-sized 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)**
At 31 December 2016	**215,008**	**671,517**	**285,693**	**557,938**	**1,730,156**
Individual impairment	**89,112**	**350,675**	**–**	**197,814**	**637,601**
Collective impairment	**125,896**	**320,842**	**285,693**	**360,124**	**1,092,555**
	215,008	**671,517**	**285,693**	**557,938**	**1,730,156**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**89,112**	**390,076**	**–**	**213,597**	**692,785**

The movements in allowance for impairment of loans in 2015 is as follows:

	Loans to major customers	*Loans to small and medium-sized businesses*	*Mortgage loans*	*Consumer loans*	*Total*
At 31 December 2014	105,918	475,821	140,644	352,785	1,075,168
(Reversal)/charge for the year	(13,846)	(7,997)	40,789	192,493	211,439
Translation difference	–	36,855	8,997	131,541	177,393
At 31 December 2015	92,072	504,679	190,430	676,819	1,464,000
Individual impairment	89,112	222,263	–	201,388	512,763
Collective impairment	2,960	282,416	190,430	475,431	951,237
	92,072	504,679	190,430	676,819	1,464,000
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	89,112	222,263	–	217,196	528,571

(thousands of tenge)

8. Loans to customers (continued)

Collateral and other credit enhancements

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-sized businesses*	*Mortgage loans*	*Consumer loans*	*Total*
Loans secured by:					
- real estate	**17,956,824**	**7,298,468**	**2,593,182**	**2,127,946**	**29,976,420**
- other property	**89,112**	**154,727**	**9,904**	**89,782**	**343,525**
Loans secured by guarantees of third parties	**2,462,678**	**115,867**	**–**	**202,316**	**2,780,861**
Unsecured loans	**–**	**–**	**–**	**39,676**	**39,676**
Total gross loans to customers before allowance for loan impairment	**20,508,614**	**7,569,062**	**2,603,086**	**2,459,720**	**33,140,482**

The following table shows an analysis of loans to customers by type of collateral as at 31 December 2015:

	Loans to major customers	*Loans to small and medium-sized businesses*	*Mortgage loans*	*Consumer loans*	*Total*
Loans secured by:					
- real estate	17,119,348	7,507,360	2,263,399	2,554,658	29,444,765
- other property	94,577	276,491	18,478	105,781	495,327
Loans secured by guarantees of third parties	2,337,672	87,411	20,702	240,807	2,686,592
Unsecured loans	–	–	–	16,903	16,903
Total gross loans to customers before allowance for loan impairment	19,551,597	7,871,262	2,302,579	2,918,149	32,643,587

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.

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 collateral

During 2016, the Bank obtained real estate with estimated value of KZT 656,445 thousand (in 2015: KZT 163,178 thousand) by taking possession of collateral for loans to customers. 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 2016 the Bank had ten major borrowers, which accounted for 63% (as at 31 December 2015: 60%) of the total amount of loan to customers before allowance for impairment. The total aggregate amount of these loans was KZT 20,714,460 thousand (as at 31 December 2015: KZT 19,551,597 thousand).

(thousands of tenge)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

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

	2016		*2015*	
	Amount	*%*	*Amount*	*%*
Trade	**15,827,600**	**47.8%**	15,539,072	47.6%
Hospitality	**7,906,498**	**23.9%**	8,099,594	24.8%
Individuals	**5,062,806**	**15.3%**	5,220,728	16.0%
Manufacturing	**1,306,505**	**3.9%**	1,582,091	4.8%
Construction	**943,993**	**2.9%**	898,725	2.8%
Leases	**833,815**	**2.5%**	61,080	0.2%
Transportation and communication	**78,866**	**0.2%**	31,356	0.1%
Mining industry/metallurgy	**42,511**	**0.1%**	80,377	0.2%
Other	**1,137,888**	**3.4%**	1,130,564	3.5%
Total gross loans to customers before allowance for loan impairment	**33,140,482**	**100.0%**	32,643,587	100.0%

