Eurasian Bank JSC

Consolidated Financial Statements

for the year ended

31 December 2017

Contents

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
050051 Алматы, Достық д-лы 180,
Тел./факс 8 (727) 298-08-98, 298-07-08

KPMG Audit LLC
050051 Almaty, 180 Dostyk Avenue,
E-mail: company@kpmg.kz

Independent Auditors' Report

To the Board of Directors of Eurasian Bank Joint Stock Company

Opinion

We have audited the consolidated financial statements of Eurasian Bank Joint Stock Company and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans to customers	
Please refer to the Notes 3(g)(i) and 16 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The impairment of loans to customers is estimated by management through the application of judgement and use of highly subjective assumptions. Due to the significance of loans to customers (representing 63% of total assets) and the related estimation uncertainty, this is considered a key audit matter. We paid particular attention to the assumptions and methodology used for the calculation of the impairment allowance for loans to customers with individual signs of impairment. A part of the loans to corporate customers was issued to related parties as described in Note 35, and the Group's shareholders have assumed certain obligations to repay these loans. We also focused on the methodology used to calculate the impairment allowance on collective basis for loans to customers without individual signs of impairment. The impairment on all loans to individuals is collectively assessed, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting, the market value of any collateral provided and the estimated time and cost to sell any collateral repossessed by the Group.	Our audit procedures included evaluating and testing the Group's key controls over the assessment of loan impairment, including controls over the approval, recording and monitoring of loans to customers, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments and determining the adequacy of impairment allowances for individually assessed loans to customers through forecast recoverable cash flows, including the realisation of collateral. We analysed the Group's key inputs and assumptions for both collective and individual impairment allowances for corporate loans. As part of this, we critically assessed the Group's revisions to estimates and assumptions in respect of historical loss rates, collateral valuation, discount rates and current economic factors and considered the sensitivity of these inputs on the assessment of impairment. For the retail loans portfolio we challenged the appropriateness of the key assumptions used for collective impairment against our understanding of the Group. This involved recalculation of provisioning rates based on the Group's actual historic experience. For a sample of exposures that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the consolidated financial statements, we specifically challenged the Group's assumptions on the expected future cash flows, including the value of realisable collateral based on our own understanding and available market information. Our testing of loans to individuals assessed collectively included re-performance of the model calculations and validation of the data inputs in the model in order to assess the accuracy of calculation of the impairment allowance. The assumptions inherent in the model were critically assessed against our understanding of the Group, its recent performance and industry developments. These actual rates were compared to those assumed by the Group to assess the reasonableness of the rates used in the collective impairment assessment. The assumptions for valuation and expected costs to sell collateral, were also assessed by comparing them to recent actual results and other market data.

Impairment of loans to customers, continued	
Please refer to the Notes 3(g)(i) and 16 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
	We also assessed whether the consolidated financial statement disclosures appropriately reflect the Group's exposure to: credit risk, credit quality of loan portfolio and sensitivity of impairment allowance to changes in key assumptions.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group for 2017 but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report of the Group for 2017 is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Ravshan Irmatov
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. MФ-0000053 of 6 January 2012

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Assel Khairova
General Director of KPMG Audit LLC
acting on the basis of the Charter

15 June 2018

	Note	2017 KZT'000	2016 KZT'000
Interest income	4	95,178,606	96,543,085
Interest expense	4	(61,204,279)	(62,308,326)
Net interest income	4	**33,974,327**	**34,234,759**
Fee and commission income	5	18,991,593	10,981,636
Fee and commission expense		(1,943,765)	(1,148,111)
Net fee and commission income		**17,047,828**	**9,833,525**
Net loss on financial instruments at fair value through profit or loss	6	(18,435,979)	(5,087,713)
Net foreign exchange gain	7	4,117,549	6,929,558
Net loss on available-for-sale financial assets		-	(259,483)
Gain from sale of mortgage and consumer loans		53,834	177,676
Gain from recognition of discount on subordinated debt securities issued	24	106,961,607	-
Other operating (expenses)/income, net		(1,086,494)	1,532,863
Operating income		**142,632,672**	**47,361,185**
Impairment losses	8	(112,283,578)	(14,803,398)
Personnel expense	9	(17,985,886)	(17,074,534)
Other general administrative expenses	10	(14,024,785)	(15,322,848)
(Loss)/profit before income tax		**(1,661,577)**	**160,405**
Income tax (expense)/benefit	11	(2,192,745)	238,245
(Loss)/profit for the year		**(3,854,322)**	**398,650**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(120,061)	(177,999)
- Net change in fair value transferred to profit or loss		-	259,483
Foreign currency exchange differences on translation		516,954	1,406,858
Total items that are or may be reclassified subsequently to profit or loss		_396,893_	1,488,342
Total other comprehensive income for the year		**396,893**	**1,488,342**
Total comprehensive (loss)/income for the year		**(3,457,429)**	**1,886,992**
(Loss)/earnings per share			
Basic (loss)/earnings per share (KZT)	28	**(193.22)**	**22.70**

The consolidated financial statements as set out on pages 8 to 103 were approved by management on 15 June 2018 and were signed on its behalf by:

Loginov P.V.
Chairman of the Management Board

Kapekova Sh.K.
Chief Accountant

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	2017 KZT'000	2016 KZT'000
ASSETS			
Cash and cash equivalents	12	153,600,744	109,321,719
Financial instruments at fair value through profit or loss	13	87,013	122,282,220
Available-for-sale financial assets	14	50,378,050	2,998,459
Deposits and balances with banks	15	3,642,351	3,740,124
Loans to customers	16	614,437,990	696,449,144
Held-to-maturity investments	17	124,912,385	23,938,716
Current tax asset		1,041,742	3,493,581
Property, plant and equipment and intangible assets	18	22,025,543	25,121,848
Other assets	19	6,915,489	17,927,684
Total assets		**977,041,307**	**1,005,273,495**
LIABILITIES			
Financial instruments at fair value through profit or loss	13	19,334	10,091
Deposits and balances from banks	20	148,838	6,692,476
Amounts payable under repurchase agreements	21	43,744,906	4,906,792
Current accounts and deposits from customers	22	695,254,295	676,500,056
Debt securities issued	23	20,598,790	129,441,161
Subordinated debt securities issued	24	67,955,179	23,748,211
Other borrowed funds	25	37,994,781	55,138,154
Deferred tax liabilities	11	3,769,316	2,309,290
Other liabilities	26	9,781,610	11,295,580
Total liabilities		**879,267,049**	**910,041,811**
EQUITY			
Share capital	27	57,135,194	51,135,191
Share premium		25,632	25,632
Reserve for general banking risks		8,234,923	8,234,923
Dynamic reserve		7,594,546	7,594,546
Revaluation reserves for available-for-sale financial assets		(222,039)	(101,978)
Cumulative foreign currency translation reserve		2,254,448	1,737,494
Retained earnings		22,751,554	26,605,876
Total equity		**97,774,258**	**95,231,684**
Total liabilities and equity		**977,041,307**	**1,005,273,495**
Book value per ordinary share (KZT)	27(c)	**4,450.06**	**4,472.70**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2017 KZT'000	2016 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	83,370,414	76,727,837
Interest payments	(59,754,547)	(60,874,765)
Fee and commission receipts	18,802,911	12,554,964
Fee and commission payments	(1,943,765)	(1,148,111)
Net receipts from financial instruments at fair value through profit or loss	103,768,471	19,800,644
Net receipts from foreign exchange	3,061,628	3,007,332
Other (payments)/receipts	(524,720)	1,201,965
Personnel expenses	(16,770,804)	(18,456,462)
Other general administrative expenses	(9,757,604)	(11,474,293)
(Increase)/decrease in operating assets		
Financial instruments at fair value through profit or loss	650,162	-
Mandatory reserve	29,669	(56,098)
Deposits and balances with banks	97,675	3,574,496
Loans to customers	(18,634,101)	(16,185,196)
Other assets	4,890,523	(9,902,911)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks	(6,519,162)	(254,322)
Amounts payable under repurchase agreements	38,806,496	2,271,791
Current accounts and deposits from customers	22,196,047	25,698,341
Other liabilities	(1,814,075)	4,335,170
Net cash from operating activities before income tax paid	**159,955,218**	**30,820,382**
Income tax refund/(payment)	2,115	(959,054)
Cash flows from operating activities	**159,957,333**	**29,861,328**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(48,760,106)	(28,784,456)
Sale and repayment of available-for-sale financial assets	2,087,159	32,421,016
Purchases of precious metals	(210,302)	-
Sale of precious metals	187,821	-
Purchases of held-to-maturity investments	(2,170,851,608)	(423,874,305)
Redemption of held-to-maturity investments	2,075,762,624	424,686,816
Purchases of property, equipment and intangible assets	(1,647,217)	(3,790,295)
Sales of property and equipment and intangible assets	248,299	783,401
Cash flows (used in)/from investing activities	**(143,183,330)**	**1,442,177**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from debt securities issued	11,231,499	-
Repayment of debt securities issued	(33,600,634)	-
Repurchase of debt securities issued	(87,692,049)	(33,752,882)
Receipts from subordinated debt securities issued	149,966,154	2,000,705
Receipts of other borrowed funds	4,081,976	18,760,272
Repayment of other borrowed funds	(21,069,784)	(7,469,839)
Proceeds from issuance of share capital	6,000,003	15,024,980
Dividends paid	-	(772,000)
Cash flows from/(used) in financing activities	**28,917,165**	**(6,208,764)**
Net increase in cash and cash equivalents	**45,691,168**	**25,094,741**
Effect of changes in exchange rates on cash and cash equivalents	(1,412,143)	(1,874,919)
Cash and cash equivalents at the beginning of the year	109,321,719	86,101,897
Cash and cash equivalents at the end of the year (Note 12)	**153,600,744**	**109,321,719**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

KZT'000	**Share capital**	**Share premium**	**Reserve for general banking risks**	**Dynamic reserve**	**Revaluation reserves for available-for-sale financial assets**	**Cumulative foreign currency translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2016	36,110,211	25,632	8,234,923	7,594,546	(183,462)	330,636	26,979,226	79,091,712
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	398,650	398,650
Other comprehensive income								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for-sale financial assets	-	-	-	-	(177,999)	-	-	(177,999)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	259,483	-	-	259,483
Foreign currency exchange differences on translation	-	-	-	-	-	1,406,858	-	1,406,858
Total items that are or may be reclassified subsequently to profit or loss					*81,484*	*1,406,858*	-	*1,488,342*
Total other comprehensive income	-	-	-	-	81,484	1,406,858	-	1,488,342
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**81,484**	**1,406,858**	**398,650**	**1,886,992**
Transactions with owners recorded directly in equity								
Shares issued (Note 27 (a))	15,024,980	-	-	-	-	-	-	15,024,980
Dividends declared (Note 27 (b))	-	-	-	-	-	-	(772,000)	(772,000)
Balance at 31 December 2016	**51,135,191**	**25,632**	**8,234,923**	**7,594,546**	**(101,978)**	**1,737,494**	**26,605,876**	**95,231,684**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

KZT'000	Share capital	Share premium	Reserve for general banking risks	Dynamic reserve	Revaluation reserves for available-for-sale financial assets	Cumulative foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2017	51,135,191	25,632	8,234,923	7,594,546	(101,978)	1,737,494	26,605,876	95,231,684
Total comprehensive income								
Loss for the year	-	-	-	-	-	-	(3,854,322)	(3,854,322)
Other comprehensive income								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for-sale financial assets	-	-	-	-	(120,061)	-	-	(120,061)
Foreign currency exchange differences on translation	-	-	-	-	-	516,954	-	516,954
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*(120,061)*	*516,954*	-	*396,893*
Total other comprehensive income	-	-	-	-	(120,061)	516,954	-	396,893
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(120,061)**	**516,954**	**(3,854,322)**	**(3,457,429)**
Transactions with owners recorded directly in equity								
Shares issued (Note 27 (a))	6,000,003	-	-	-	-	-	-	6,000,003
Balance at 31 December 2017	**57,135,194**	**25,632**	**8,234,923**	**7,594,546**	**(222,039)**	**2,254,448**	**22,751,554**	**97,774,258**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of Eurasian Bank JSC (the "Bank") and its subsidiaries - Eurasian Bank PJSC, Eurasian Project 1 LLP and Eurasian Project 2 LLP (jointly referred to as the "Group").

The Bank was established in 1994 in the Republic of Kazakhstan as a closed joint-stock company under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint-stock company on 2 September 2003. The Bank operates based on general banking licence No. 237 granted on 28 December 2007. The Bank also holds licences Nos. 0401100623 and 0407100189 for brokerage, dealing and custodian activities. The principal activities of the Bank are deposit taking and customer account maintenance, lending, issuing guarantees, custodian services, cash and settlement operations, operations with securities and foreign exchange.

The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK").

The Bank is a member of the Kazakhstan Deposit Insurance Fund.

As at 31 December 2017, the Group has 16 regional branches (2016: 16) and 119 cash settlement centres (2016: 121) from which it conducts business throughout the Republic of Kazakhstan and Russian Federation.

The registered address of the Bank's head office is 56 Kunayev str., Almaty, Republic of Kazakhstan. The majority of the Bank's assets and liabilities are located on the territory of the Republic of Kazakhstan.

On 1 April 2010 the Bank acquired a subsidiary, Eurasian Bank OJSC (Open Joint Stock Company), located in Moscow, Russian Federation. On 29 January 2015 the subsidiary was renamed to Eurasian Bank PJSC (Public Joint Stock Company).

On 30 December 2015 the Bank acquired a subsidiary, BankPozitiv Kazakhstan JSC, located in Almaty, Republic of Kazakhstan which was renamed to EU Bank (SB of Eurasian Bank JSC) JSC. On 31 December 2015 the sole shareholder of the Bank approved a reorganisation plan, under which EU Bank (SB of Eurasian Bank JSC) JSC was merged with the Bank. On 3 May 2016 the actual merger of EU Bank (SB of Eurasian Bank JSC) JSC with the Bank took place.

On 21 August 2017 the Bank's subsidiaries Eurasian Project 1 LLP and Eurasian Project 2 LLP were registered. The principal activity of these entities is acquisition and management of doubtful and bad assets of the Bank.

(b) Shareholder

As at 31 December 2017 Eurasian Financial Company JSC ("EFC") is the Bank's Parent company, which owns 100.00% of the Bank's shares (2016: EFC owned 100.00% of the Bank's shares).

(c) Business environment

The Group's operations are primarily located on the territory of the Republic of Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of the Republic of Kazakhstan which display characteristics of an emerging market. Legal, tax and regulatory frameworks are being developed and are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Republic of Kazakhstan. The consolidated financial statements reflect the management's assessment of the impact of the Republic of Kazakhstan business environment on the operations and the consolidated financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank and its subsidiaries Eurasian Project 1 LLP and Eurasian Project 2 LLP is the Kazakhstan tenge ("KZT") as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank and its subsidiaries.

The functional currency of the Bank's subsidiary, Eurasian Bank PJSC, is the Russian rouble ("RUB") as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to the subsidiary.

For the purposes of these consolidated financial statements, management elected to use the KZT as the presentation currency.

In translating to the KZT, assets and liabilities of the Bank's subsidiary, Eurasian Bank PJSC, that are included in the consolidated statement of financial position are translated at the foreign exchange rate ruling at the reporting date. All income and expense and equity items are translated at the exchange rates at the dates of the transactions. The resulting exchange difference is recorded in the cumulative translation reserve.

Financial information presented in KZT is rounded to the nearest thousand.

Any conversion of RUB amounts to KZT should not be construed as a representation that RUB amounts have been, could be, or will be in the future, convertible into KZT at the exchange rate shown, or at any other exchange rate.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- estimates of impairment of loans to customers – Note 16;
- estimates of fair value of financial assets and liabilities – Note 36;
- financial instruments at fair value through profit or loss – Note 13;
- estimates of fair value of subordinated debt securities issued – Note 24.

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation

The Group has adopted the following amendments to standards with a date of initial application of 1 January 2017:

- *Disclosure Initiative (Amendments to IAS 7).* IAS 7 *Statement of Cash Flows* has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from consolidated financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from consolidated financing activities. However, the objective could also be achieved in other ways.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by the Group, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(iv) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

3 Significant accounting policies, continued

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation to functional currencies are recognised in profit or loss, except for differences arising on translation of available-for-sale equity instruments, with exception of foreign currency differences arising from impairment of such instruments, in which case foreign currency differences classified as other comprehensive income will be reclassified to profit or loss.

