ATFBank JSC

Consolidated Financial Statements

for the year ended

31 December 2016

Contents

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Independent Auditors' Report

To the Board of Directors of ATFBank JSC

Opinion

We have audited the consolidated financial statements of ATFBank JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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) and we have fulfilled our other ethical responsibilities in accordance with 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.

<table>
<tr><th colspan="2">Impairment of loans to customers</th></tr>
<tr><td colspan="2">Please refer to the Notes 3 (Significant accounting policies) and 16 (Loans to customers) in the consolidated financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>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 56% of total assets) and the related estimation uncertainty, this is considered a key audit risk.

We paid particular attention to the assumptions and methodology used for the calculation of the specific impairment allowance for loans to legal entities with individual signs of impairment. We also focused on the methodology used to calculate the collective impairment allowance for loans to legal entities without individual signs of impairment.</td><td>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 impairment and determining the adequacy of impairment allowances for individually assessed loans to customers through forecast recoverable cash flows, including the realisation of collateral.

We compared the Group's assumptions for both collective and individual impairment allowances to externally available industry, financial and economic data and our own assessments in relation to key inputs. 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 economic factors and considered the sensitivity of these inputs on the assessment of impairment.

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 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.</td></tr>
</table>

Impairment of loans to customers, continued	
The key audit matter	***How the matter was addressed in our audit***
An assessment is performed collectively on all loans to individuals for impairment, 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.	In particular, for corporate loans, which were restructured during the year (Note 16(a)) and classified by the Group as unimpaired as at 31 December 2016, we specifically challenged, in most cases with involvement of our own valuation specialists, the Group's assumptions on discounted cash flows from operating activities of the borrowers and collateral values. 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 performance of the collective impairment model. The assumptions inherent in the model were critically assessed against our understanding of the Group, its recent performance and industry developments. We have assessed the methodology used by the Group to calculate the propensity of accounts with different arrears profiles to move both into and out of default, and recalculated these rates based on the Group's actual historic experience. 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. We also assessed whether the financial statement disclosures appropriately reflect the Group's exposure to credit risk.

Accounting for assets held for sale	
Please refer to the Notes 3 (Significant accounting policies) and 17 (Assets held for sale) in the consolidated financial statements.	
The key audit matter	***How the matter was addressed in our audit***
In 2015 the Group committed to a plan to sell part of its impaired loan portfolio. The management makes complex and subjective judgements making the decision on classification of assets in held for sale category and arriving at recoverable amount of these assets. During the audit, we focused on the assessment of the appropriateness of the criteria used by management supporting classification of assets in held for sale category. Additionally, we focused on key assumptions and judgements used in the estimation of the recoverable amounts of these assets.	We challenged the Group's judgement on the classification of assets held for sale category through understanding the status of the sales process through inquiry of the Bank Management, examination of minutes of the Management Board meetings, reviewing correspondence from prospective purchasers. We challenged the appropriateness of the key assumptions used for determination of recoverable amount of these assets. We focused on those assets with the most significant potential impact on the consolidated financial statements. We challenged the Group's assumptions on the expected future cash flows, value of realisable collateral based on our own understanding and available market information.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group for 2016 but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report of the Group for 2016 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued

- 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued

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

Yelena Kim
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. MФ-0000042 of 8 August 2011

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

30 June 2017

	Note	2016 '000 KZT	2015 '000 KZT
Interest income	4	128,468,245	77,923,462
Interest expense	4	(82,440,064)	(50,299,769)
Net interest income		**46,028,181**	**27,623,693**
Fee and commission income	5	14,498,009	11,708,349
Fee and commission expense	6	(3,574,560)	(3,713,743)
Net fee and commission income		**10,923,449**	**7,994,606**
Net loss on financial instruments at fair value through profit or loss		(12,637)	(6,257)
Net gain on derivative financial instruments	7	1,750,152	30,299,037
Net foreign exchange gain (loss)		3,211,944	(12,309,916)
Net loss on available-for-sale financial assets		-	(65,027)
Other operating (expenses)/ income	10	(1,417,696)	92,767
Operating income		**60,483,393**	**53,628,903**
Impairment losses	8	(34,755,427)	(23,559,629)
General administrative expenses	9	(23,709,224)	(19,850,641)
Profit before income tax		**2,018,742**	**10,218,633**
Income tax benefit/ (expense)	11	2,809,294	(2,918,368)
Profit for the year		**4,828,036**	**7,300,265**
Attributable to:			
Equity holders of the Bank		4,763,224	7,230,142
Non-controlling interest		64,812	70,123
		4,828,036	**7,300,265**