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 2014	641,579	388,026	24,531	47,114	114,817	1,216,067
Additions	–	46,319	3,329	4,040	84,556	138,244
Disposals	–	–	(2,803)	(12,355)	(17,577)	(32,735)
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)**
At 31 December 2016	**641,579**	**486,842**	**33,913**	**34,223**	**206,186**	**1,402,743**
Accumulated depreciation						
At 31 December 2014	–	–	(7,143)	(16,807)	(49,886)	(73,836)
Charge for the year	–	(7,070)	(9,229)	(10,180)	(21,931)	(48,410)
Disposals	–	–	2,758	12,355	17,577	32,690
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)**
Net book value						
At 31 December 2014	641,579	388,026	17,388	30,307	64,931	1,142,231
At 31 December 2015	641,579	427,275	11,443	24,167	127,556	1,232,020
At 31 December 2016	**641,579**	**462,473**	**19,012**	**16,081**	**130,403**	**1,269,548**

The Bank uses independent appraiser to determine fair value of land and buildings that are in ownership of the Bank.

If the land and buildings were accounted for at historical cost less impairment and accumulated depreciation for buildings, their carrying value would be KZT 45,080 thousand and KZT 179,346 thousand, respectively (as at 31 December 2015: KZT 45,080 thousand and KZT 189,354 thousand, respectively).

(thousands of tenge)

9. Property and equipment (continued)

As at 31 December 2016, the cost of fully amortised property and equipment, including office and computer equipment, vehicles and other fixed assets that are in use by the Bank amounted to KZT 30,430 thousand (as at 31 December 2015: KZT 31,108 thousand).

10. Intangible assets

The movements in intangible assets were as follows:

	Licenses and software	*Total*
Cost		
At 31 December 2014	228,124	228,124
Additions	10,385	10,385
Disposals	(28,266)	(28,266)
At 31 December 2015	210,243	210,243
Additions	**7,359**	**7,359**
Disposal	**(6,316)**	**(6,316)**
At 31 December 2016	**211,286**	**211,286**
Accumulated amortization		
At 31 December 2014	(68,826)	(68,826)
Charge for the year	(27,733)	(27,733)
Disposals	28,266	28,266
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)**
Net book value		
At 31 December 2014	159,298	159,298
At 31 December 2015	141,950	141,950
At 31 December 2016	**116,485**	**116,485**

11. Other assets

As at 31 December 2016 and 2015, other assets comprise:

	2016	*2015*
Commissions receivable	**72,227**	70,712
Shares	**7,001**	7,001
Other debtors on banking activities	**18,047**	10,195
Other financial assets	**97,275**	87,908
Inventories	**2,170,559**	1,743,096
Prepaid taxes other than corporate income tax	**98,876**	120,616
Prepayment for utilities	**27,222**	80,726
Prepayment for other services	**1,970**	7,271
Other	**643**	2,025
Other non-financial assets	**2,299,270**	1,953,734
Other assets	**2,396,545**	2,041,642

As at 31 December 2016 and 2015, inventories comprise properties received by the Bank in settlement of obligations of loan obligations by borrowers. Even though 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.

(thousands of tenge)

12. Amounts due to other banks

As at 31 December 2016 and 2015, amounts due to other banks comprise:

	2016	*2015*
Term deposits	**12,608,492**	8,632,469
Amounts due to other banks	**12,608,492**	8,632,469

As at 31 December 2016, amounts due to other banks mainly included short-term deposits of the Parent totalling KZT 12,607,897 thousand (as at 31 December 2015: KZT 8,631,969 thousand) and deposits of other banks totalling KZT 595 thousand (as at 31 December 2015: KZT 500 thousand). Deposits of the Parent are placed in US Dollars and Euro for a period of 6 (six) months and have interest rates of 3.50%-4.75% per annum (as at 31 December 2015: 3.75%-4.50% per annum).

13. Amounts due to customers

As at 31 December 2016 and 2015, amounts due to customers comprise:

	2016	*2015*
Current accounts	**12,502,055**	14,861,326
Term deposits	**8,779,446**	12,920,854
Amounts due to customers	**21,281,501**	27,782,180
Held as security against letters of credit	**–**	36,821
Held as security against guarantees	**4,193,549**	4,955,476

As at 31 December 2016, the Bank had ten major clients, which accounted for 44% of the gross balance of current accounts and deposits of clients (as at 31 December 2015: 40%). The aggregate balance of amounts due to such customers as at 31 December 2016 was KZT 9,310,623 thousand (as at 31 December 2015: KZT 11,219,915 thousand).