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

	31 December 2017	31 December 2016
KZT/EUR	398.23	352.42
KZT/USD	332.33	333.29

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK, the Central Bank of the Russian Federation (the "CBRF") and other banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(d) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments); or
- upon initial recognition, designated as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iii) Measurement, continued

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on the origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(v) Fair value measurement principles, continued

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net-long position (or paid to transfer the netshort position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between the levels of the fair value hierarchy as of the end of the end of the reporting period during which the change has occurred.

(vi) Gains or losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains or losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged, or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(vii) Derecognition, continued

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in fair value of derivatives are recognised immediately in profit or loss.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(x) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or any counterparty.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

3 Significant accounting policies, continued

(e) Property, plant and equipment, continued

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings	40 to 100 years;
- Computer and banking equipment	5 years;
- Vehicles	7 years;
- Furniture	8 to 10 years;
- Leasehold improvements	5 years.

(f) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

- Trademark	10 years;
- Computer software and other intangibles	7 years.

(g) Impairment of assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (“loans and receivables”). The Group reviews its loans and receivables to assess impairment on a regular basis.

3 Significant accounting policies, continued

(g) Impairment of assets, continued

(i) Financial assets carried at amortised cost, continued

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan or receivable is uncollectible, it is written off against the related allowance for impairment. The Group writes off a loan or receivable balance (and any related allowances for losses) when the Group's management determines that the loans and receivables are uncollectible and when all necessary steps to collect the loans or receivables are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

3 Significant accounting policies, continued

(g) Impairment, continued

(iii) Available-for-sale financial assets, continued

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount.

Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised in the period when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(i) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised, less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

3 Significant accounting policies, continued

(i) Credit related commitments, continued

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except in the following cases:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss;
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

(j) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Taxation

Income tax comprises current and deferred taxes. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

(i) Current income tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- differences related to initial recognition of goodwill not deductible for tax purposes;
- differences related to initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that where the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

3 Significant accounting policies, continued

(k) Taxation, continued

(ii) Deferred tax, continued

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(l) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Accrued discounts and premiums are recognised in gains or losses less losses from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided. The Group acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Group’s contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Group does not participate in the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognised in profit or loss when the Group provides the agency service to the insurance company.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3 Significant accounting policies, continued

(m) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(n) Comparative information

Comparative information is reclassified to conform to changes in presentation in the current year.

Reclassifications in the consolidated financial statements for the previous year

During the preparation of the Group's consolidated financial statements as at 31 December 2017, management made certain reclassifications affecting the corresponding figures to conform to the presentation of consolidated financial statements for the year ended 31 December 2017.

The effects from reclassifications on the corresponding figures may be as follows:

	As previously reported	Effect of reclassifications	As reclassified
Consolidated Statement of Financial Position as at 31 December 2016			
LIABILITIES			
Current accounts and deposits from customers	671,176,251	5,323,805	676,500,056
Other liabilities	16,619,385	(5,323,805)	11,295,580
Consolidated Statement of Cash Flows for the year ended 31 December 2016			
Increase/(decrease) in operating liabilities			
Current accounts and deposits from customers	24,662,313	1,036,028	25,698,341
Other liabilities	5,371,198	(1,036,028)	4,335,170

The above reclassifications do not impact the Group's performance or equity.

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the consolidated financial position and performance of the Group. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation* (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group has not early adopted IFRS 9 in its consolidated financial statements for the year ended 31 December 2017.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(a) IFRS 9 *Financial Instruments, continued*

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on assessments undertaken to date, the estimated adjustment (net of tax) related to impairment requirements on the opening balance of the Group's equity at 1 January 2018 is approximately – 12% – 15% out of equity of the Group.

At the moment the Group is under assessment of possible effect (net of tax) related on classification and measurement requirements differing from impairment requirements.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Group has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Group is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first consolidated financial statements that include the date of initial application.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification and measurement categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(a) IFRS 9 Financial Instruments, continued

(i) Classification - Financial assets, continued

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Group will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(a) IFRS 9 Financial Instruments, continued

(i) Classification - Financial assets, continued

Assessment whether contractual cash flows are solely payments of principal and interest, continued

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI criterion), the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements;
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

- Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.
- Loans and advances to customers and investment securities that are designated as at FVTPL under IAS 39 will in general continue to be measured at FVTPL under IFRS 9.

.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(a) IFRS 9 Financial Instruments, continued

(i) Classification - Financial assets, continued

Impact assessment, continued

- The majority of the equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVTPL under IFRS 9. However, some of these equity investment securities are held for long-term strategic purposes and will be designated as at FVOCI on 1 January 2018.

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'.
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for lease receivables will always be measured at an amount equal to lifetime ECLs.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

The most significant impact on the Group's consolidated financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(a) IFRS 9 Financial Instruments, continued

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts, continued

The Group has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of the increase in loss allowances (before tax) will be approximately 12% - 15% out of equity of the Group. Loss allowances on unsecured products with longer expected lives will be most affected by the new impairment requirements.

Measurement of ECLs

- ECLs are a probability-weighted estimate of credit losses and will be measured as follows: *financial assets that are not credit-impaired and have no significant increase in credit risk at the reporting date*: expected credit risks will be measured by weighting probability of occurrence of 12-month ECL;
- *financial assets that are not credit-impaired but for which a significant increase in credit risk is identified at the reporting date:* expected credit risks will be measured by weighting probability of occurrence of lifetime ECL;
- *financial assets that are credit-impaired at the reporting date:* expected credit losses will be measured for the remaining lending period as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Definition of default

Under IFRS 9, the Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding;
- the contingent liabilities and letters of credit – non-fulfilment of liabilities of a counteragent (principal) on the contractual terms, as a result of which an obligation arises for the Group to make payment under a financial guarantee (to beneficiary).

In assessing whether a borrower is in default, the Group will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(a) IFRS 9 Financial Instruments, continued

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts, continued

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert loan assessment and forward-looking information.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Credit risk grades

The Group will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Group will collect performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Group will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(a) IFRS 9 Financial Instruments, continued

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts, continued

Determining whether credit risk has increased significantly

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- the remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(a) IFRS 9 *Financial Instruments*, continued

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts, continued

Modified financial assets, continued

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD will reflect whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group will evaluate the borrower's payment performance against the modified contractual terms and consider various behavioural indicators.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

PD estimates for debt securities are estimates calculated based on issuer's rating. International rating agencies assign PD for each rating over the life of the instrument.

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail real estate, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD. LGD estimates will be calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in real estate prices. LGD estimates will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(a) IFRS 9 *Financial Instruments*, continued

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts, continued

Inputs into measurement of ECLs, continued

Loss given default (LGD) may be estimated considering special conditions that might be set for debt securities issuance (for example, whether collateral is available, etc.). LGD estimates for debt securities of issuers which are other corporates, will be calculated based on Moody's data on recovery rates depending on rating.

Exposure at default (EAD) represents the expected exposure in the event of a default. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts. For some financial assets, the Group will determine EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type.

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Forward-looking information

Under IFRS 9, the Group will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Group uses expert judgment of Group Market Risk Committee in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, such as the NBRK, the CBRF and Ministry of Economic Development, and selected private sector and academic forecasts.

The Group will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(a) IFRS 9 *Financial Instruments*, continued

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has designated debt securities issued as at FVTPL when it holds related derivatives at FVTPL and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise. On the adoption of IFRS 9, such changes in fair value will be recognised in OCI, although the amount recognised in OCI each year will be variable. The cumulative amount recognised in OCI will be nil if the designated liabilities are repaid at maturity.

(iv) Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Group does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Group expects an immaterial impact from adopting these new requirements.

(v) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:

  - The determination of the business model within which a financial asset is held.

  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(b) IFRS 16 *Leases*

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of office buildings. As at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to KZT 8,030,022 thousand, on an undiscounted basis (see Note 33).

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the Group's finance leases.

(i) Determining whether an arrangement contains a lease

The Group has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of motor vehicles under IFRIC 4. On transition to IFRS 16, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(ii) Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

(b) IFRS 16 *Leases,* continued

(ii) Transition, continued

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

As a lessor the Group is not obliged to make adjustments to leases where the Group acts as a lessor on transition to IFRS 16, except when the Group is an interim lessor under the sublease agreement.

(c) Other standards

Other new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

4 Interest income and expense

	2017 KZT'000	2016 KZT'000
Interest income		
Loans to customers	84,658,671	90,969,282
Held-to-maturity investments	7,379,931	3,077,014
Amounts receivable under reverse repurchase agreements	1,938,622	1,194,958
Available-for-sale financial assets	1,018,008	1,076,086
Cash and cash equivalents	146,437	72,679
Deposits and balances with banks	36,937	153,066
	95,178,606	**96,543,085**
Interest expense		
Current accounts and deposits from customers	(45,277,440)	(44,256,415)
Debt securities issued	(8,618,237)	(12,444,595)
Subordinated debt securities issued	(4,673,263)	(2,219,406)
Other borrowed funds	(2,016,294)	(1,922,632)
Amounts payable under repurchase agreements	(615,463)	(1,265,665)
Deposits and balances from banks	(3,582)	(199,613)
	(61,204,279)	**(62,308,326)**
	33,974,327	**34,234,759**

Included within various line items under interest income for the year ended 31 December 2017 is a total of KZT 12,193,209 thousand (for the year ended 31 December 2016: KZT 6,448,612 thousand) accrued on individually impaired financial assets.

5 Fee and commission income

	2017 KZT'000	2016 KZT'000
Agency services	12,968,390	6,478,993
Payment card maintenance fees	1,816,936	1,147,450
Settlement	1,733,989	1,456,375
Guarantee and letter of credit issuance	1,107,338	615,691
Cash withdrawal	1,050,247	948,474
Cash delivery	41,346	39,039
Custodian services	40,937	44,274
Other	232,410	251,340
	18,991,593	**10,981,636**

The Group provides insurance agent services. The Group offers life insurance policies of different insurance companies at its points of sale of retail loans and is paid an agency fee proportionate to premiums subscribed. Acquisition of a life insurance policy is voluntary and is not a condition to obtain a loan, nor does it affect the interest rate on the loan. Therefore the agent services fee was not considered as part of effective interest rate.

6 Net loss on financial instruments at fair value through profit or loss

	2017 KZT'000	2016 KZT'000
Net unrealised gain on financial instruments at fair value through profit or loss	85,063	5,065,775
Interest expense on currency SWAPs with NBRK	(5,594,921)	(6,778,539)
Net realised loss on financial instruments at fair value through profit or loss	(12,926,121)	(3,374,949)
	(18,435,979)	**(5,087,713)**

7 Net foreign exchange gain

	2017 KZT'000	2016 KZT'000
Dealing operations, net	3,061,628	3,007,332
Translation differences, net	1,055,921	3,922,226
	4,117,549	**6,929,558**

8 Impairment losses

	2017 KZT'000	2016 KZT'000
Loans to customers (Note 16)	103,594,292	13,576,860
Other assets (Note 19)	8,628,341	1,228,259
Contingent liabilities	60,945	(1,721)
	112,283,578	**14,803,398**

9 Personnel expenses

	2017 KZT'000	2016 KZT'000
Wages, salaries, bonuses and related taxes	17,155,315	16,360,138
Other employee costs	830,571	714,396
	17,985,886	**17,074,534**

10 Other general administrative expenses

	2017 KZT'000	2016 KZT'000
Depreciation and amortisation	4,517,722	4,169,821
Communications and information services	2,069,759	2,426,604
Operating lease expense	1,951,375	2,017,295
Security	1,066,338	1,110,941
Taxes other than income tax	981,800	1,019,181
Repairs and maintenance	558,700	640,649
Professional services	477,227	545,989
Advertising and marketing	341,830	1,229,367
Insurance	249,186	170,691
Cash delivery	237,035	228,917
Services of state centre for pension payments	198,804	372,181
Travel expenses	178,422	183,501
Stationery and office supplies	173,373	140,817
Transportation	55,349	53,381
Trainings	18,416	104,423
Representation expenses	1,922	2,825
Loan servicing	1,187	3,531
Other	946,340	902,734
	14,024,785	**15,322,848**

11 Income tax expense/(benefit)

	2017 KZT'000	2016 KZT'000
Current income tax expense/(benefit)		
Current period	46,167	60,120
Underprovided/(overprovided) in prior years	686,552	(285,001)
	732,719	**(224,881)**
Deferred income tax expense/(benefit)		
Origination and reversal of temporary differences	1,460,026	(13,364)
Total income tax expense/(benefit)	**2,192,745**	**(238,245)**

In 2017, the applicable tax rate for current and deferred tax is 20% (2016: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2017 KZT'000	%	2016 KZT'000	%
(Loss)/profit before income tax	**(1,661,577)**	**100.00**	**160,405**	**100.00**
Income tax at the applicable tax rate	(332,315)	20.00	32,081	20.00
Tax-exempt income on securities	-	-	(824,675)	(514.12)
Underprovided/(overprovided) in prior years	686,552	(41.32)	(285,001)	(177.68)
Non-deductible expenses	1,838,508	(110.65)	839,350	523.27
	2,192,745	**(131.97)**	**(238,245)**	**(148.53)**

11 Income tax expense/(benefit), continued

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2017 and 2016.

The deductible temporary differences do not expire under current tax legislation of the Republic of Kazakhstan.

As at 31 December 2017 the Group recognised deferred tax liability in the amount of KZT 21,341,201 thousand related to gain on recognition of discount on subordinated bonds issued (Note 24). Income in the form of recognised discount is not included in taxable income in accordance with Article 84, para. 2, subpara.7 of the Tax Code of the Republic of Kazakhstan.

Movements in temporary differences during the years ended 31 December 2017 and 2016 are presented as follows:

2017 **KZT'000**	**Balance** **1 January 2017**	**Recognised in profit or loss**	**Balance** **31 December 2017**
Loans to customers	(1,542,007)	(20,417)	(1,562,424)
Property, plant and equipment	(1,230,185)	144,695	(1,085,490)
Available-for-sale and held-to-maturity securities	-	2,078,300	2,078,300
Other assets	42,443	(2,720)	39,723
Subordinated debt securities issued	-	(21,341,201)	(21,341,201)
Other liabilities	370,150	(202,739)	167,411
Tax loss carry-forwards	50,309	17,884,056	17,934,365
	(2,309,290)	**(1,460,026)**	**(3,769,316)**

2016 **KZT'000**	**Balance** **1 January 2016**	**Recognised in profit or loss**	**Balance** **31 December 2016**
Loans to customers	(1,601,418)	59,411	(1,542,007)
Property, plant and equipment	(1,140,701)	(89,484)	(1,230,185)
Other assets	91,696	(49,253)	42,443
Other liabilities	327,769	42,381	370,150
Tax loss carry-forwards	-	50,309	50,309
	(2,322,654)	**13,364**	**(2,309,290)**

12 Cash and cash equivalents

	2017 KZT'000	2016 KZT'000
Cash on hand	**32,234,337**	**39,901,795**
Nostro accounts with the NBRK and CBRF	**81,791,214**	**12,563,342**
Nostro accounts with other banks		
- rated from AA- to AA+	13,907,517	14,643,526
- rated from A- to A+	347,323	2,579,203
- rated from BBB- to BBB+	4,106,464	6,258,400
- rated from BB- to BB+	723,002	1,043,833
- rated from B- to B+	31,284	25,402
- not rated	28,561	406,663
Total nostro accounts with other banks	**19,144,151**	**24,957,027**
Term deposits with other banks		
- rated from BBB- to BBB+	577,219	923,301
- rated from BB- to BB+	1,661,946	1,630,302
Total term deposits with other banks	**2,239,165**	**2,553,603**
Amounts receivable under reverse repurchase agreements		
- not rated	18,191,877	29,345,952
Total cash and cash equivalents	**153,600,744**	**109,321,719**

The credit ratings are presented by reference to the ratings of Fitch ratings agency or analogues of similar international ratings agencies.

No cash and cash equivalents are impaired or past due as at 31 December 2017 and 2016.

As at 31 December 2017 the Group has 2 banks (31 December 2016: 2 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2017 is KZT 95,130,138 thousand (31 December 2016: KZT 26,187,442 thousand).

During 2017 and 2016, the Group entered into reverse repurchase agreements with counterparties on the Kazakhstan Stock Exchange and NCC CJSC. The agreements have been secured by the treasury bills of the Ministry of Finance of the Republic of Kazakhstan, discount notes of the NBRK and federal bonds of the Russian Federation (2016: treasury bills of the Ministry of Finance of the Republic of Kazakhstan, discount notes of the NBRK and federal bonds of the Russian Federation). As at 31 December 2017, the fair value of financial assets that serve as collateral under reverse repurchase agreements is KZT 18,359,289 thousand (31 December 2016: KZT 29,926,054 thousand).

Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a total of specified proportions of different groups of banks' liabilities. Second-tier banks are required to comply with these requirements by maintaining average reserve assets (local currency cash and NBRK balances) equal or in excess of the average minimum requirements. As at 31 December 2017 the minimum reserve amounted to KZT 7,683,422 thousand (31 December 2016: KZT 11,886,721 thousand).

13 Financial instruments at fair value through profit or loss

	2017 KZT'000	2016 KZT'000
ASSETS		
Derivative financial instruments		
Foreign currency contracts	87,013	122,282,220
	87,013	**122,282,220**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	19,334	10,091
	19,334	**10,091**

No financial assets at fair value through profit or loss are past due.

Foreign currency contracts

The Group had the following derivative financial instruments as at 31 December 2017 and 2016:

Type of instrument	Notional amount	Maturity	Weighted average contractual exchange rates	Amounts payable by Group	Amounts receivable by Group	Fair value Asset KZT'000	Fair value Liability KZT'000
31 December 2017							
Foreign currency swap	USD 145,000 thousand	3 January 2018	331.73	KZT 48,100,837 thousand	USD 145,000 thousand	87,013	-
Foreign currency swap	USD 60,000 thousand	4 January 2018	332.61	KZT 19,956,838 thousand	USD 60,000 thousand	-	17,038
Foreign currency swap	USD 6,000 thousand	9 January 2018	57.66	RUB 345,975 thousand	USD 6,000 thousand	-	2,296
						87,013	**19,334**

Type of instrument	Notional amount	Maturity	Weighted average contractual exchange rates	Amounts payable by Group	Amounts receivable by Group	Fair value Asset KZT'000	Fair value Liability KZT'000
31 December 2016							
Foreign currency swaps with the NBRK	USD 700,000 thousand	July 2017 - November 2017	181.34	KZT 126,939,500 thousand	USD 700,000 thousand	122,270,066	-
Foreign currency swap	USD 2,000 thousand	9 January 2017	60.70	RUB 121,400 thousand	USD 2,000 thousand	7,378	-
Foreign currency swap	USD 30,000 thousand	5 January 2017	333.43	USD 30,000 thousand	KZT 10,002,950 thousand	4,250	-
Foreign currency swap	USD 5,500 thousand	4 January 2017	333.39	USD 5,500 thousand	KZT 1,833,621 thousand	526	-
Foreign currency swap	EUR 13,000 thousand	9 January 2017	1.06	EUR 13,000 thousand	USD 13,719 thousand	-	9,174
Foreign currency swap	USD 25,000 thousand	4 January 2017	333.25	USD 25,000 thousand	KZT 8,331,333 thousand	-	917
						122,282,220	**10,091**

13 Financial instruments at fair value through profit or loss, continued

At 31 December 2016, the derivative financial instruments include currency swap agreements signed in 2014 with the NBRK, under which the Group delivered KZT 126,939,500 thousand in 2017 in exchange for USD 700,000,000. The Group has prepaid a premium of KZT 7,105,110 thousand, which equates to 3% p.a. in KZT at inception. As at 31 December 2016 the fair value of the swaps amounted to KZT 122,270,066 thousand.

Net loss on swaps with NBRK on financial instruments at fair value through profit or loss of KZT 16,707,566 thousand was recognised in the consolidated statement of profit or loss (2016: KZT 4,718,132 thousand).

The Group's approach to derivative transactions

The Group enters into swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions. A swap involves the exchange by the Group with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Group's exposure to long or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the swap positions would increase or decrease depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Group's investments.

The Group's ability to realise a profit from such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Group. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of the counterparty's insolvency.

14 Available-for-sale financial assets

	2017 KZT'000	2016 KZT'000
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	7	2,017,243
Discount NBRK notes	49,400,326	-
Corporate bonds rated from BBB- to BBB+	977,717	962,037
Equity investments in corporate shares	-	19,179
	50,378,050	**2,998,459**

The credit ratings are presented by reference to the ratings of Fitch ratings agency or analogues of similar international ratings agencies.

As at 31 December 2016, available-for-sale investments stated at cost comprise unquoted equity securities with a carrying value of KZT 19,179 thousand. There is no market for these investments and there have not been any recent transactions that provide reliable evidence of their current fair value.

No treasury notes and bonds are overdue or impaired as at 31 December 2017 and 2016.

15 Deposits and balances with banks

	2017 KZT'000	2016 KZT'000
Mandatory reserve with the CBRF	**108,943**	**138,612**
Term deposits		
- conditional deposit with NBRK	1,357,417	1,619,953
- rated from A- to A+	1,991,726	1,977,048
- rated from B- to B+	400	1,020
- not rated	33,476	3,491
Total term deposits	**3,383,019**	**3,601,512**
Loans to banks		
- rated from B- to B+	150,389	-
Total loans to banks	150,389	-
Total deposits and balances with banks	**3,642,351**	**3,740,124**

The credit ratings are presented by reference to the ratings of Fitch ratings agency or analogues of similar international ratings agencies.

No deposits and balances with banks are overdue or impaired as at 31 December 2017 and 2016.

As at 31 December 2017 conditional deposit with the NBRK consists of funds of KZT 160,651 thousand (31 December 2016: KZT 1,238,355 thousand) received from the Development Bank of Kazakhstan JSC ("DBK") and KZT 1,196,766 thousand (31 December 2016: KZT 381,598 thousand) received from DAMU Entrepreneurship Development Fund JSC ("DAMU") in accordance with the loan agreements with DBK and DAMU. Funds will be distributed as loans to small and medium businesses on preferential terms. These funds may be withdrawn from the conditional deposit only after approval of DBK and DAMU, respectively.

(a) Concentration of deposits and balances with banks

As at 31 December 2017 the Group has no banks (2016: no banks), whose balances exceed 10% of equity.

(b) Mandatory reserve with the CBRF

Under legislation of the Russian Federation, the Group's subsidiary is required to maintain a mandatory reserve. The mandatory reserve is a non-interest bearing deposit calculated in accordance with regulations issued by the CBRF and whose withdrawability is restricted.

16 Loans to customers

	2017 KZT'000	2016 KZT'000
Loans to corporate customers		
Loans to large corporates	354,771,120	418,033,396
Loans to small and medium size companies	22,832,326	32,161,770
Total loans to corporate customers	**377,603,446**	**450,195,166**
Loans to retail customers		
Uncollateralised consumer loans	168,187,784	131,659,527
Car loans	117,283,692	131,546,588
Mortgage loans	18,067,432	20,918,100
Loans for individual entrepreneurship	6,033,500	8,389,867
Loans collateralised by cash	-	8,917
Total loans to retail customers	**309,572,408**	**292,522,999**
Gross loans to customers	**687,175,854**	**742,718,165**
Impairment allowance	(72,737,864)	(46,269,021)
Net loans to customers	**614,437,990**	**696,449,144**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2017 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	17,606,644	28,662,377	46,269,021
Net charge	90,045,341	13,548,951	103,594,292
Write-offs	(68,349,929)	(8,470,747)	(76,820,676)
Effect of changes in exchange rates	(313,407)	8,634	(304,773)
Balance at the end of the year	**38,988,649**	**33,749,215**	**72,737,864**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2016 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	11,133,315	29,444,826	40,578,141
Net charge	8,081,765	5,495,095	13,576,860
Write-offs	(1,667,852)	(6,210,186)	(7,878,038)
Effect of changes in exchange rates	59,416	(67,358)	(7,942)
Balance at the end of the year	**17,606,644**	**28,662,377**	**46,269,021**

16 Loans to customers, continued

The following table provides information by types of loan products as at 31 December 2017:

	Gross amount KZT'000	Impairment allowance KZT'000	Carrying amount KZT'000
Loans to corporate customers			
Loans to large corporates	354,771,120	(37,143,418)	317,627,702
Loans to small and medium size companies	22,832,326	(1,845,231)	20,987,095
Loans to retail customers			
Uncollateralised consumer loans	168,187,784	(21,110,036)	147,077,748
Car loans	117,283,692	(8,676,485)	108,607,207
Mortgage loans	18,067,432	(2,715,283)	15,352,149
Loans for individual entrepreneurship	6,033,500	(1,247,411)	4,786,089
Total loans to customers at the end of the year	**687,175,854**	**(72,737,864)**	**614,437,990**

The following table provides information by types of loan products as at 31 December 2016:

	Gross amount KZT'000	Impairment allowance KZT'000	Carrying amount KZT'000
Loans to corporate customers			
Loans to large corporates	418,033,396	(14,861,692)	403,171,704
Loans to small and medium size companies	32,161,770	(2,744,952)	29,416,818
Loans to retail customers			
Car loans	131,546,588	(6,212,727)	125,333,861
Uncollateralised consumer loans	131,659,527	(18,052,280)	113,607,247
Mortgage loans	20,918,100	(2,319,780)	18,598,320
Loans for individual entrepreneurship	8,389,867	(2,077,590)	6,312,277
Loans collateralised by cash	8,917	-	8,917
Total loans to customers at the end of the year	**742,718,165**	**(46,269,021)**	**696,449,144**

16 Loans to customers, continued

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2017 and 31 December 2016:

	2017 KZT'000	2016 KZT'000
Loans to corporate customers		
Loans to large corporates		
Unimpaired loans:		
Standard loans, not overdue	224,218,307	364,339,572
Overdue loans:		
- overdue 30-89 days	1,018,860	3,186,250
- overdue 90-179 days	184,779	949,007
- overdue 180-360 days	520,214	1,271,932
- overdue more than 360 days	1,143,752	290,358
Total unimpaired loans	227,085,912	370,037,119
Impaired loans:		
- not overdue	56,861,116	10,961,998
- overdue less than 90 days	19,778,205	26,039,746
- overdue more than 90 days and less than 360 days	28,073,156	1,625,183
- overdue more than 360 days	22,972,731	9,369,350
Total impaired loans	127,685,208	47,996,277
Total loans to large corporates	**354,771,120**	**418,033,396**
Impairment allowance on loans to large corporates	(37,143,418)	(14,861,692)
Net loans to large corporates	**317,627,702**	**403,171,704**
Loans to small and medium size companies		
Unimpaired loans:		
Standard loans, not overdue	6,771,352	18,648,104
Overdue loans:		
- overdue 30-89 days	74,790	3,173,637
- overdue 90-179 days	654,059	221,335
- overdue 180-360 days	518,851	37,789
- overdue more than 360 days	1,586,413	1,939,261
Total unimpaired loans	9,605,465	24,020,126
Impaired loans:		
- not overdue	23	351,616
- overdue less than 90 days	354,862	-
- overdue more than 90 days and less than 360 days	8,566,274	1,240,356
- overdue more than 360 days	4,305,702	6,549,672
Total impaired loans	13,226,861	8,141,644
Loans to small and medium size companies	**22,832,326**	**32,161,770**
Impairment allowance on loans to small and medium size companies	(1,845,231)	(2,744,952)
Net loans to small and medium size companies	**20,987,095**	**29,416,818**
Total loans to corporate customers	**377,603,446**	**450,195,166**
Total impairment allowance on loans to corporate customers	(38,988,649)	(17,606,644)
Total net loans to corporate customers	**338,614,797**	**432,588,522**

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	2017 KZT'000	2016 KZT'000
Loans to retail customers		
Car loans		
- not overdue	99,623,431	109,386,158
- overdue less than 30 days	5,630,107	6,552,499
- overdue 30-89 days	1,327,334	1,910,515
- overdue 90-179 days	1,422,523	1,629,185
- overdue 180-360 days	992,281	2,628,688
- overdue more than 360 days	8,288,016	9,439,543
Total car loans	**117,283,692**	**131,546,588**
Impairment allowance on car loans	(8,676,485)	(6,212,727)
Net car loans	**108,607,207**	**125,333,861**
Uncollateralised consumer loans		
- not overdue	133,535,912	95,840,827
- overdue less than 30 days	7,783,053	5,599,440
- overdue 30-89 days	2,384,219	2,139,420
- overdue 90-179 days	3,448,006	1,646,390
- overdue 180-360 days	3,295,137	3,458,258
- overdue more than 360 days	17,741,457	22,975,192
Total uncollateralised consumer loans	**168,187,784**	**131,659,527**
Impairment allowance on uncollateralised consumer loans	(21,110,036)	(18,052,280)
Net uncollateralised consumer loans	**147,077,748**	**113,607,247**
Mortgage loans		
- not overdue	11,424,179	12,844,815
- overdue less than 30 days	656,478	825,356
- overdue 30-89 days	291,225	352,433
- overdue 90-179 days	295,494	548,575
- overdue 180-360 days	247,896	491,766
- overdue more than 360 days	5,152,160	5,855,155
Total mortgage loans	**18,067,432**	**20,918,100**
Impairment allowance on mortgage loans	(2,715,283)	(2,319,780)
Net mortgage loans	**15,352,149**	**18,598,320**
Loans for individual entrepreneurship		
- not overdue	2,763,875	4,064,782
- overdue less than 30 days	116,786	114,774
- overdue 30-89 days	23,099	100,645
- overdue 90-179 days	28,580	16,187
- overdue 180-360 days	226,449	83,086
- overdue more than 360 days	2,874,711	4,010,393
Total loans for individual entrepreneurship	**6,033,500**	**8,389,867**
Impairment allowance on loans for individual entrepreneurship	(1,247,411)	(2,077,590)
Net loans for individual entrepreneurship	**4,786,089**	**6,312,277**
Loans collateralised by cash		
- not overdue	-	8,917
Total loans collateralised by cash	**-**	**8,917**
Net loans collateralised by cash	**-**	**8,917**
Total loans to retail customers	**309,572,408**	**292,522,999**
Total impairment allowance on loans to retail customers	(33,749,215)	(28,662,377)
Total net loans to retail customers	**275,823,193**	**263,860,622**
Total loans to customers	**687,175,854**	**742,718,165**
Total impairment allowance on loans to customers	(72,737,864)	(46,269,021)
Total net loans to customers	**614,437,990**	**696,449,144**

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

16 Loans to customers, continued

(b) Key assumptions and judgments for estimating the loan impairment, continued

(i) Loans to corporate customers, continued

- historical annual loss rates of 0.34-1.29% p.a.;
- a discount of between 15% and 50% to the originally appraised value if the property pledged is sold;
- a delay of 36 months in obtaining proceeds from the sale of foreclosed collateral.

Change in theses estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2017 would be KZT 3,386,148 thousand lower/higher (31 December 2016: KZT 4,325,885 thousand lower/higher).

(ii) Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each types of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- migration rates are constant and can be estimated based on historic loss migration pattern for the past 2-6 years;
- recovery rates for uncollateralised loans are estimated based on historical cash recovery rates for the past 2-6 years, adjusted for more recent recovery experience based on ‘payment request orders’ (“PTP”), which are sent to other banks in Kazakhstan to request payments in case of the existence of current accounts or deposits of the Group’s borrowers in those banks. The PTP programme was launched in May 2013 and collections continued to grow through 2016-2017. Management believes that the Group will continue to be able to maintain collections from PTP based on the 2016-2017 pattern. If the Group did not take into account the effect of the PTP programme, the impairment allowance on loans to retail customers as at 31 December 2017 would be KZT 3,175,853 thousand lower (31 December 2016: KZT 5,406,687 thousand higher);
- a discount of between 15% and 50% to the annualy appraised value if the property pledged is sold;
- a delay of 36 months in obtaining proceeds from the foreclosure of collateral, there are no significant legal impediments for foreclosure of cars pledged as collateral that could extend realisation period beyond expected time;
- the cars will either be foreclosed without significant damages or the damages will be reimbursed by insurance companies and the sales will be done at market prices prevailing at the reporting date less reasonable handling expenses and liquidity discounts; when assessing the realisation value of cars, the effect of devaluation of Kazakhstani tenge is taken into account.

Change in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 December 2017 would be KZT 8,274,696 thousand lower/higher (31 December 2016: KZT 7,915,819 thousand lower/higher).

(c) Analysis of collateral

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests corporate borrowers to provide it.