Included in time deposits are deposits of individuals in the amount of KZT 2,337,462 thousand (as at 31 December 2015: KZT 2,483,246 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

	2016	*2015*
Current accounts		
Legal entities	**9,300,261**	10,725,484
Individuals	**3,013,004**	3,599,374
State and public organisations	**188,790**	536,468
Term deposits		
Legal entities	**6,441,984**	10,437,608
Individuals	**2,337,462**	2,483,246
Amounts due to customers	**21,281,501**	27,782,180

Below is the breakdown of due to customers by industry sectors:

	2016		*2015*	
	Amount	*%*	*Amount*	*%*
Construction	**5,775,450**	**27.1%**	9,019,016	32.5%
Trade and services	**5,621,223**	**26.4%**	9,308,538	33.5%
Individuals	**5,350,466**	**25.1%**	6,082,620	21.9%
Transport and communications	**2,655,865**	**12.5%**	591,231	2.1%
Professional services	**609,430**	**2.9%**	586,547	2.1%
Manufacturing	**332,589**	**1.6%**	385,913	1.4%
State and public organisations	**188,790**	**0.9%**	536,468	1.9%
Mining of metal ores	**91,410**	**0.4%**	774,158	2.8%
Sports and tourism	**76,627**	**0.4%**	20,897	0.1%
Other	**579,651**	**2.7%**	476,792	1.7%
Amounts due to customers	**21,281,501**	**100.0%**	27,782,180	100.0%

(thousands of tenge)

14. Taxation

The corporate income tax expense comprises:

	2016	*2015*
Current corporate income tax charge	**633,817**	487,320
Deferred corporate income tax (benefit)/charge – origination and reversal of temporary differences	**(4,602)**	3,850
Adjustment of current corporate income tax of prior years	**25,973**	–
Corporate income tax expense	**655,188**	491,170

The Republic of Kazakhstan was only one tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20.0% in 2016 and 2015.

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 2016 and 2015 is as follows:

	2016	*2015*
Profit before corporate income tax expense	**3,004,047**	2,326,463
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**600,809**	465,293
Non-taxable income from state securities and securities included in the official listing of the KASE	**(5,713)**	(11,746)
Non-deductible administrative and other operating expenses	**28,934**	28,249
Adjustment of current corporate income tax of prior years	**25,973**	–
Non-deductible impairment charge	**2,787**	8,701
Other permanent differences	**2,398**	673
Corporate income tax expense	**655,188**	491,170

As at 31 December 2016, current corporate income tax liabilities comprised KZT 31,906 thousand (as at 31 December 2015: nil).

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

	2014	*Origination and reversal of temporary differences in profit or loss*	*2015*	*Origination and reversal of temporary differences in profit or loss*	*2016*
Tax effect of deductible temporary differences					
Other liabilities	6,953	7,208	14,161	**2,346**	**16,507**
Deferred corporate income tax assets	6,953	7,208	14,161	**2,346**	**16,507**
Tax effects of taxable temporary differences					
Loans to customers	(115,647)	–	(115,647)	–	**(115,647)**
Property and equipment and intangible assets	(121,231)	(11,058)	(132,289)	**2,256**	**(130,033)**
Deferred corporate income tax liabilities	(236,878)	(11,058)	(247,936)	**2,256**	**(245,680)**
Net deferred corporate income tax liabilities	(229,925)	(3,850)	(233,775)	**4,602**	**(229,173)**

(thousands of tenge)

15. Other liabilities

As at 31 December 2016 and 2015, other liabilities comprise:

	2016	*2015*
Amounts payable on non-operating activities	**14,681**	27,130
Obligations on guarantees issued	**11,528**	21,988
Other financial liabilities	**26,209**	49,118
Unused vacation reserve	**47,767**	19,612
Taxes other than corporate income tax payable	**3,730**	4,391
Other liabilities	**2,687**	2,638
Other non-financial liabilities	**54,184**	26,641
Other liabilities	**80,393**	75,759

16. Equity

As at 31 December 2016 and 2015, 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 capital distribution in tenge.

In 2016 and 2015, the Bank did not declare or pay dividends based on the performance results for 2015 and 2014, respectively.