16 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2017 KZT'000	**Carrying amount of loans to customers***	**Fair value of collateral: for collateral assessed as at reporting date**	**Fair value of collateral: for collateral assessed as at loan inception date**	**Fair value of collateral not determined**
Unimpaired loans				
Real estate	92,897,571	92,897,571	-	-
Corporate guarantees (unrated) and guarantees of individuals	32,160,572	-	-	32,160,572
Equipment	14,271,955	14,266,992	4,963	-
Construction-in-progress	13,888,613	-	-	13,888,613
Insurance	9,807,695	-	-	9,807,695
Motor vehicles	6,998,925	6,938,472	60,453	-
Subsoil use rights	5,663,031	5,663,031	-	-
Cash and deposits	2,468,666	2,468,666	-	-
Goods in turnover	179,224	149,684	29,540	-
Other collateral	3,929,792	-	-	3,929,792
No collateral or other credit enhancement	51,381,978	-	-	51,381,978
Total unimpaired loans	**233,648,022**	**122,384,416**	**94,956**	**111,168,650**
Impaired loans				
Real estate	37,467,295	37,363,975	103,320	-
Corporate guarantees (unrated) and guarantees of individuals	16,538,424	-	-	16,538,424
Insurance	15,550,261	-	-	15,550,261
Motor vehicles	15,382,062	4,826,320	10,555,742	-
Cash and deposits	7,962,087	7,962,087	-	-
Equipment	1,592,038	1,592,038	-	-
Goods in turnover	675,917	-	675,917	-
Construction-in-progress	154,193	-	-	154,193
Subsoil use rights	15,802	15,802	-	-
Other collateral	1,026,088	-	-	1,026,088
No collateral or other credit enhancement	8,602,608	-	-	8,602,608
Total impaired loans	**104,966,775**	**51,760,222**	**11,334,979**	**41,871,574**
Total loans to corporate customers	**338,614,797**	**174,144,638**	**11,429,935**	**153,040,224**

*In preparation of this disclosure the Group considered those collaterals, which were in the process of execution as at the reporting date and were accepted before the date of approval of the consolidated financial statements.

16 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

31 December 2016 KZT'000	**Carrying amount of loans to customers**	**Fair value of collateral: for collateral assessed as at reporting date**	**Fair value of collateral: for collateral assessed as at loan inception date**	**Fair value of collateral not determined**
Unimpaired loans				
Real estate	113,310,087	112,096,008	1,214,079	-
Insurance	57,611,522	-	-	57,611,522
Future contract revenues	44,129,102	-	-	44,129,102
Equipment	28,520,127	28,515,159	4,968	-
Corporate guarantees (unrated) and guarantees of individuals	27,602,856	-	-	27,602,856
Motor vehicles	17,807,778	17,790,821	16,957	-
Subsoil use rights	7,583,869	7,583,869	-	-
Construction-in-progress	1,484,617	-	-	1,484,617
Cash and deposits	1,057,776	1,057,776	-	-
Goods in turnover	649,188	649,188	-	-
Other collateral	7,573,404	-	-	7,573,404
No collateral or other credit enhancement	83,673,672	-	-	83,673,672
Total unimpaired loans	**391,003,998**	**167,692,821**	**1,236,004**	**222,075,173**
Impaired loans				
Future contract revenues	16,745,897	-	-	16,745,897
Real estate	10,221,069	10,221,069	-	-
Construction-in-progress	5,837,375	-	-	5,837,375
Corporate guarantees (unrated) and guarantees of individuals	3,748,750	-	-	3,748,750
Equipment	1,072,114	1,072,114	-	-
Motor vehicles	571,670	571,670	-	-
Goods in turnover	133,397	133,397	-	-
Cash and deposits	21,905	21,905	-	-
Other collateral	162,083	-	-	162,083
No collateral or other credit enhancement	3,070,264	-	-	3,070,264
Total impaired loans	**41,584,524**	**12,020,155**	**-**	**29,564,369**
Total loans to corporate customers	**432,588,522**	**179,712,976**	**1,236,004**	**251,639,542**

The tables above exclude overcollateralization.

Collateral in the form of future contract revenues is not sufficient and can not be used in calculation of provisions. As at 31 December 2017 no loans to corporate customers arecollateralised by future contract revenues (31 December 2016: KZT 60,874,999 thousand).

16 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

The Group has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of small and medium-sized borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

Factors leading to changes in judgements and estimates

During the year ended 31 December 2017 the Group experienced a deterioration in the credit quality of the loan portfolio caused by decreasing debt servicing capacity of borrowers and a growing number of corporate defaults. In addition to impairment losses caused by increase of non-performing loans the Group recognised additional impairment losses as a result of the revision of certain key assumptions relating to impairment estimates.

The revised assumptions were applied both on a loan by loan and portfolio basis and the revisions to assumptions arose due to the following conditions:

- lengths of economic data available for analysis increased to give more insight into behaviour of distressed borrowers (e.g. effectiveness of loan restructures, length of post default collection period etc.);
- market value of collaterals at current economic factors tend to experience volatility as timely realisation requires substantial price reduction; correspondingly, collateral valuation by independent appraisal reports were considered by application of essential adjustments on market indexes;
- assessment of financial models on impaired borrowers demonstrated significant uncertainty on forecasted cash flows from operating activities that increases repayment risks.

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Loans for individual entrepreneurship are secured by real estate and movable property. Car loans are secured by the underlying cars. Cash loans are collateralised by cash. Uncollateralised consumer loans are not secured.

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of KZT 3,642,643 thousand (31 December 2016: KZT 6,370,082 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 1,199,538 thousand (31 December 2016: KZT 1,940,024 thousand).

For mortgage loans with a net carrying amount of KZT 11,709,506 thousand (31 December 2016: KZT 12,228,238 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

16 Loans to customers, continued

(c) Analysis of collateral, continued

(ii) Loans to retail customers, continued

Mortgage loans, continued

The Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral for individual loans once a half-year in case there are indications of impairment.

For mortgage loans with a net carrying amount of KZT 7,375,973 thousand (31 December 2016: KZT 8,326,396 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Car loans

Management estimates that the impairment allowance for secured car loans would have been higher by KZT 2,212,000 thousand (31 December 2016: KZT 3,253,475 thousand) for car loans without any collateral.

Loans for individual entrepreneurship

Included in loans for individual entrepreneurship are loans with a net carrying amount of KZT 672,505 thousand (31 December 2016: KZT 739,160 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 268,083 thousand (31 December 2016: KZT 358,679 thousand).

For loans for individual entrepreneurship with a net carrying amount of KZT 4,113,584 thousand (31 December 2016: KZT 5,573,117 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral for individual loans once a half-year in case there are indications of impairment.

For loans for individual entrepreneurship with a net carrying amount of KZT 302,251 thousand (31 December 2016: KZT 906,611 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

16 Loans to customers, continued

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan, except for loans to customers issued by the Russian subsidiary bank, who operate in the following economic sectors:

	2017 KZT'000	2016 KZT'000
Loans to corporate customers		
Wholesale trade	101,540,077	142,717,740
Construction	66,841,544	66,357,799
Manufacturing	43,522,980	24,129,117
Mining/metallurgy	36,451,324	36,099,701
Retail trade	23,062,488	31,752,363
Services	19,842,999	10,656,055
Real estate	19,207,283	1,749,449
Financial intermediary	18,842,714	1,408,200
Textile manufacturing	18,050,752	17,388,650
Agriculture, forestry and timber industry	18,032,145	46,955,141
Foods production	5,744,500	11,797,260
Electrical power generation and supply	1,676,173	109,004
Machinery manufacturing	1,659,437	1,571,523
Transport	990,119	32,726,327
Medical and social care	841,785	1,078,750
Research activities	450,851	4,471,500
Lease, rental and leasing	51,765	11,947,753
Publishing	-	286,756
Entertainment	-	31,567
Other	794,510	6,960,511
Loans to retail customers		
Uncollateralised consumer loans	168,187,784	131,659,527
Car loans	117,283,692	131,546,588
Mortgage loans	18,067,432	20,918,100
Loans for individual entrepreneurship	6,033,500	8,389,867
Loans collateralised by cash	-	8,917
	687,175,854	**742,718,165**
Impairment allowance	(72,737,864)	(46,269,021)
	614,437,990	**696,449,144**

As at 31 December 2017 the Group has 15 borrowers or groups of connected borrowers (31 December 2016: 18), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2017 is KZT 228,812,657 thousand (31 December 2016: KZT 258,824,907 thousand).

(e) Loan maturities

The maturity of the loan portfolio is presented in Note 30(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

16 Loans to customers, continued

(f) Transfers of financial assets

During 2017, the Group sold to third party a portfolio of impaired consumer loans with a carrying value of KZT 667,124 thousand (2016: KZT 5,856,232 thousand) for KZT 667,124 thousand (2016: KZT 5,856,232 thousand) under cession agreements.

In December 2013 and in June 2014, the Group sold to an another third party a portfolio of mortgage loans with a carrying value of KZT 3,820,407 thousand for KZT 3,969,928 thousand and provided a guarantee to the buyer that it will repurchase individual loans back or exchange them for other individual loans if loans become delinquent for more than sixty days. The amount that will be repurchased or exchanged is limited to 20% of transferred financial assets at the date of sale. Net gain recognised in the consolidated statement of profit or loss and other comprehensive income at the date of transfer amounted to KZT 149,521 thousand. The Group has determined that it has transferred some but not substantially all of the risks and rewards to the transferee, accordingly the Group retains control and continues to recognise the loans to the extent of its continuing involvement in that mortgage loans.

As at 31 December 2017 the Group's continuing involvement with such transferred portfolio is recorded in the consolidated statement of financial position in other assets (Note 19) of KZT 1,824,637 thousand (31 December 2016: KZT 2,179,719 thousand) with corresponding liability on continuing involvement included in other liabilities of KZT 1,113,686 thousand (31 December 2016: KZT 1,373,575 thousand) (Note 26) and the guarantee with the fair value of KZT 169,186 thousand (31 December 2016: KZT 179,729 thousand) recognised in other liabilities. This asset includes also an interest strip receivable of KZT 1,129,888 thousand (31 December 2016: KZT 1,255,539 thousand) which represents the right to withhold from the loan buyer a portion of interest receivable on mortgage loan portfolio sold. The Group has a right to receive 1.7% p.a. of the mortgage loan portfolio sold on a monthly basis.

17 Held-to-maturity investments

	2017 KZT'000	2016 KZT'000
Held by the Group		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	4,052,124	18,668,207
Discount NBRK notes	71,946,327	-
Russian Government Federal bonds	-	274,167
Corporate bonds rated BBB	-	50,270
Corporate bonds rated from BB- to BB+	4,901,390	4,946,072
	80,899,841	**23,938,716**
Pledged under repurchase agreements		
Russian Government Federal bonds	295,332	-
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	12,633,978	-
Discount NBRK notes	31,083,234	-
	44,012,544	**-**
	124,912,385	**23,938,716**

The credit ratings are presented by reference to the ratings of Fitch ratings agency or analogues of similar international ratings agencies.

No discount NBRK notes or bonds are overdue or impaired as at 31 December 2017 and 2016.

18 Property, plant and equipment and intangible assets

KZT'000	Land and buildings	Computers and banking equipment	Vehicles	Office furniture	Construction in progress and equipment to be installed	Leasehold improvements	Trademark	Computer software and other intangibles	Total
Cost									
Balance at 1 January 2017	11,933,130	15,072,873	774,229	846,335	14,132	918,034	1,075,716	13,352,152	43,986,601
Additions	10,600	337,284	-	9,953	-	10,501	-	1,254,691	1,623,029
Disposals	(87,761)	(1,008,578)	(40,107)	(26,014)	(7,934)	(153,405)	-	(108,510)	(1,432,309)
Effect of foreign currency translation	-	8,210	764	1,106	-	-	-	13,427	23,507
Balance at 31 December 2017	**11,855,969**	**14,409,789**	**734,886**	**831,380**	**6,198**	**775,130**	**1,075,716**	**14,511,760**	**44,200,828**
Depreciation and amortisation									
Balance at 1 January 2017	(1,843,733)	(9,461,667)	(467,093)	(415,503)	-	(577,714)	(558,805)	(5,540,238)	(18,864,753)
Depreciation and amortisation for the year	(152,212)	(1,788,848)	(89,867)	(83,938)	-	(146,848)	(103,411)	(2,152,598)	(4,517,722)
Disposals	12,162	999,434	31,787	24,756	-	153,405	-	198	1,221,742
Effect of foreign currency translation	-	(4,806)	(697)	(632)	-	-	-	(8,417)	(14,552)
Balance at 31 December 2017	**(1,983,783)**	**(10,255,887)**	**(525,870)**	**(475,317)**	**-**	**(571,157)**	**(662,216)**	**(7,701,055)**	**(22,175,285)**
Carrying amount									
At 31 December 2017	**9,872,186**	**4,153,902**	**209,016**	**356,063**	**6,198**	**203,973**	**413,500**	**6,810,705**	**22,025,543**

18 Property, plant and equipment and intangible assets, continued

KZT'000	Land and buildings	Computers and banking equipment	Vehicles	Office furniture	Construction in progress and equipment to be installed	Leasehold improvements	Trademark	Computer software and other intangibles	Total
Cost									
Balance at 1 January 2016	11,641,961	14,285,256	821,130	934,511	268,144	920,737	1,075,716	10,854,013	40,801,468
Additions	358,407	1,038,761	-	-	887	13,113	-	2,507,937	3,919,105
Disposals	(67,238)	(268,345)	(48,744)	(90,792)	(254,899)	(15,816)	-	(35,670)	(781,504)
Effect of foreign currency translation	-	17,201	1,843	2,616	-	-	-	25,872	47,532
Balance at 31 December 2016	**11,933,130**	**15,072,873**	**774,229**	**846,335**	**14,132**	**918,034**	**1,075,716**	**13,352,152**	**43,986,601**
Depreciation and amortisation									
Balance at 1 January 2016	(1,712,135)	(7,762,398)	(400,353)	(343,473)	-	(450,124)	(455,396)	(3,923,936)	(15,047,815)
Depreciation and amortisation for the year	(147,448)	(1,952,203)	(98,844)	(88,758)	-	(143,406)	(103,409)	(1,635,753)	(4,169,821)
Disposals	15,850	260,596	33,317	17,502	-	15,816	-	35,670	378,751
Effect of foreign currency translation	-	(7,662)	(1,213)	(774)	-	-	-	(16,219)	(25,868)
Balance at 31 December 2016	**(1,843,733)**	**(9,461,667)**	**(467,093)**	**(415,503)**	**-**	**(577,714)**	**(558,805)**	**(5,540,238)**	**(18,864,753)**
Carrying amount									
At 31 December 2016	**10,089,397**	**5,611,206**	**307,136**	**430,832**	**14,132**	**340,320**	**516,911**	**7,811,914**	**25,121,848**

There are no capitalised borrowing costs related to the acquisition or construction of property, plant and equipment during 2017 and 2016.

19 Other assets

	2017 KZT'000	2016 KZT'000
Debtors on loan operations	7,109,542	8,833,361
Asset from continuing involvement in transferred assets (Note 16 (f))	1,824,637	2,179,719
Plastic cards settlements	916,771	4,166,065
Fee and commission income accrued	576,279	387,597
Other	2,240,952	1,503,464
Impairment allowance	(7,702,283)	(1,857,680)
Total other financial assets	**4,965,898**	**15,212,526**
Materials and supplies	770,829	591,121
Prepayments	531,470	1,257,865
Taxes prepaid other than income tax	447,943	681,034
Advances for capital expenditures	169,256	180,392
Precious metals	29,456	-
Other	12,633	14,379
Impairment allowance	(11,996)	(9,633)
Total other non-financial assets	**1,949,591**	**2,715,158**
Total other assets	**6,915,489**	**17,927,684**

Debtors on loan operations primarily comprise amounts receivable on assignment of claims on loans issued of KZT 6,296,505 thousand (31 December 2016: KZT 7,904,079 thousand). As at 31 December 2017 the Group recognised a provision to the full amount of said claims.

Asset from continuing involvement in transferred assets in the amount KZT 1,824,637 thousand (31 December 2016: KZT 2,179,719 thousand) arose as a result of loans sales to a mortgage company in June 2014 and December 2013.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the years ended 31 December are as follows:

	2017 KZT'000	2016 KZT'000
Balance at the beginning of the year	1,867,313	658,595
Net charge	8,628,341	1,228,259
Write-offs	(2,823,416)	(14,957)
Effect of foreign currency translation	42,041	(4,584)
Balance at the end of the year	**7,714,279**	**1,867,313**

As at 31 December 2017, included in other assets are overdue receivables of KZT 78,182 thousand (31 December 2016: KZT 55,442 thousand) of which KZT 6,420 thousand are overdue for more than 90 days but less than one year (31 December 2016: KZT 22,244 thousand) and KZT 65,514 thousand are overdue for more than one year (31 December 2016: KZT 19,709 thousand).

20 Deposits and balances from banks

	2017 KZT'000	2016 KZT'000
Term deposits	33,233	3,929,099
Vostro accounts	115,605	2,763,377
	148,838	**6,692,476**

21 Amounts payable under repurchase agreements

Securities pledged

As at 31 December 2017, the amounts payable under repurchase agreements are KZT 43,744,906 thousand (31 December 2016: KZT 4,906,792 thousand). Fair value of assets transferred as sequrity under repurchase agreements is KZT 42,385,806 thousand (31 December 2016: KZT 5,232,532 thousand (without initial recognition)).

As at 31 December 2017, the Group has pledged certain securities as collateral under repurchase agreements (31 December 2016: nil) (Note 17).

22 Current accounts and deposits from customers

	2017 KZT'000	2016 KZT'000
Current accounts and demand deposits		
- Retail	31,397,609	27,340,273
- Corporate	105,468,056	74,894,159
Term deposits		
- Retail	335,241,891	278,940,982
- Corporate	223,146,739	295,324,642
	695,254,295	**676,500,056**

As at 31 December 2017, the Group maintains customer deposit balances of KZT 4,861,748 thousand (31 December 2016: KZT 3,701,598 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 31 December 2017, the Group has 5 customers (31 December 2016: 10 customers), whose balances exceed 10% of equity. These balances as at 31 December 2017 are KZT 160,308,213 thousand (31 December 2016: KZT 194,726,581 thousand).

In 2017, the Bank changed its judgement used for classification of prepayments for loans, which resulted in reclassification of prepayments for loans out of “other liabilities” to “current accounts and deposits from retail customers“.

As at 31 December 2017, the Group‘s current accounts and demand deposits from retail customers of KZT 5,011,528 thousand (31 December 2016: KZT 5,323,805 thousand) are prepayments for loans. Prepayments for loans comprise payments made by retail borrowers ahead of schedule. These payments are settled against the loan balance at the date the instalments fall due.

23 Debt securities issued

	2017 KZT'000	2016 KZT'000
Par value	21,839,619	129,361,616
Discount	(1,673,018)	(1,683,936)
Accrued interest	432,189	1,763,481
	20,598,790	**129,441,161**

23 Debt securities issued, continued

A summary of bond issues at 31 December 2017 and 2016 is presented below:

	Issue registration date	Date of repayment	Coupon rate	Effective rate	Carrying amount 2017 KZT'000	Carrying amount 2016 KZT'000
Bonds of the fifteenth issue	13-Mar-15	14-May-20	8.50%	13.16%	11,257,860	-
Bonds of the fifth issue	09-Jul-08	1-Sep-23	Inflation +1%	9.96%	7,841,686	7,903,222
Bonds of the seventh issue	24-Sep-08	21-Jan-19	Inflation +1%	13.19%	1,499,244	1,469,977
USD denominated Eurobonds	6-Nov-14	6-Nov-17	7.50%	8.58%	-	120,067,962
					20,598,790	**129,441,161**

In 2017, the Group redeemed and repaid debt securities issued of par value of KZT 119,438,405 thousand.

24 Subordinated debt securities issued

	2017 KZT'000	2016 KZT'000
Par value	177,464,550	27,464,550
Discount	(110,576,988)	(4,236,822)
Accrued interest	1,067,617	520,483
	67,955,179	**23,748,211**

As at 31 December 2017 and 2016, subordinated debt securities issued comprise unsecured obligations of the Group. In case of bankruptcy, the repayment of the subordinated debt securities would be made after repayment in full of all other liabilities of the Group.

A summary of subordinated debt securities issues at 31 December 2017 and 2016 is presented below:

	Issue registration date	Date of repayment	Coupon rate	Effective rate	Carrying amount 2017 KZT'000	Carrying amount 2016 KZT'000
Bonds of the seventeenth issue	27-Sep-17	18-Oct-32	4.00%	18.00%	43,960,483	-
Bonds of the eighth issue	15-Oct-08	15-Oct-23	Inflation +1%	13.67%	11,984,456	11,837,039
Bonds of the eleventh issue	20-Nov-12	26-Dec-19	8.00%	8.64%	9,889,526	9,838,980
Bonds of the thirteenth issue	26-Nov-13	10-Jan-24	9.00%	13.81%	2,120,714	2,072,192
					67,955,179	**23,748,211**

Embedded derivatives represented by inflation-indexed coupon payments are considered to be closely related to the host debt instruments as the inflation index is commonly used for this purpose in the KZT economic environment and it is not leveraged.

Participation in the Program of Strengthening Financial Stability of Banking Sector in the Republic of Kazakhstan

By the Resolution of the NBRK No. 183 dated 27 September 2017, the Bank was approved to participate in the Program of Strengthening Financial Stability of Banking Sector in the Republic of Kazakhstan (the "Programme").

24 Subordinated debt securities issued, continued

According to the terms of the Programme, the Bank received cash funds from the NBRK's subsidiary, Joint Stock Company "Kazakhstan Sustainability Fund", by virtue of issue of the Bank's registered coupon subordinated bonds ("Bonds") convertible to the Bank's ordinary shares according to the terms of the Bond Issue Prospectus.

The Group is subject to restrictions (covenants) in its activities valid for 5 years from the Bonds' issue date, breach of any of each will result in exercising by the Bonds' holders of their right of Bonds being converted to the Bank's ordinary shares:

- The Bank undertakes to comply with capital adequacy ratios set by the authorised body for the second-tier banks of the Republic of Kazakhstan;

- The Bank undertakes not to commit action intended to withdraw the Bank's assets; at that, summary of activities to be considered the withdrawal of assets is set out in the Bond Issue Prospectus.

As part of its participation in the Programme, on 18 October 2017 the Bank placed the Bonds at JSC "Kazakhstan Stock Exchange" for the amount of KZT 150,000,000 thousand; Bonds bear a coupon rate of 4.00 % p.a. and mature in 15 years. The result of discounting Bonds using market interest rate of 18.00%, which was recognised within income in consolidated statement of profit and loss upon Bonds initial recognition, amounted to KZT 106,961,607 thousand.

25 Other borrowed funds

	2017 KZT'000	2016 KZT'000
Loans from state financial institutions	33,273,201	49,971,447
Loans from the Ministry of Finance of the Republic of Kazakhstan	1,043,318	1,213,942
Loans from foreign banks	3,678,262	3,952,765
	37,994,781	**55,138,154**

As at 31 December 2017, the terms and conditions of the loans outstanding are as follows:

	Currency	Average interest rate	Year of maturity	Carrying value, KZT'000
DAMU Entrepreneurship Development Fund JSC	KZT	1.10-8.50%	2018-2035	15,593,134
Development Bank of Kazakhstan JSC	KZT	1.00-2.00%	2034-2035	10,165,414
KazAgro National Management Holding JSC	KZT	3.00%	2020-2021	7,474,597
Foreign banks	USD	5.58-5.81%	2018	3,678,262
Ministry of Finance of the Republic of Kazakhstan	KZT	NBRK refinancing rate	2023	609,059
Ministry of Finance of the Republic of Kazakhstan	USD	Libor +1%	2023	434,259
Agrarian Credit Corporation JSC	KZT	10.00%	2019	40,056
				37,994,781

25 Other borrowed funds, continued

As at 31 December 2016, the terms and conditions of the loans outstanding are as follows:

	Currency	Average interest rate	Year of maturity	Carrying value, KZT'000
Development Bank of Kazakhstan JSC	KZT	1.00-8.75%	2017-2035	22,151,719
DAMU Entrepreneurship Development Fund JSC	KZT	1.10-8.50%	2017-2035	16,713,772
KazAgro National Management Holding JSC	KZT	3.00%	2020-2021	10,095,956
Foreign banks	USD	4.96-5.37%	2017	3,952,765
Agrarian Credit Corporation JSC	KZT	10.00%	2019	1,010,000
Ministry of Finance of the Republic of Kazakhstan	KZT	NBRK refinancing rate	2023	706,238
Ministry of Finance of the Republic of Kazakhstan	USD	Libor +1%	2023	507,704
				55,138,154

Borrowed funds from the KazAgro National Management Holding JSC ("KazAgro") were received in accordance with the rules of its programme on financial recovery of companies operating in the agriculture industry. Borrowed funds from Agrarian Credit Corporation JSC ("ACC JSC") were received under lending programme to the agriculture industry entities. Borrowed funds from DAMU and DBK were received in accordance with the Government program ("the Program") to finance large corporates, small and medium enterprises ("SME") operating in certain industries.

According to the loan agreements between KazAgro and the Group, the Group is responsible to extend loans to companies operating in the agriculture industry to support their financial recovery. According to the loan agreements between ACC JSC and the Group, the Group is responsible to extend loans to companies operating in the agriculture industry for purchase of large-horned animal stock.

According to DAMU and DBK loan agreements, the Group is responsible to extend loans to large corporates and SME borrowers, eligible to participate in the Program, with maximum maturity up to 10 years at 6% interest rate. Management of the Group believes that due to their specific nature, the loans from KazAgro, ACC JSC, DAMU and DBK represent a separate segment of borrowings from state companies to support companies operating in certain industries. As a result, the loans from KazAgro, ACC JSC, DAMU and DBK are regarded as having been received on an "arm's length" basis and, as such, the amount received under the loans represents the fair value of the loans on initial recognition.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities			
KZT'000	**Other borrowed funds**	**Subordinated debt securities issued**	**Debt securities issued**	**Total**
Balance at 1 January 2017	55,138,154	23,748,211	129,441,161	208,327,526
Changes from financing activities cash flows				
Proceeds from other borrowed funds	4,081,976	-	-	4,081,976
Repayment of other borrowed funds	(21,069,784)	-	-	(21,069,784)
Proceeds from subordinated debt securities issued	-	149,966,154	-	149,966,154
Proceeds from debt securities issued	-	-	11,231,499	11,231,499
Repayment and repurchase of debt securities	-	-	(121,292,683)	(121,292,683)
Total changes from financing activities cash flows	**(16,987,808)**	**149,966,154**	**(110,061,184)**	**22,917,162**
Effect of movement in exchange rates	29,300	-	(113,774)	(84,474)
Gain from recognition of discount on subordinated debt securities issued	-	(106,961,607)	-	(106,961,607)
Other changes				
Interest expense	2,016,294	4,673,263	8,618,237	15,307,794
Interest paid	(2,201,159)	(3,470,842)	(7,285,650)	(12,957,651)
Balance at 31 December 2017	**37,994,781**	**67,955,179**	**20,598,790**	**126,548,750**

26 Other liabilities

	2017 KZT'000	2016 KZT'000
Payables to borrowers on lending operations	1,919,673	1,896,593
Liability from continuing involvement (Note 16 (f))	1,113,686	1,373,575
Assignment of rights of claim payable	915,295	838,595
Consulting services fee payable	685,400	-
Borrowers' subsidies payable	610,807	-
Accrued administrative expenses	391,217	486,318
Payables to insurance company	311,749	302,180
Plastic cards settlements	51,341	3,681,874
Capital expenditures payable	-	35,323
Other financial liabilities	1,730,907	1,188,744
Total other financial liabilities	**7,730,075**	**9,803,202**
Deferred income	982,353	524,986
Vacation reserve	447,039	270,431
Payables to employees	400,301	111,947
Other taxes payable	215,579	549,576
Other non-financial liabilities	6,263	35,438
Total other non-financial liabilities	**2,051,535**	**1,492,378**
Total other liabilities	**9,781,610**	**11,295,580**

27 Share capital

(a) Issued capital and share premium

The authorised share capital comprises 2,034,807,500 ordinary shares (31 December 2016: 33,000,000 ordinary shares) and 3,000,000 non-redeemable cumulative preference shares (2016: 3,000,000 preference shares).

During 2017, 918,471 ordinary shares were issued and paid at the nominal value of KZT 6,532.60 per share (2016: 2,300,000 ordinary shares were issued and paid at the nominal value of KZT 6,532.60 per share).

Issued and outstanding share capital as at 31 December comprised the following fully paid ordinary shares:

	2017 Shares	2016 Shares
Issued at KZT 955.98	8,368,300	8,368,300
Issued at KZT 1,523.90	2,631,500	2,631,500
Issued at KZT 1,092.00	2,930,452	2,930,452
Issued at KZT 6,532.60	6,417,823	5,499,352
Total issued and outstanding shares	**20,348,075**	**19,429,604**

As at 31 December 2017, charter capital of the Bank amounted to KZT 57,135,194 thousand (31 December 2016: KZT 51,135,191 thousand). In 2017, the Bank received one cash contribution of KZT 6,000,003 thousand to the Bank's share capital (2016: one cash contribution of KZT 15,024,980 thousand).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general Bank's shareholders meetings.

27 Share capital, continued

(b) Dividends

In accordance with Kazakhstan legislation and the Bank's charter documents, distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan.

During the year ended 31 December 2017, no dividends were declared or paid (2016: dividends of KZT 772,000 thousand or KZT 45.07 per share were declared and paid).

(c) Book value per share

Under the listing rules of the Kazakhstan Stock Exchange the Group should present book value per ordinary share in its consolidated financial statements.

The book value per ordinary share is calculated dividing net assets less intangible assets by number of outstanding ordinary shares. As at 31 December 2017 the book value per share was KZT 4,450.06 (31 December 2016: KZT 4,472.70).

(d) Nature and purpose of reserves

Reserves for general banking risks

Until 2013, in accordance with amendments to the Resolution No. 196 "On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks" issued by the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA") introduced on 31 January 2011 (that became invalid in 2013), the Bank had to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve.

During the reporting periods ended 31 December 2017 and 31 December 2016, no transfers to general reserve were made by the Bank to cover general banking risks.

In accordance with the amendments to the Resolution No. 358 "On approval of the Instruction of normative coefficients and methods of calculation of prudential norms for the second tier banks" issued on 25 December 2013 the statutory reserve capital is non-distributable.

Dynamic reserve

In accordance with Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 "On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss", the Bank has established a dynamic reserve calculated using a formula determined in the Rules. In accordance with the Rules, dynamic reserve cannot be less than zero and shall be calculated as the difference between expected losses and actual charge on deductible for tax purposes impairment losses recognised during the reporting quarter in accordance with IFRS net of income from recovery of provisions. Expected losses are estimated based on the increase of loans to customers during the reporting quarter multiplied by certain coefficients. The Resolution has been effective from 1 January 2013.

As at 31 December 2017 the non-distributable dynamic reserve of the Group is KZT 7,594,546 thousand (31 December 2016: KZT 7,594,546 thousand). In 2018, the dynamic reserve was cancelled in accordance with the law of the Republic of Kazakhstan No.122-VI dated 25 December 2017.

28 (Loss)/earnings per share

The calculation of (loss)/earnings per share is based on the net (loss)/profit, and a weighted average number of ordinary shares outstanding during the period, as mentioned below. The Group has no potential dilutive ordinary shares.

	2017 KZT'000	2016 KZT'000
Net (loss)/profit	(3,854,322)	398,650
Weighted average number of ordinary shares	19,947,974	17,563,211
Basic (loss)/earnings per share (KZT)	**(193.22)**	**22.70**

(a) Basic (loss)/earnings per share

The calculation of basic loss or earnings per share as at 31 December 2017 is based on the loss attributable to ordinary shareholders of KZT 3,854,322 thousand (31 December 2016: earnings of KZT 398,650 thousand), and a weighted average number of ordinary shares outstanding of 19,947,974 (31 December 2016 : 17,563,211 shares) calculated as follows.

	2017 KZT'000	2016 KZT'000
Net (loss)/profit	(3,854,322)	398,650
Net (loss)/profit attributable to ordinary shareholders	**(3,854,322)**	**398,650**

	2017 KZT'000	2016 KZT'000
Issued ordinary shares as at the beginning of the year	19,429,604	17,129,604
Effect of shares issued during the year	518,370	433,607
Weighted average number of ordinary shares for the year ended 31 December	**19,947,974**	**17,563,211**

29 Analysis by segment

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chief operating decision maker, the Chairman of the Management Board, reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments.

- Corporate banking – includes loans, deposits and other transactions with corporate customers;
- Retail banking – includes loans, deposits and other transactions with retail customers;
- Assets and Liabilities management – includes maintaining of liquid assets portfolio (cash, nostro accounts with the NBRK, and other banks, interbank financing (up to 1 month), investments into liquid assets and bonds issue management);
- Small and medium size companies banking - includes loans, deposits and other transactions with small and medium size companies;
- Treasury – includes Group financing via interbank borrowings and using derivatives for hedging market risks and investments into liquid securities (corporate bonds).