As at 31 December 2016, 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 2015: 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 the NBRK No. 137 dated 27 May 2013 (the "Resolution"), the Bank calculates the dynamic reserves since 30 September 2013. As at 31 December 2016, dynamic reserves calculated in accordance with the Resolution amounts to KZT 573,367 thousand (as at 31 December 2015: KZT 573,367 thousand).

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

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.

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

	2016	*2015*
Net profit for the year attributable to the shareholder of the Bank	**2,348,859**	1,835,293
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)	**156.59**	122.35

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

(thousands of tenge)

17. Interest income and interest expense

Interest income and interest expense comprise:

	2016	*2015*
Loans to customers	**3,292,504**	2,686,114
Receivables under reverse repurchase agreements	**804,929**	239,310
Available-for-sale investment securities	**28,567**	58,732
Amounts due from other banks	**11,531**	6,867
Other	**757**	938
Interest income	**4,138,288**	2,991,961
Amounts due to other banks	**(279,300)**	(265,691)
Amounts due to customers	**(283,092)**	(202,263)
Interest expense	**(562,392)**	(467,954)
Net interest income	**3,575,896**	2,524,007

18. Net fee and commission income

Net fee and commission income comprises:

	2016	*2015*
Settlement operations	**339,941**	351,324
Cash transactions	**164,328**	169,089
Guarantees and letters of credit	**127,916**	102,264
Maintenance of bank accounts	**37,506**	36,927
Safe transactions	**5,124**	4,883
Other	**17,224**	33,071
Fee and commission income	**692,039**	697,558
Settlement operations	**(17,858)**	(24,457)
Other	**(7,633)**	(3,328)
Fee and commission expense	**(25,491)**	(27,785)
Net fee and commission income	**666,548**	669,773

(thousands of tenge)

19. Administrative and other operating expenses

Administrative and other operating expenses comprise:

	2016	*2015*
Salaries and bonuses	**880,038**	695,501
Taxes, other than income tax	**146,630**	93,595
Social security contributions	**83,867**	66,709
Lease	**82,537**	34,737
Depreciation of property and equipment *(Note 9)*	**77,466**	48,410
Security	**73,428**	61,113
Technical support of software	**66,337**	38,473
Communication and information services	**43,766**	46,498
Amortization of intangible assets *(Note 10)*	**27,125**	27,733
Professional services	**25,453**	15,444
Travel expenses	**21,022**	20,192
Maintenance of buildings	**15,486**	13,846
Membership fees	**14,537**	13,072
Deposit insurance	**11,043**	48,574
Insurance	**10,469**	17,803
Sponsorships	**7,793**	649
Repair and maintenance	**7,247**	6,541
Encashment	**6,973**	6,761
Office supplies	**5,840**	6,346
Fines and penalties	**5,562**	47,619
Vehicles	**5,453**	4,836
Customer related expenses	**5,354**	4,185
Advertising and marketing	**5,049**	16,888
Other	**88,093**	56,361
Administrative and other operating expenses	**1,716,568**	1,391,886

20. Commitments and contingencies

Political and economic environment

Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the 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.

In 2016, decline in prices for crude oil and the volatility of the tenge's exchange rate against major foreign currencies continued to have a negative impact on the Kazakhstan economy. Interest rates in tenge remain high. Combination of these factors resulted in a 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.

(thousands of tenge)

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

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

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

Commitments and contingencies

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

	2016	*2015*
Credit related commitments		
Undrawn loan facilities	**13,023,299**	18,502,126
Guarantees	**4,193,549**	4,955,476
Letters of credit	**–**	36,821
	17,216,848	23,494,423
Operating lease commitments		
Not later than 1 year	**93,640**	83,732
	93,640	83,732
Commitments and contingencies (before collateral)	**17,310,488**	23,578,155
Less amounts due to customers held as security against guarantees and letters of credit *(Note 13)*	**(4,193,549)**	(4,992,297)
Commitments and contingencies	**13,116,939**	18,585,858

The total outstanding contractual amount of undrawn credit lines, letters of credit, 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 denominated in the following currencies:

	2016	*2015*
US Dollars	**13,228,975**	18,984,289
Tenge	**3,987,873**	3,970,717
Euro	**–**	539,417
	17,216,848	23,494,423

Operating lease commitments are denominated in tenge.

(thousands of tenge)

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.