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit after income tax as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

29 Analysis by segment, continued

	2017 KZT'000	2016 KZT'000
ASSETS		
Corporate banking	320,711,913	378,448,609
Retail banking	270,390,734	261,452,482
Assets and liabilities management	267,240,736	101,114,838
Small and medium size companies banking	25,659,171	34,511,320
Treasury	50,460,700	2,848,484
Unallocated assets	43,957,733	218,090,141
Total assets	**978,420,987**	**996,465,874**
LIABILITIES		
Corporate banking	302,219,116	315,157,962
Retail banking	355,325,272	293,246,889
Assets and liabilities management	129,323,423	159,341,288
Small and medium size companies banking	56,579,714	50,245,404
Treasury	19,334	-
Unallocated liabilities	31,100,611	84,287,236
Total liabilities	**874,567,470**	**902,278,779**

Reconciliations of reportable segment total assets and total liabilities:

	2017 KZT'000	2016 KZT'000
Total assets for reportable segments	978,420,987	996,465,874
Consolidation effect	8,415,469	12,921,953
Gross presentation of foreign currency swaps	-	(42,042)
Other adjustments	(9,795,149)	(4,072,290)
Total assets	**977,041,307**	**1,005,273,495**

	2017 KZT'000	2016 KZT'000
Total liabilities for reportable segments	874,567,470	902,278,779
Consolidation effect	7,935,776	11,290,364
Gross presentation of foreign currency swaps	-	(42,042)
Other adjustments	(3,236,197)	(3,485,290)
Total liabilities	**879,267,049**	**910,041,811**

29 Analysis by segment, continued

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

KZT'000	Corporate banking	Small and medium size companies banking	Retail banking	Treasury	Assets and liabilities management	Unallocated assets and liabilities	Total
Interest income	31,007,561	3,074,520	43,383,828	73,465	9,609,000	20,175	87,168,549
Fee and commission income	1,827,626	1,662,986	25,768,944	-	-	498,413	29,757,969
Gain on recognition of discount on subordinated debt securities issued	93,314,387	-	13,647,220	-	-	-	106,961,607
Other income	431,137	235,253	1,246,646	-	-	-	1,913,036
Funds transfer pricing	28,397,783	4,091,579	33,160,084	-	18,418,087	78,438	84,145,971
Revenue	**154,978,494**	**9,064,338**	**117,206,722**	**73,465**	**28,027,087**	**597,026**	**309,947,132**
Interest expense	(19,216,803)	(1,837,166)	(24,102,036)	-	(19,693,325)	-	(64,849,330)
Fee and commission expense	(837,219)	(76,861)	(5,416,008)	(105,138)	(21,268)	(126,144)	(6,582,638)
Net (loss)/gain on securities, dealing and translation differences	736,494	366,653	905,800	(10,864,272)	(309)	-	(8,855,634)
Impairment losses	(87,371,244)	(910,694)	(12,777,978)	-	(2,200)	(10,423)	(101,072,539)
Funds transfer pricing	(27,519,812)	(2,088,622)	(39,009,235)	(1,229,098)	(14,166,112)	(133,092)	(84,145,971)
Operational costs (direct)	(739,391)	(1,217,095)	(11,472,680)	(180,147)	(592,756)	(229,253)	(14,431,322)
Operational costs (indirect)	(2,712,714)	(1,851,670)	(16,645,376)	(137)	(93,503)	(355,913)	(21,659,313)
Corporate income tax	(359,555)	(83,358)	(549,671)	(307)	(2,981,895)	(2,119)	(3,976,905)
Segment result	**16,958,250**	**1,365,525**	**8,139,538**	**(12,305,634)**	**(9,524,281)**	**(259,918)**	**4,373,480**
Other segment items							
Additions of property and equipment	-	-	225,345	-	-	1,397,684	**1,623,029**
Depreciation and amortization	(366,472)	(415,463)	(3,343,152)	(8,750)	(79,037)	(304,848)	**(4,517,722)**

29 Analysis by segment, continued

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

KZT'000	Corporate banking	Small and medium size companies banking	Retail banking	Treasury	Assets and liabilities management	Unallocated assets and liabilities	Total
Interest income	31,372,694	4,333,831	44,136,935	134,949	4,850,817	3,672	84,832,898
Fee and commission income	1,611,153	1,440,849	20,575,956	-	284,233	344,258	24,256,449
Net gain/(loss) on securities, dealing and translation differences	652,860	461,774	1,206,466	6,284,634	(2,620)	-	8,603,114
Other income	3,416,517	715,502	2,217,745	-	-	-	6,349,764
Funds transfer pricing	34,323,706	5,266,403	26,261,200	-	19,151,071	224,441	85,226,821
Revenue	**71,376,930**	**12,218,359**	**94,398,302**	**6,419,583**	**24,283,501**	**572,371**	**209,269,046**
Interest expense	(23,787,339)	(2,766,680)	(16,863,068)	-	(23,143,205)	-	(66,560,292)
Fee and commission expense	(244,177)	(61,664)	(8,638,093)	(11,094)	(15,847)	(100,069)	(9,070,944)
Impairment losses	(2,044,188)	(194,665)	(8,677,974)	-	-	-	(10,916,827)
Funds transfer pricing	(25,300,796)	(2,827,724)	(39,996,405)	(808,992)	(16,134,959)	(157,945)	(85,226,821)
Operational costs (direct)	(2,266,920)	(1,251,024)	(11,926,132)	38,657	(799,734)	(184,720)	(16,389,873)
Operational costs (indirect)	(2,539,644)	(1,531,995)	(14,538,425)	-	(44,794)	(249,087)	(18,903,945)
Corporate income tax	(22,086)	(4,996)	(14,943)	(6,793)	(319)	(269)	(49,406)
Segment result	**15,171,780**	**3,579,611**	**(6,256,738)**	**5,631,361**	**(15,855,357)**	**(119,719)**	**2,150,938**
Other segment items							
Additions of property and equipment	-	-	161,728	-	-	3,757,377	**3,919,105**
Depreciation and amortization	(440,735)	(355,124)	(2,999,324)	(9,263)	(75,638)	(289,737)	**(4,169,821)**

29 Analysis by segment, continued

Reconciliations of reportable segment revenues and profit or loss:

	2017 KZT'000	2016 KZT'000
Reportable segment revenue	309,947,132	209,269,046
Consolidation effect	2,508,744	2,274,624
Funds transfer pricing	(84,145,971)	(85,226,821)
Other adjustments	(3,006,716)	(11,862,570)
Total revenue	**225,303,189**	**114,454,279**

	2017 KZT'000	2016 KZT'000
Reportable segment profit	4,373,480	2,150,938
Difference in impairment losses	(8,327,707)	(2,468,829)
Other adjustments	1,768,755	(676,244)
Consolidation effect	(1,668,850)	1,392,785
Total (loss)/profit	**(3,854,322)**	**398,650**

Consolidation effect: consolidation effect occurs due to the fact that the Chairman reviews internal management reports on a stand-alone basis.

Other adjustments: these adjustments mostly represent netting of other assets and other liabilities, income and expenses. Other adjustments occur due to the fact that the Chairman of the Management Board reviews internal management reports prepared on a gross-up basis whereas for IFRS consolidated financial statements purposes netting is made for certain other assets/liabilities included in unallocated assets/liabilities.

Funds transfer pricing: for the purpose of internal management reporting transfer pricing represents the allocation of income and expense between segments that attract cash resources and to segments that create interest income generating assets using cash resources.

Information about major customers and geographical areas

For the year ended 31 December 2017, there are no revenues from large corporate customers individually exceed 10% of total revenue (31 December 2016: none).

The majority of revenues from external customers relate to residents of the Republic of Kazakhstan. The majority of non-current assets are located in the Republic of Kazakhstan.

30 Risk management

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk, liquidity risk and operational risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing risk management policies and procedures as well as approving significantly large exposures. This approval has been initially carried out on behalf of the Board of Directors by its Audit Committee, which comprises three independent non-executive directors. With effect from 1 January 2015, the Board of Directors transferred this responsibility to a newly formed Risk and Internal Controls Committee.

30 Risk management, continued

(a) Risk management policies and procedures, continued

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within established risk parameters. The Chief Risk Officer is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly, through the Risk and Internal Controls Committee to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees, Market Risk and Liquidity Management Committee (MRLMC). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees, depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, Risk Management Block monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return, received for the risk assumed.

MRLMC headed by the member of the Group's Management Board shall be responsible for management of the market risk and liquidity. MRLMC performs review of the market risk limits based on recommendations of the Risk Management Block and submits thereof to the Management Board and Board of Directors for approval.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board and Board of Directors.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of the interest rate risk by monitoring the interest rate gap, is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios.

The Group also utilises Value-at-Risk ("VaR") methodology to monitor market risk of its trading positions.

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its consolidated financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position as at 31 December 2017 and 2016 for major financial instruments is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2017							
ASSETS							
Cash and cash equivalents	36,016,288	-	-	-	-	117,584,456	153,600,744
Financial instruments at fair value through profit or loss	87,013	-		-	-	-	87,013
Available-for-sale financial assets	17,833	-	49,400,334	959,883	-	-	50,378,050
Deposits and balances with banks	-	150,389	-	-	-	3,491,962	3,642,351
Loans to customers	132,486,837	63,293,098	120,512,890	281,065,983	16,409,415	669,767	614,437,990
Held-to-maturity investments	437,751	68,867	105,045,819	11,729,752	7,630,196	-	124,912,385
	169,045,722	**63,512,354**	**274,959,043**	**293,755,618**	**24,039,611**	**121,746,185**	**947,058,533**
LIABILITIES							
Financial instruments at fair value through profit or loss	19,334	-	-	-	-	-	19,334
Deposits and balances from banks	-	-	-	-	-	148,838	148,838
Amounts payable under repurchase agreements	43,744,906	-	-	-	-	-	43,744,906
Current accounts and deposits from customers	176,239,873	73,608,674	159,166,896	134,487,848	61,603,765	90,147,239	695,254,295
Debt securities issued	1,499,244	133,173	7,841,685	11,124,688	-	-	20,598,790
Subordinated debt securities issued	106,038	8,884	12,684,456	9,880,642	45,275,159	-	67,955,179
Other borrowed funds	5,685,816	1,650,753	2,757,272	10,549,973	17,350,967	-	37,994,781
	227,295,211	**75,401,484**	**182,450,309**	**166,043,151**	**124,229,891**	**90,296,077**	**865,716,123**
	(58,249,489)	**(11,889,130)**	**92,508,734**	**127,712,467**	**(100,190,280)**	**31,450,108**	**81,342,410**

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2016							
ASSETS							
Cash and cash equivalents	48,996,744	-	-	-	-	60,324,975	109,321,719
Financial instruments at fair value through profit or loss	12,154	-	122,270,066	-	-	-	122,282,220
Available-for-sale financial assets	46,583	-	1,988,487	944,210	-	19,179	2,998,459
Deposits and balances with banks	-	-	-	-	-	3,740,124	3,740,124
Loans to customers	126,038,274	60,541,179	178,635,427	304,881,233	25,827,638	525,393	696,449,144
Held-to-maturity investments	193,103	363,692	2,016,292	13,755,908	7,609,721	-	23,938,716
	175,286,858	**60,904,871**	**304,910,272**	**319,581,351**	**33,437,359**	**64,609,671**	**958,730,382**
LIABILITIES							
Financial instruments at fair value through profit or loss	10,091	-	-	-	-	-	10,091
Deposits and balances from banks	-	-	-	-	-	6,692,476	6,692,476
Amounts payable under repurchase agreements	4,906,792	-	-	-	-	-	4,906,792
Current accounts and deposits from customers	133,252,268	50,050,182	161,518,452	125,320,064	64,843,368	141,515,722	676,500,056
Debt securities issued	1,469,977	1,347,564	126,623,620	-	-	-	129,441,161
Subordinated debt securities issued	106,038	8,884	11,837,039	9,830,095	1,966,155	-	23,748,211
Other borrowed funds	2,272,377	1,937,574	16,140,926	15,764,141	19,023,136	-	55,138,154
	142,017,543	**53,344,204**	**316,120,037**	**150,914,300**	**85,832,659**	**148,208,198**	**896,436,941**
	33,269,315	**7,560,667**	**(11,209,765)**	**168,667,051**	**(52,395,300)**	**(83,598,527)**	**62,293,441**

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2017 and 31 December 2016. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2017 Average effective interest rate, %			2016 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	9.27	-	7.42	11.36	-	9.80
Available-for-sale financial assets	8.53	-	-	5.68	-	-
Deposits and balances with banks	-	-	4.50	-	-	-
Loans to customers	19.40	7.75	14.48	19.67	8.12	14.01
Held-to-maturity investments	8.36	5.31	6.20	6.18	5.32	7.40
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	3.72	5.56	-	12.00	-	1.28
Amounts payable under repurchase agreements	9.57	-	7.76	-	-	10.40
Current accounts and deposits from customers						
- Corporate	7.41	1.58	4.99	8.55	3.34	4.09
- Retail	12.40	2.29	3.90	12.39	2.76	6.19
Debt securities issued	11.98	-	-	14.35	8.58	-
Subordinated debt securities issued	15.74	-	-	15.02	-	-
Other borrowed funds						
- Loans from state financial institutions	3.55	-	-	4.87	-	-
- Loans from foreign banks	-	5.61	-	-	5.23	-
- Loans from the Ministry of Finance of the Republic of Kazakhstan	10.25	3.13	-	5.50	2.52	-

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2017 and 2016, is as follows:

	2017		**2016**	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel fall	282,175	282,175	285,536	285,536
100 bp parallel rise	(282,175)	(282,175)	(285,536)	(285,536)

An analysis of sensitivity of net profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2017		**2016**	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel fall	-	381,579	-	36,723
100 bp parallel rise	-	(381,579)	-	(36,723)

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group hedges its exposure to currency risk. The Group manages its foreign currency position through the limits established for each currency and net foreign currency position limits.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2017:

	USD KZT'000	RUB* KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS					
Cash and cash equivalents	98,613,013	12,043,276	8,957,851	348,722	119,962,862
Deposits and balances with banks	1,991,726	259,332	-	-	2,251,058
Loans to customers	134,235,997	9,271,102	2,450,640	-	145,957,739
Held-to-maturity investments	12,596,833	295,332	-	-	12,892,165
Other financial assets	228,948	20,229	31,268	-	280,445
Total assets	**247,666,517**	**21,889,271**	**11,439,759**	**348,722**	**281,344,269**
LIABILITIES					
Deposits and balances from banks	93,566	-	3,609	454	97,629
Amounts payable under repurchase agreements	-	1,462,049	-	-	1,462,049
Current accounts and deposits from customers	322,750,254	9,924,612	11,312,224	216,016	344,203,106
Other borrowed funds	4,112,521	-	-	-	4,112,521
Other financial liabilities	958,104	447,107	98,770	41	1,504,022
Total liabilities	**327,914,445**	**11,833,768**	**11,414,603**	**216,511**	**351,379,327**
Net position as at 31 December 2017	**(80,247,928)**	**10,055,503**	**25,156**	**132,211**	**(70,035,058)**
The effect of derivatives held for risk management	70,121,630	(1,996,276)	-	-	68,125,354
Net position with the effect of derivatives held for risk management as at 31 December 2017	**(10,126,298)**	**8,059,227**	**25,156**	**132,211**	**(1,909,704)**

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2016:

	USD KZT'000	RUB* KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS					
Cash and cash equivalents	42,678,001	15,461,079	6,749,591	233,318	65,121,989
Deposits and balances with banks	1,977,048	138,612	-	-	2,115,660
Loans to customers	201,435,903	7,613,525	9,588,956	-	218,638,384
Held-to-maturity investments	12,671,499	274,167	-	-	12,945,666
Other financial assets	2,091,776	15,181	587,795	-	2,694,752
Total assets	**260,854,227**	**23,502,564**	**16,926,342**	**233,318**	**301,516,451**
LIABILITIES					
Deposits and balances from banks	2,788,261	-	3,000,363	441	5,789,065
Amounts payable under repurchase agreements	-	4,906,792	-	-	4,906,792
Current accounts and deposits from customers	350,533,205	9,800,820	8,828,644	187,217	369,349,886
Debt securities issued	120,067,961	-	-	-	120,067,961
Other borrowed funds	4,460,469	-	-	-	4,460,469
Other financial liabilities	3,784,960	31,292	53,746	303	3,870,301
Total liabilities	**481,634,856**	**14,738,904**	**11,882,753**	**187,961**	**508,444,474**
Net position as at 31 December 2016	**(220,780,629)**	**8,763,660**	**5,043,589**	**45,357**	**(206,928,023)**
The effect of derivatives held for risk management	218,377,821	(659,202)	(4,581,460)	-	213,137,159
Net position with the effect of derivatives held for risk management as at 31 December 2016	**(2,402,808)**	**8,104,458**	**462,129**	**45,357**	**6,209,136**

* A portion of the net RUB position equivalent to KZT 8,553,112 thousand (2016: KZT 8,507,491 thousand) is not subject to direct currency risk exposure as it represents net assets of the subsidiary that are remeasured through cumulative translation reserve.