(thousands of tenge)

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 presented in *Note 8 "Loans to customers"* and *Note 20 "Contractual commitments and contingencies"*.

(thousands of tenge)

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.

	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	**27,818,067**	**4,629,630**	**692,785**	**33,140,482**
Other financial assets	**97,275**	**–**	**–**	**97,275**
Total	**48,654,016**	**4,629,630**	**692,785**	**53,976,431**

	2015			
	Neither past due nor individually impaired	*Past due but not individually impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	16,565,056	–	–	16,565,056
Amounts due from other banks	1,025,436	–	–	1,025,436
Available-for-sale investment securities	1,687,205	–	–	1,687,205
Receivables under reverse repurchase agreements	2,003,830	–	–	2,003,830
Loans to customers	28,971,900	3,143,116	528,571	32,643,587
Other financial assets	87,908	–	–	87,908
Total	50,341,335	3,143,116	528,571	54,013,022

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

	2016				
	Less than 30 days	*31-90 days*	*90-180 days*	*Over 180 days*	*Total*
Loans to customers					
Loans to major customers	**968,123**	**1,593,024**	**–**	**97,261**	**2,658,408**
Loans to small and medium-sized businesses	**469,337**	**115,269**	**22,941**	**329,581**	**937,128**
Consumer loans	**213,625**	**43,027**	**39,098**	**342,657**	**638,407**
Mortgage loans	**69,999**	**20,644**	**12,927**	**292,117**	**395,687**
Total	**1,721,084**	**1,771,964**	**74,966**	**1,061,616**	**4,629,630**

	2015				
	Less than 30 days	*31-90 days*	*90-180 days*	*Over 180 days*	*Total*
Loans to customers					
Loans to major customers	527,992	95,120	310,347	112,923	1,046,382
Loans to small and medium-sized businesses	42,525	158,406	72,041	223,252	496,224
Consumer loans	84,799	64,293	274,886	337,460	761,438
Mortgage loans	198,417	164,292	211,803	264,560	839,072
Total	853,733	482,111	869,077	938,195	3,143,116

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

(thousands of tenge)

21. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment comprise: 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 monetary 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 monetary assets	89,373	7,902	–	97,275
Total monetary 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 monetary liabilities	25,785	424	–	26,209
Total monetary 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

(thousands of tenge)

21. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

Below is the geographical concentration of the Bank's monetary assets and liabilities as at 31 December 2015:

	Kazakhstan	*OECD countries*	*Non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	10,796,908	7,542,428	55,170	18,394,506
Amounts due from other banks	150	–	1,025,286	1,025,436
Receivables under reverse repurchase agreements	2,003,830	–	–	2,003,830
Available-for-sale investment securities	1,687,205	–	–	1,687,205
Loans to customers	31,123,009	56,578	–	31,179,587
Other monetary assets	69,677	18,231	–	87,908
Total monetary assets	45,680,779	7,617,237	1,080,456	54,378,472
Liabilities				
Amounts due to other banks	500	8,631,969	–	8,632,469
Amounts due to customers	21,135,883	6,489,647	156,650	27,782,180
Other monetary liabilities	35,758	6,269	7,091	49,118
Total monetary liabilities	21,172,141	15,127,885	163,741	36,463,767
Net position	24,508,638	(7,510,648)	916,715	17,914,705

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, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. Also, it manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

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

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.

(thousands of tenge)

21. Risk management (continued)

Liquidity risk and funding 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.

	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**

	2015					
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	500	4,357,345	4,325,117	–	–	8,682,962
Amounts due to customers	14,907,346	799,046	12,255,442	–	–	27,961,834
Other financial liabilities	11,189	12,539	2,879	21,562	949	49,118
Total undiscounted financial liabilities	14,919,035	5,168,930	16,583,438	21,562	949	36,693,914

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 obliged to repay such deposits upon demand of a depositor (See *Note 13 "Amounts due to customers"*).

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***
2016	**2,131,289**	**2,964,179**	**11,352,475**	**768,905**	**17,216,848**
2015	195,860	5,016,589	13,118,570	5,163,404	23,494,423

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.

(thousands of tenge)

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 2016 and 2015.