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2017 and 2016 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis is on a net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

	2017 KZT'000		2016 KZT'000	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
20% appreciation of USD against KZT	(1,706,920)	(1,706,920)	(384,449)	(384,449)
20% appreciation of RUB against KZT	(79,022)	(79,022)	(64,485)	(64,485)
20% appreciation of EUR against KZT	4,025	4,025	73,941	73,941
20% appreciation of other currencies against KZT	21,154	21,154	7,257	7,257

A strengthening of the KZT against the above currencies at 31 December 2017 and 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in a financial instrument.

(iv) Value at Risk estimates

The Group also utilises Value-at-Risk ("VaR") methodology to monitor market risk of its currency positions.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used by the Group is based on a 99% confidence level and assumes a 1-day holding period depending on the type of positions. The VaR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential market price movements are determined with reference to market data from at least the most recent 12 months.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all potential scenarios, particularly those of an extreme nature;
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for an extended period.
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate.
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day;
- the VaR measure is dependent on the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

.

30 Risk management, continued

(b) Market risk, continued

(iv) Value at Risk estimates, continued

The Group does not solely rely on its VaR calculations in its market risk measurement due to inherent risk of usage of VaR as described above. The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

A summary of the VaR estimates in respect of foreign currency risk of the Group at 31 December is as follows:

	2017 KZT'000	2016 KZT'000
Risk of movements in foreign exchange rates	83,758	110,103

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Business Block, which is responsible for the corporate loan portfolio. Than applications are passed on for review to the Credit Analysis Function; analysis reports are based on a structured analysis, focusing on the customer's business and financial performance. The loan credit application and opinions are then independently reviewed by the Credit Risk and Collateral Valuation Function and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee makes decisions based on opinions of the Bank's internal functions. Individual transactions are also reviewed by the Legal, Accounting and Tax functions, depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

30 Risk management, continued

(c) Credit risk, continued

Retail loan credit applications are reviewed through the use of scoring models and application data verification procedures developed by the Retail Business Block together with the Risk Management Block.

Apart from individual customer analysis by the Credit Risk and Collateral Valuation Function, the credit portfolio is assessed also by the Risk Management Block with regard to credit concentration and market risks.

Loan approvals and credit card limits can be cancelled at anytime.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2017 KZT'000	2016 KZT'000
ASSETS		
Cash and cash equivalents	121,366,407	69,419,924
Financial instruments at fair value through profit or loss	87,013	122,282,220
Available-for-sale financial assets	50,378,050	2,979,280
Deposits and balances with banks	3,642,351	3,740,124
Loans to customers	614,437,990	696,449,144
Held-to-maturity investments	124,912,385	23,938,716
Other financial assets	4,965,898	15,212,526
Total maximum exposure	**919,790,094**	**934,021,934**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 16.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 32.

As at 31 December 2017 and 2016 the Group did not have debtors or groups of connected debtors, where credit risk exposure exceeded 10% maximum credit risk exposure.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position, or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

The Group conducts derivative transactions that are not transacted on the exchange through a central counterparty. Management believes that such settlements are, in effect, equivalent to net settlement and that, the Group meets the net settlement criterion as this gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that the Group will process receivables and payables in a single settlement process or cycle.

30 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements; and
- securities lending and borrowing.

Such collateral is subject to the standard industry terms of the International Swaps and Derivatives Association ("ISDA") Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on 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 following table provides information on financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

KZT'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Held-to-maturity investments	44,012,544	-	44,012,544	(43,744,906)	-	267,638
Loans to customers	3,320,219	-	3,320,219	-	(3,320,219)	-
Total financial assets	**47,332,763**	**-**	**47,332,763**	**(43,744,906)**	**(3,320,219)**	**267,638**
Amounts payable under repurchase agreements	43,744,906	-	43,744,906	(43,744,906)	-	-
Current accounts and deposits from customers	(3,320,219)	-	(3,320,219)	-	3,320,219	-
Total financial liabilities	**40,424,687**	**-**	**40,424,687**	**(43,744,906)**	**3,320,219**	**-**

30 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The following table provides information on financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016:

KZT'000				Related amounts not offset in the consolidated statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Loans to customers	1,088,598	-	1,088,598	-	(1,088,598)	-
Total financial assets	**1,088,598**	**-**	**1,088,598**	**-**	**(1,088,598)**	**-**
Current accounts and deposits from customers	(1,088,598)	-	(1,088,598)	-	1,088,598	-
Total financial liabilities	**(1,088,598)**	**-**	**(1,088,598)**	**-**	**1,088,598**	**-**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

The securities pledged under repurchased agreements (Note 17) represent the transferred financial assets that are not derecognised in their entirety. The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. Because the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the agreement.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity management regulation is reviewed and approved by the Management Board.

30 Risk management, continued

(d) Liquidity risk, continued

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity management regulation requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury and Assets and Liabilities Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury and Assets and Liabilities Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, deposits and balances with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by the Treasury and Assets and Liabilities Department and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Risk Management Block. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management regulation are made by the MRLMC and implemented by the Treasury and Assets and Liabilities Department.

30 Risk management, continued

(d) Liquidity risk, continued

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment.

The maturity analysis for financial liabilities as at 31 December 2017 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative financial liabilities							
Deposits and balances from banks	115,605	-	-	-	33,233	148,838	148,838
Amounts payable under repurchase agreements	43,783,178	-	-	-	-	43,783,178	43,744,906
Current accounts and deposits from customers	185,838,822	86,561,489	80,306,069	168,425,449	236,393,693	757,525,522	695,254,295
Debt securities issued	80,261	345,053	521,111	946,425	26,933,741	28,826,591	20,598,790
Subordinated debt securities issued	112,275	-	1,006,269	6,618,544	269,563,868	277,300,956	67,955,179
Other borrowed funds	2,005,980	3,272,534	1,563,441	3,557,730	34,485,158	44,884,843	37,994,781
Other financial liabilities	5,791,559	799,310	7,441	9,914	1,121,851	7,730,075	7,730,075
Derivative financial liabilities							
- Inflow	(21,933,780)	-	-	-	-	(21,933,780)	-
- Outflow	21,953,114	-	-	-	-	21,953,114	19,334
Total liabilities	**237,747,014**	**90,978,386**	**83,404,331**	**179,558,062**	**568,531,544**	**1,160,219,337**	**873,446,198**
Credit related commitments	65,864,374	-	-	-	-	65,864,374	65,864,374

30 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2016 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative financial liabilities							
Deposits and balances from banks	6,661,180	-	-	-	33,329	6,694,509	6,692,476
Amounts payable under repurchase agreements	4,910,970	-	-	-	-	4,910,970	4,906,792
Current accounts and deposits from customers	125,385,993	103,940,282	62,536,451	189,517,866	267,587,327	748,967,919	676,500,056
Debt securities issued	75,883	527,728	4,491,878	124,878,916	16,138,575	146,112,980	129,441,161
Subordinated debt securities issued	112,275	-	1,373,146	1,485,421	42,203,474	45,174,316	23,748,211
Other borrowed funds	1,531,375	1,485,240	12,855,040	5,751,417	43,503,260	65,126,332	55,138,154
Other financial liabilities	6,193,849	2,140,642	57,724	41,443	1,369,544	9,803,202	9,803,202
Derivative liabilities							
- Inflow	(12,903,619)	-	-	-	-	(12,903,619)	-
- Outflow	12,913,710	-	-	-	-	12,913,710	10,091
Total liabilities	**144,881,616**	**108,093,892**	**81,314,239**	**321,675,063**	**370,835,509**	**1,026,800,319**	**906,240,143**
Credit related commitments	69,992,930	-	-	-	-	69,992,930	69,992,930

In accordance with legislation of the Republic of Kazakhstan, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The maturities of the total amount of term deposits are as follows:

- KZT 53,339,712 thousand are categorised to the demand deposits and those, which mature within less than one month;
- KZT 86,539,104 thousand are categorised to deposits, which mature within one to three months;
- KZT 80,058,616 thousand are categorised to deposits, which mature within three to six months;
- KZT 168,125,060 thousand are categorised to deposits, which mature within six to twelve months;
- KZT 230,154,639 thousand are categorised to deposits, which mature within the period of more than one year.

However, management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding.

30 Risk management, continued

(d) Liquidity risk, continued

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2017:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No maturity	Overdue	Total
Non-derivative financial assets								
Cash and cash equivalents	153,600,744	-	-	-	-	-	-	153,600,744
Available-for-sale financial assets	-	17,833	49,400,334	959,883	-	-	-	50,378,050
Deposits and balances with banks	1,400,664	21,113	195,055	317	2,025,202	-	-	3,642,351
Loans to customers	34,773,231	51,366,250	181,616,917	275,346,885	22,276,637	-	49,058,070	614,437,990
Held-to-maturity investments	142,422	295,332	105,114,683	11,729,752	7,630,196	-	-	124,912,385
Current tax asset	1,041,742	-	-	-	-	-	-	1,041,742
Property, equipment and intangible assets	-	-	-	-	-	22,025,543	-	22,025,543
Other assets	3,069,264	855,313	160,333	133,961	1,842,179	770,829	83,610	6,915,489
Total assets	**194,028,067**	**52,555,841**	**336,487,322**	**288,170,798**	**33,774,214**	**22,796,372**	**49,141,680**	**976,954,294**
Non-derivative financial liabilities								
Deposits and balances from banks	115,605	-	-	-	33,233	-	-	148,838
Amounts payable under repurchase agreements	43,744,906	-	-	-	-	-	-	43,744,906
Current accounts and deposits from customers	182,826,743	81,754,130	233,096,623	135,968,645	61,608,154	-	-	695,254,295
Debt securities issued	70,898	228,118	133,173	12,553,034	7,613,567	-	-	20,598,790
Subordinated debt securities issued	106,038	-	961,580	9,880,642	57,006,919	-	-	67,955,179
Other borrowed funds	2,005,980	3,078,652	4,147,781	11,239,114	17,523,254	-	-	37,994,781
Deferred tax liabilities	-	-	-	-	-	3,769,316	-	3,769,316
Other liabilities	6,883,512	799,448	962,234	28,225	1,108,191	-	-	9,781,610
Total liabilities	235,753,682	85,860,348	239,301,391	169,669,660	144,893,318	3,769,316	-	879,247,715
Net position	**(41,725,615)**	**(33,304,507)**	**97,185,931**	**118,501,138**	**(111,119,104)**	**19,027,056**	**49,141,680**	**97,706,579**

30 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2016:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No maturity	Overdue	Total
Non-derivative financial assets								
Cash and cash equivalents	109,321,719	-	-	-	-	-	-	109,321,719
Available-for-sale financial assets	-	46,583	1,988,487	944,210	-	19,179	-	2,998,459
Deposits and balances with banks	1,647,835	3,790	81,818	26,142	1,980,539	-	-	3,740,124
Loans to customers	38,521,430	45,240,629	239,446,327	303,646,933	24,104,534	-	45,489,291	696,449,144
Held-to-maturity investments	142,834	50,270	2,379,983	13,755,908	7,609,721	-	-	23,938,716
Current tax asset	3,493,581	-	-	-	-	-	-	3,493,581
Property, equipment and intangible assets	-	-	-	-	-	25,121,848	-	25,121,848
Other assets	7,076,633	1,090,851	5,038,825	1,821,955	2,254,046	589,932	55,442	17,927,684
Total assets	**160,204,032**	**46,432,123**	**248,935,440**	**320,195,148**	**35,948,840**	**25,730,959**	**45,544,733**	**882,991,275**
Non-derivative financial liabilities								
Deposits and balances from banks	6,659,147	-	-	-	33,329	-	-	6,692,476
Amounts payable under repurchase agreements	4,906,792	-	-	-	-	-	-	4,906,792
Current accounts and deposits from customers	122,108,138	98,093,418	234,239,433	157,200,765	64,858,302	-	-	676,500,056
Debt securities issued	67,031	348,887	120,067,962	1,402,946	7,554,335	-	-	129,441,161
Subordinated debt securities issued	106,038	-	414,445	9,830,095	13,397,633	-	-	23,748,211
Other borrowed funds	1,570,995	1,116,562	16,628,357	16,454,115	19,368,125	-	-	55,138,154
Deferred tax liabilities	-	-	-	-	-	2,309,290	-	2,309,290
Other liabilities	6,659,224	2,687,076	575,129	3,870	1,370,281	-	-	11,295,580
Total liabilities	142,077,365	102,245,943	371,925,326	184,891,791	106,582,005	2,309,290	-	910,031,720
Net position	**18,126,667**	**(55,813,820)**	**(122,989,886)**	**135,303,357**	**(70,633,165)**	**23,421,669**	**45,544,733**	**(27,040,445)**

30 Risk management, continued

(d) Liquidity risk, continued

Management believes that the following factors provide decrease in the liquidity gap up to 1 year:

- Management's analysis of behaviour of holders of term deposits during the past three years indicates that offering of competitive interest rates provides for high level of renewals.
- The balance of customer accounts and deposits from related parties, which is due up to 1 year, is KZT 49,102,134 thousand as at 31 December 2017. Management believes that the term deposits will be extended when they fall due and withdrawals of significant customer accounts, if required, will be coordinated with the Group's liquidity management objectives.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

31 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defined as capital those items defined by statutory regulation as capital for credit institutions.

Tier 1 capital is a total of basic and additional capital. Basic capital comprises paid-in ordinary share capital, share premium, current and prior periods' retained earnings and reserves created thereof, less treasury share capital, intangible assets including goodwill, and current and prior periods losses, deferred tax asset net of deferred tax liability, excluding deferred tax assets recognised in relation to deductible temporary differences, other revaluation reserves, gains from sales related to asset securitisation transactions, gains or losses from revaluation of financial liabilities at fair value related to change in own credit risk, regulatory adjustments to be deducted from the additional capital, but due to insufficient levels of it deducted from basic capital, and investments in financial instruments of investees not consolidated in the Group with certain limitations. Additional capital comprises of perpetual contracts and paid-in preference share capital less adjustments for the Bank's investment in its own perpetual financial instruments, treasury preference shares, investments in financial instruments of investees not consolidated in the Group with certain limitations and regulatory adjustments to be deducted from the tier 2 capital, but due to insufficient levels of it deducted from additional capital.

Tier 2 capital comprises subordinated debt in KZT less investments in subordinated debt of financial institutions the Bank holds 10% and more shares in, not consolidated in the Group with certain limitations.

Total capital is the sum of tier 1 and tier 2 capital less positive difference between retail deposits and statutory capital multiplied by 5.5, and less 16.67% of the positive difference between regulatory impairment provisions and IFRS impairment provision as at 31 December 2017 (total capital is the sum of tier 1 and tier 2 capital less positive difference between retail deposits and statutory capital multiplied by 5.5 as at 31 December 2016).

31 Capital management, continued

There are a set of different limitations and classification criteria applied to the above listed total capital elements.

In accordance with the regulations set by the NBRK the Bank has to maintain total capital adequacy within the following coefficients:

- a ratio of basic capital to the sum of credit risk-weighted assets, contingent liabilities, market risk-weighted assets, contingent assets and liabilities, and quantified operational risk (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets, contingent liabilities, market risk-weighted assets, contingent assets and liabilities, and quantified operational risk (k1-2);
- a ratio of total capital to the sum of credit risk-weighted assets, contingent liabilities, market risk-weighted assets, contingent assets and liabilities, and quantified operational risk (k2).

As at 31 December 2017 the minimum level of ratios as applicable to the Bank are as follows:

- k1 – not less than 0.055 (31 December 2016: 0.050);
- k1-2 – not less than 0.065 (31 December 2016: 0.060);
- k2 – not less than 0.080 (31 December 2016: 0.075).

The Bank complied with all externally imposed capital requirements as at 31 December 2017 and 31 December 2016. As at 31 December 2017 Bank's coefficients are as follows: k1 – 0.106, k1-2 – 0.106 and k2 – 0.145 (31 December 2016: k1 – 0.097, k1-2 – 0.097 and k2 – 0.116).

The following table shows the composition of the capital position as at 31 December 2017 calculated in accordance with the requirements established by the Resolution of Board of National Bank of the Republic of Kazakhstan of 13 September 2017, No. 170 "On establishment of normative values and techniques of calculations of prudential standard rates and other regulations, obligatory to observance, and limits of the size of the capital of bank for the certain date and Rules of calculation and limits of the open foreign exchange position of bank" with amendments and additions
(31 December 2016: the Resolution of Board of National Bank of the Republic of Kazakhstan of 30 May 2016, No. 147).