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 income statement (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:

	2016		*2015*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
Russia Ruble	**23%**	**8,197**	40%	8,704
Euro	**15%**	**6,091**	60%	35,409
US Dollars	**13%**	**2,228**	60%	123,164

	2016		*2015*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
Russia Ruble	**-19%**	**(6,771)**	-29%	(6,310)
Euro	**-15%**	**(6,091)**	-20%	(11,803)
US Dollars	**-13%**	**(2,228)**	-20%	(41,055)

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 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**

(thousands of tenge)

21. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The currency position of the Bank as at 31 December 2015 is presented below:

	Tenge	*US Dollar*	*Russian Rouble*	*Euro*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	2,551,179	15,204,330	55,449	506,576	76,972	18,394,506
Amounts due from other banks	150	1,025,286	–	–	–	1,025,436
Receivables under reverse repurchase agreements	2,003,830	–	–	–	–	2,003,830
Available-for-sale investment securities	1,687,205	–	–	–	–	1,687,205
Loans to customers	14,258,654	16,230,650	–	690,283	–	31,179,587
Other monetary assets	82,352	162	–	5,394	–	87,908
	20,583,370	32,460,428	55,449	1,202,253	76,972	54,378,472
Liabilities						
Amounts due to other banks	500	7,752,133	–	879,836	–	8,632,469
Amounts due to customers	3,019,827	24,467,471	33,638	258,322	2,922	27,782,180
Other monetary liabilities	8,777	35,212	51	5,078	–	49,118
	3,029,104	32,254,816	33,689	1,143,236	2,922	36,463,767
Net position	17,554,266	205,612	21,760	59,017	74,050	17,914,705

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 lands 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.

(thousands of tenge)

22. Fair value measurement (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			
2016	***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	31 December 2016	–	**1,104,052**	–	**1,104,052**
Assets for which fair values 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	–	–	**31,328,018**	**31,328,018**
Other financial assets	31 December 2016	–	**97,275**	–	**97,275**
Liabilities whose fair value is 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**

(thousands of tenge)

22. Fair value measurement (continued)

		Fair value measurement with the use of			
2015	*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					
Available-for-sale investment securities	31 December 2015	1,687,205	–	–	1,687,205
Property and equipment – land and buildings	24 December 2015	–	1,068,854	–	1,068,854
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2015	18,394,506	–	–	18,394,506
Amounts due from other banks	31 December 2015	–	1,025,436	–	1,025,436
Receivables under reverse repurchase agreements	31 December 2015	–	2,003,830	–	2,003,830
Loans to customers	31 December 2015	–	–	30,792,691	30,792,691
Other financial assets	31 December 2015	–	87,908	–	87,908
Liabilities whose fair value is disclosed					
Amounts due to other banks	31 December 2015	–	8,632,469	–	8,632,469
Amounts due to customers	31 December 2015	–	27,881,935	–	27,881,935
Other financial liabilities	31 December 2015	–	49,118	–	49,118

There were no movements between the levels of the fair value hierarchy during 2016 and 2015.

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.

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.

(thousands of tenge)

22. Fair value measurement (continued)

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

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

	2016			*2015*		
	Carrying amount	*Fair value*	*Unrecogni-sed loss*	*Carrying amount*	*Fair value*	*Unrecogni-sed loss*
Financial assets						
Cash and cash equivalents	**12,363,387**	**12,363,387**	–	18,394,506	18,394,506	–
Amounts due from other banks	–	–	–	1,025,436	1,025,436	–
Receivables under reverse repurchase agreements	**10,006,026**	**10,006,026**	–	2,003,830	2,003,830	–
Loans to customers	**31,410,326**	**31,328,018**	**(82,308)**	31,179,587	30,792,691	(386,896)
Other financial assets	**97,275**	**97,275**	–	87,908	87,908	–
Financial liabilities						
Amounts due to other banks	**12,608,492**	**12,608,492**	–	8,632,469	8,632,469	–
Amounts due to customers	**21,281,501**	**21,412,831**	**(131,330)**	27,782,180	27,881,935	(99,755)
Other financial liabilities	**26,209**	**26,209**	–	49,118	49,118	–
Total unrecognised change in unrealized fair value			**(213,638)**			(486,651)

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.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that 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.

(thousands of tenge)

23. Offsetting of financial instruments (continued)

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

At 31 December 2016	*Gross amount of recognized financial assets*	*Gross amount of 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)**

At 31 December 2015	*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	2,003,830	–	2,003,830	(2,107,720)	(103,890)
	2,003,830	–	2,003,830	(2,107,720)	(103,890)

24. Maturity analysis of assets and liabilities

The table below shows the expected maturity profile of assets and liabilities as at 31 December 2016 and 2015. See *Note 21 "Risk management"* for the Bank's contractual undiscounted repayment obligations.

	2016			*2015*		
	Less than 12 months	*Over 12 months*	*Total*	*Less than 12 months*	*Over 12 months*	*Total*
Assets						
Cash and cash equivalents	**12,363,387**	–	**12,363,387**	18,394,506	–	18,394,506
Amounts due from other banks	–	–	–	1,025,436	–	1,025,436
Receivables under reverse repurchase agreements	**10,006,026**	–	**10,006,026**	2,003,830	–	2,003,830
Available-for-sale investment securities	–	–	–	1,687,205	–	1,687,205
Loans to customers	**5,516,055**	**25,894,271**	**31,410,326**	6,044,240	25,135,347	31,179,587
Property and equipment	–	**1,269,548**	**1,269,548**	–	1,232,020	1,232,020
Intangible assets	–	**116,485**	**116,485**	–	141,950	141,950
Other assets	**2,386,057**	**10,488**	**2,396,545**	2,034,641	7,001	2,041,642
Total assets	**30,271,525**	**27,290,792**	**57,562,317**	31,189,858	26,516,318	57,706,176
Liabilities						
Amounts due to other banks	**12,608,492**	–	**12,608,492**	8,632,469	–	8,632,469
Amounts due to customers	**21,281,501**	–	**21,281,501**	27,782,180	–	27,782,180
Current corporate income tax liabilities	**31,906**	–	**31,906**	–	–	–
Deferred corporate income tax liabilities	–	**229,173**	**229,173**	–	233,775	233,775
Other liabilities	**64,739**	**15,654**	**80,393**	75,759	–	75,759
Total liabilities	**33,986,638**	**244,827**	**34,231,465**	36,490,408	233,775	36,724,183
Net position	**(3,715,113)**	**27,045,965**	**23,330,852**	(5,300,550)	26,282,543	20,981,993

(thousands of tenge)

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 2016 and 2015, as well as the respective amounts of income and expenses for the years than ended are as follows:

	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**

	2015			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*
Assets				
Cash and cash equivalents	8,248	–	–	8,248
Amounts due from other banks	–	–	1,025,436	1,025,436
Loans to customers	–	44,099	–	44,099
Liabilities				
Amounts due to other banks	8,631,969	–	–	8,631,969
Amounts due to customers	–	9,577	–	9,577

The income and expense items on transactions with related parties for the years ended 31 December 2016 and 2015 were as follows:

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

	2015			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*
Interest income	–	10,154	5,041	15,195
Interest expense	(265,691)	–	–	(265,691)

Information regarding the terms of attraction of funds from the Controlling shareholder is disclosed in *Note 12 "Amounts due to other banks"*. As at 31 December 2016, loans to the key management personnel have interest rates of 8-17% per annum (as at 31 December 2015: 8-10% per annum) with maturity in 2018-2026 (as at 31 December 2015: in 2016-2024).

(thousands of tenge)

25. Related party transactions (continued)

Below is the information about remuneration to 11 members of key management personnel for 2016 and 2015:

	2016	*2015*
Salaries and other short-term benefits	**127,041**	95,401
Social security contributions	**12,403**	9,084
Total	**139,444**	104,485

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 2016 and 2015 the Bank had complied in full with all its externally imposed capital requirements.
The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. 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 charter capital) of a legal entity and subordinated debt of a legal entity if their total exceeds 10% of the total of tier 1 and tier 2 capital of the Bank.

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2016 and 2015:

	2016	*2015*
Tier 1 capital	**23,242,765**	20,866,392
Tier 2 capital	**–**	–
Total statutory capital	**23,242,765**	20,866,392
Risk weighted assets, commitments and contingencies, possible claims and liabilities	**42,804,606**	48,698,274
Capital adequacy ratio k1 (minimum 5.0%)	**54%**	43%
Capital adequacy ratio k1-2 (minimum 6.0%)	**54%**	43%
Capital adequacy ratio k2 (minimum 7.5%)	**54%**	43%