31 Capital management, continued

	31 December 2017 KZT'000	31 December 2016 KZT'000
Tier 1 capital		
Basic capital:		
Share capital	57,135,194	51,135,191
Additional paid-in capital	2,025,632	2,025,632
Statutory retained earnings of prior periods	24,343,504	22,779,568
Retained earnings of current year	4,373,479	2,150,936
Reserves formed from statutory retained earnings of prior periods	8,616,901	8,616,901
Dynamic reserve subject to limitation of 1.25% of risk-weighted statutory assets	7,580,845	7,580,845
Revaluation reserve for available-for-sale financial assets	(222,039)	(101,978)
Statutory adjustments:		
Intangible assets including goodwill	(6,882,729)	(8,019,051)
Tier 1 capital	**96,970,787**	**86,168,044**
Tier 2 capital		
Subordinated debt	45,287,160	-
KZT-denominated subordinated debt placed before 1 January 2015	13,360,025	17,374,985
Statutory adjustments:		
Own repurchased subordinated debt	(34,360)	(45,450)
Tier 2 capital	**58,612,825**	**17,329,535**
Statutory adjustments:		
16.67% of the positive difference between regulatory impairment provisions and IFRS impairment provision	(23,231,354)	-
Total capital	**132,352,258**	**103,497,579**
Risk-weighted assets, contingent assets and liabilities and derivative financial instruments and operational risk		
Credit risk-weighted assets	816,670,402	823,193,558
Credit risk-weighted contingent liabilities	39,341,362	46,336,594
Credit risk-weighted derivative financial instruments	403,735	266,787
Market risk-weighted assets and contingent liabilities	7,702,538	1,940,177
Operational risk	49,380,355	20,336,223
Risk-weighted assets, contingent assets and liabilities and derivative financial instruments and operational risk	**913,498,392**	**892,073,339**
k1	**0.106**	**0.097**
k1-2	**0.106**	**0.097**
k2	**0.145**	**0.116**

The Bank's policy is to maintain a strong capital base so as to maintain investor creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

32 Credit related commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting off-balance credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

	2017 KZT'000	2016 KZT'000
Contracted amount		
Loan and credit line commitments	26,371,297	36,766,022
Guarantees	39,045,297	29,591,731
Letters of credit	447,780	3,635,177
	65,864,374	**69,992,930**

Management expects that loan and credit line commitments, to the extent demanded, will be funded from amounts collected from scheduled repayments of current loan portfolio.

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2017 the Group has 1 customer whose balances exceed 10% of total commitments (31 December 2016: 1 customer). The value of these commitments as at 31 December 2017 is KZT 12,634,253 thousand (31 December 2016: KZT 13,416,088 thousand).

33 Operating leases

Leases as lessee

Non-cancellable operating lease rentals as at 31 December are payable as follows:

	2017 KZT'000	2016 KZT'000
Less than 1 year	1,981,181	1,870,224
From 1 to 5 years	6,048,841	4,937,078
	8,030,022	**6,807,302**

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals.

During the current year KZT 1,951,375 thousand was recognised as an expense in profit or loss in respect of operating leases (2016: KZT 2,017,295 thousand).

34 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and consolidated financial position.

(b) Litigations

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

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the consolidated financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

35 Related party transactions

(a) Control relationships

The Group's parent company is Eurasian Financial Company JSC (the "Parent company"). The Parent company is controlled by the group of individuals, Mr. Mashkevich A.A., Mr. Shodiyev P.K., Mr. Ibragimov A.R., each of whom owns 33.3%. Publicly available financial statements are produced by the Parent company.

(b) Transactions with members of the Board of Directors, the Management Board and other key management personnel

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2017 KZT'000	**2016 KZT'000**
Members of the Board of Directors	530,994	554,548
Members of the Management Board	2,247,967	2,382,827
Other key management personnel	1,370,129	1,566,772
	4,149,090	**4,504,147**

These amounts include non-cash benefits in respect of members of the Board of Directors, the Management Board and other key management personnel.

35 Related party transactions, continued

(b) Transactions with members of the Board of Directors, the Management Board and other key management personnel, continued

The outstanding balances and average effective interest rates as at 31 December 2017 and 2016 for transactions with members of the Board of Directors, the Management Board and other key management personnel are as follows:

	2017 KZT'000	Average effective interest rate, %	2016 KZT'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	143,706	12.00	641,936	7.10
LIABILITIES				
Current accounts and deposits from customers	12,727,881	8.16	5,310,957	6.63

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors, the Management Board and other key management personnel for the year ended 31 December are as follows:

	2017 KZT'000	2016 KZT'000
Profit or loss		
Interest income	19,552	20,507
Interest expense	(429,486)	(118,944)

35 Related party transactions, continued

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2017 and related profit or loss amounts of transactions for the year ended 31 December 2017 with other related parties are as follows:

31 December 2017	**The Parent Company**		**Other subsidiaries of the Parent company**		**Other related parties***		
	KZT'000	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**Total KZT'000**
Consolidated statement of financial position							
ASSETS							
Loans to customers							
- in KZT	-	-	-	-	9,613,093	12.63	9,613,093
- in USD	-	-	-	-	79,709,017	6.82	79,709,017
- in other currencies	-	-	-	-	2,294,061	16.84	2,294,061
Loans to customers (allowance for impairment)	-	-	-	-	(946,285)	-	(946,285)
Other assets							
- in KZT	-	-	18,769	-	61,355	-	80,124

35 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2017	**The Parent Company**		**Other subsidiaries of the Parent company**		**Other related parties***		
	KZT'000	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**Total KZT'000**
LIABILITIES							
Current accounts and deposits from customers							
- in KZT	381,303	9.50	968,224	9.47	19,090,218	7.43	20,439,745
- in USD	-	-	3,056,943	2.95	107,047,853	1.61	110,104,796
- in other currencies	-	-	465,059	5.98	2,469,386	7.50	2,934,445
Debt securities issued	-						
- in KZT	-	-	11,301,939	8.50	-	-	11,301,939
Subordinated debt securities issued							
- in KZT	-	-	26,702	8.08	-	-	26,702
Other liabilities							
- in KZT	-	-	311,833	-	4,968	-	316,801
Items not recognised in the consolidated statement of financial position							
Loan and credit line commitments	-		-		774,340		774,340
Guarantee received	-		-		4,918,502		4,918,502
Profit/(loss)	-						
Interest income	-		-		6,830,453		6,830,453
Interest expense	(230,286)		(2,190,163)		(2,832,738)		(5,253,187)
Fee and commission income	1,768		48,303		400,873		450,944
Net foreign exchange gain/(loss)	150		203,087		859,226		1,062,463
Other operating expenses	-		-		(50,723)		(50,723)
Impairment losses	-		-		(354,776)		(354,776)
Other general administrative expenses	-		(189,849)		(218,744)		(408,593)

35 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances and the related average effective interest rates as at 31 December 2016 and related profit or loss amounts of transactions for the year ended 31 December 2016 with other related parties are as follows:

31 December 2016	**The Parent Company**		**Other subsidiaries of the Parent company**		**Other related parties***		
	KZT'000	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**Total KZT'000**
Consolidated statement of financial position							
ASSETS							
Loans to customers							
- in KZT	-	-	-	-	16,247,770	10.63	16,247,770
- in USD	-	-	-	-	88,485,051	6.58	88,485,051
Loans to customers (allowance for impairment)	-	-	-	-	(1,135,274)	-	(1,135,274)
Other assets							
- in KZT	-	-	14,420	-	41	-	14,461

35 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2016	**The Parent Company**		**Other subsidiaries of the Parent company**		**Other related parties***		
	KZT'000	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**Total KZT'000**
LIABILITIES							
Current accounts and deposits from customers							
- in KZT	378,046	16.78	5,924,545	16.86	10,657,835	3.76	16,960,426
- in USD	18,400	2.00	965,061	3.94	57,257,802	1.87	58,241,263
- in other currencies	-	-	215,762	-	967,436	8.67	1,183,198
Debt securities issued	-						
- in KZT	-	-	44,174	12.48	-	-	44,174
- in USD	-	-	20,817,249	8.58	-	-	20,817,249
Subordinated debt securities issued							
- in KZT	-	-	23,067	12.11	-	-	23,067
Other liabilities							
- in KZT	-	-	302,236	-	1,532	-	303,768
Items not recognised in the consolidated statement of financial position							
Guarantees received	-		-		6,337,824		6,337,824
Letters of credit	-		-		279,011		279,011
Profit/(loss)							
Interest income	-		-		6,923,108		6,923,108
Interest expense	(168,549)		(2,597,119)		(1,740,575)		(4,506,243)
Fee and commission income	1,265		51,291		390,466		443,022
Net foreign exchange gain/(loss)	43,174		(358,658)		(1,144,587)		(1,460,071)
Other operating expenses	-		-		(44,195)		(44,195)
Impairment losses	-		-		(507,285)		(507,285)
Other general administrative expenses	-		(42,424)		(32,825)		(75,249)

*Other related parties are the entities that are controlled by the Parent company's shareholders.

As at 31 December 2017 loans to customers in the amount of KZT 29,703,941 thousand were insured by an insurance company under common control (31 December 2016: KZT 86,568,856 thousand).

36 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	153,600,744	-	-	153,600,744	153,600,744
Financial instruments at fair value through profit or loss	87,013	-	-	-	-	87,013	87,013
Available-for-sale financial assets	-	-	-	50,378,050	-	50,378,050	50,378,050
Deposits and balances with banks	-	-	3,642,351	-	-	3,642,351	3,642,351
Loans to customers							
Loans to corporate customers	-	-	338,614,797	-	-	338,614,797	328,538,259
Loans to retail customers	-	-	275,823,193	-	-	275,823,193	261,994,722
Held-to-maturity investments							
Government bonds	-	120,010,995	-	-	-	120,010,995	117,176,974
Corporate bonds	-	4,901,390	-	-	-	4,901,390	5,122,535
Other financial assets	-	-	4,965,898	-	-	4,965,898	4,965,898
	87,013	**124,912,385**	**776,646,983**	**50,378,050**	**-**	**952,024,431**	**925,506,546**
Financial instruments at fair value through profit or loss	19,334	-	-	-	-	19,334	19,334
Deposits and balances from banks	-	-	-	-	148,838	148,838	148,838
Amounts payable under repurchase agreements	-	-	-	-	43,744,906	43,744,906	42,385,806
Current accounts and deposits from customers	-	-	-	-	695,254,295	695,254,295	696,509,732
Debt securities issued	-	-	-	-	20,598,790	20,598,790	19,141,869
Subordinated debt securities issued	-	-	-	-	67,955,179	67,955,179	64,098,339
Other borrowed funds	-	-	-	-	37,994,781	37,994,781	37,994,781
Other financial liabilities	-	-	-	-	7,730,075	7,730,075	7,730,075
	19,334	**-**	**-**	**-**	**873,426,864**	**873,446,198**	**868,028,774**

36 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	109,321,719	-	-	109,321,719	109,321,719
Financial instruments at fair value through profit or loss	122,282,220	-	-	-	-	122,282,220	122,282,220
Available-for-sale financial assets	-	-	-	2,998,459	-	2,998,459	2,998,459
Deposits and balances with banks	-	-	3,740,124	-	-	3,740,124	3,740,124
Loans to customers							
Loans to corporate customers	-	-	432,588,522	-	-	432,588,522	424,388,385
Loans to retail customers	-	-	263,860,622	-	-	263,860,622	254,329,906
Held-to-maturity investments							
Government bonds	-	18,942,374	-	-	-	18,942,374	18,378,812
Corporate bonds	-	4,996,342	-	-	-	4,996,342	5,192,786
Other financial assets	-	-	15,212,526	-	-	15,212,526	15,212,526
	122,282,220	**23,938,716**	**824,723,513**	**2,998,459**	**-**	**973,942,908**	**955,844,937**
Financial instruments at fair value through profit or loss	10,091	-	-	-	-	10,091	10,091
Deposits and balances from banks	-	-	-	-	6,692,476	6,692,476	6,692,476
Amounts payable under repurchase agreements	-	-	-	-	4,906,792	4,906,792	5,232,532
Current accounts and deposits from customers	-	-	-	-	676,500,056	676,500,056	675,814,309
Debt securities issued	-	-	-	-	129,441,161	129,441,161	121,343,260
Subordinated debt securities issued	-	-	-	-	23,748,211	23,748,211	20,674,917
Other borrowed funds	-	-	-	-	55,138,154	55,138,154	55,138,154
Other financial liabilities	-	-	-	-	9,803,202	9,803,202	9,803,202
	10,091	**-**	**-**	**-**	**906,230,052**	**906,240,143**	**894,708,941**

36 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The Group uses widely recognised valuation models to determine the fair value of common and simpler financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation . Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps.

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market.

As disclosed in Note 14, as at 31 December 2016 the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 19,179 thousand cannot be determined.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 5.40 – 14.20% and 7.30 – 19.20%, are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively (31 December 2016: 7.60 – 14.00% and 6.60 – 17.40%, respectively);
- discount rates of 1.60 – 8.60% and 2.20 – 12.10%, are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively (31 December 2016: 0.30 – 11.10% and 0.20 – 12.80%);
- quoted market prices are used for determination of fair value of debt securities issued.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

36 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy

The Group measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative assets	87,013	-	87,013
- Derivative liabilities	(19,334)	-	(19,334)
Available-for-sale financial assets			
- Debt and other fixed income instruments	50,378,050	-	50,378,050
	50,445,729	**-**	**50,445,729**

The table below analyses financial instruments measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative assets	-	122,282,220	122,282,220
- Derivative liabilities	-	(10,091)	(10,091)
Available-for-sale financial assets			
- Debt and other fixed income instruments	2,979,280	-	2,979,280
	2,979,280	**122,272,129**	**125,251,409**

Due to low market liquidity, management considers that quoted prices in active markets are not available, including for government securities listed on the Kazakhstan Stock Exchange. Accordingly, as at 31 December 2017 and 2016 the estimated fair value of these financial instruments is based on the results of valuation techniques involving the use of observable market inputs.

Unobservable valuation differences on initial recognition

The transaction price of the swap transactions with the NBRK is different from fair value of the swap instruments in the principal markets (Note 13). At initial recognition, the Group estimates the fair values of the swaps transacted with the NBRK using valuation techniques.

36 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition, continued

In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the currency market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Group uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlying, expectations of termination periods. When fair value at initial recognition is not evidenced by a quoted price in an active market or based on a valuation technique that uses data only from observable markets, any difference between the fair value at initial recognition and the transaction price is not recognised in profit or loss immediately, but is deferred (see Note 3(d)(v)).

The following table shows a reconciliation for the year ended 31 December 2016 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3	
	Financial instruments at fair value through profit or loss	
KZT'000	**Derivative assets**	**Derivative liabilities**
Balance at the beginning of the year	143,133,179	(165,039)
Net gain on financial instruments at fair value through profit or loss	(5,114,327)	(26,614)
Repayment	(22,841,742)	181,562
Coupon prepayment (Note 13)	7,105,110	-
Balance at the end of the year	**122,282,220**	**(10,091)**

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

As at 31 December 2016 if the interest rate applied to KZT cash flows had increased by 1%, the fair value of the currency swaps with the NBRK in Level 3 of the hierarchy would have increased by KZT 781,418 thousand.

As at 31 December 2016 if the right of early termination had been exercised 3 months earlier, the effect on profit or loss would have been a decrease in the fair value by KZT 235,129 thousand.

36 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2017:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	153,600,744	-	153,600,744	153,600,744
Deposits and balances with banks	3,642,351	-	3,642,351	3,642,351
Loans to customers	495,571,809	94,961,172	590,532,981	614,437,990
Held-to-maturity investments	122,299,509	-	122,299,509	124,912,385
Liabilities				
Deposits and balances from banks	148,838	-	148,838	148,838
Amounts payable under repurchase agreements	42,385,806	-	42,385,806	43,744,906
Current accounts and deposits from customers	696,509,732	-	696,509,732	695,254,295
Debt securities issued	19,141,869	-	19,141,869	20,598,790
Subordinated debt securities issued	64,098,339	-	64,098,339	67,955,179
Other borrowed funds	37,994,781	-	37,994,781	37,994,781

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2016:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	109,321,719	-	109,321,719	109,321,719
Deposits and balances with banks	3,740,124	-	3,740,124	3,740,124
Loans to customers	641,486,453	37,231,838	678,718,291	696,449,144
Held-to-maturity investments	23,571,598	-	23,571,598	23,938,716
Liabilities				
Deposits and balances from banks	6,692,476	-	6,692,476	6,692,476
Amounts payable under repurchase agreements	5,232,532	-	5,232,532	4,906,792
Current accounts and deposits from customers	675,814,309	-	675,814,309	676,500,056
Debt securities issued	121,343,260	-	121,343,260	129,441,161
Subordinated debt securities issued	20,674,917	-	20,674,917	23,748,211
Other borrowed funds	55,138,154	-	55,138,154	55,138,154