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	2016 '000 KZT	2015 '000 KZT
Other comprehensive income/(loss) for the year, net of income tax			
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		1,607	(829,158)
- Net change in fair value transferred to profit or loss		323,150	65,027
Foreign currency translation differences for foreign operations			
- Net change in foreign currency translation differences		1,128,345	3,892,824
- Net change in foreign currency translation differences transferred to profit or loss		-	(144,749)
Total items that are or may be reclassified subsequently to profit or loss		*1,453,102*	*2,983,944*
Other comprehensive income for the year, net of income tax		**1,453,102**	**2,983,944**
Total comprehensive income for the year		**6,281,138**	**10,284,209**
Attributable to:			
Equity holders of the Bank		6,183,939	10,102,894
Non-controlling interest		97,199	181,315
Total comprehensive income for the year		**6,281,138**	**10,284,209**
Earnings per share			
Basic earnings per share, in KZT	25	105	160
Diluted earnings per share, in KZT	25	105	160

The consolidated financial statements as set out on pages 10 to 99 were approved by management on 30 June 2017 and were signed on its behalf by:

Mr. Anthony Espina
Chairman of the Board

Ms Zaure Albossinova
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	2016 '000 KZT	2015 '000 KZT
ASSETS			
Cash and cash equivalents	12	503,323,919	307,512,683
Financial instruments at fair value through profit or loss			
- Held by the Group	13	91,503	26,759,782
Available-for-sale financial assets			
- Held by the Group		412,643	1,863,355
Held-to maturity investments	14	15,797,878	15,471,825
Deposits and loans to banks	15	12,037,650	11,481,874
Loans to customers:			
Loans to large corporates	16	520,636,483	517,569,640
Loans to small- and medium-sized companies	16	126,056,059	130,278,460
Loans to retail customers	16	159,934,171	142,434,456
Assets held for sale	17	73,993,939	71,385,592
Property and equipment and intangible assets	18	17,306,187	18,991,086
Deferred tax asset	11	5,904,688	2,670,266
Other assets	19	17,338,619	12,818,097
Total assets		**1,452,833,739**	**1,259,237,116**
LIABILITIES			
Financial instruments at fair value through profit or loss	13	162,722	657
Deposits and balances from banks and other financial institutions	20	9,001,187	11,977,802
Current accounts and deposits from customers:			
Current accounts	21	467,680,277	260,441,848
Term deposit accounts	21	676,149,543	647,382,423
Other borrowed funds	22	108,636,237	153,013,623
Subordinated borrowings	22	93,094,781	95,057,199
Other liabilities	23	4,125,215	3,660,925
Total liabilities		**1,358,849,962**	**1,171,534,477**
EQUITY			
Share capital	24	167,878,470	167,878,470
Additional paid-in capital		1,461,271	1,461,271
General reserve		15,181,181	15,181,181
Revaluation reserve for available-for-sale financial assets		(403,377)	(728,086)
Cumulative translation reserve		4,410,702	3,314,696
Accumulated losses		(95,043,132)	(99,806,356)
Total equity attributable to equity holders of the Bank		**93,485,115**	**87,301,176**
Non-controlling interests		498,662	401,463
Total equity		**93,983,777**	**87,702,639**
Total liabilities and equity		**1,452,833,739**	**1,259,237,116**

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

	2016 '000 KZT	2015 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest income	99,385,923	60,671,510
Interest expense	(72,220,672)	(48,259,354)
Fee and commission income	14,086,320	11,471,883
Fee and commission expense	(3,668,122)	(1,843,950)
Net receipts from financial instruments at fair value through profit or loss	3,077,948	4,690,426
Net receipts from foreign exchange	5,474,873	7,557,365
Other income receipts	424,057	370,624
Personnel expenses payments	(11,359,413)	(8,714,079)
Other general administrative expenses	(9,625,493)	(8,297,288)
Net change in operating assets		
Financial instruments at fair value through profit or loss	25,789,500	-
Deposits and loans to banks	(4,426,924)	169,206
Loans to customers	(29,583,147)	14,677,513
Other assets	(2,503,163)	2,019,797
Net change in operating liabilities		
Deposits and balances from banks and other financial institutions	(3,713,282)	3,156,353
Current accounts and deposits from customers	235,841,157	(62,492,581)
Other liabilities	137,074	(922,432)
Net cash provided from/(used in) operating activities before income tax paid	**247,116,636**	**(25,745,007)**
Income tax paid	(1,102,524)	(459,408)
Net cash flows from/(used in) operating activities	**246,014,112**	**(26,204,415)**

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

	2016 '000 KZT	2015 '000 KZT
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(1,130,759)	(44,183,706)
Sales of available-for-sale financial assets	2,917,413	53,310,699
Purchases of property and equipment and intangible assets	(821,521)	(2,467,180)
Sales of property and equipment and intangible assets	169,326	327,192
Net cash flows from investing activities	**1,134,459**	**6,987,005**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of loans	27,501,102	10,317,787
Repayment of loans	(3,844,123)	(6,836,875)
Proceeds from debt securities issued	-	55,005,621
Repayment of debt securities	(67,258,247)	-
Proceeds from subordinated borrowings	-	58,143,763
Repayment of subordinated borrowings	(944,166)	-
Dividends paid	(2,636)	(38,833)
Net cash flows (used in)/provided from financing activities	**(44,548,070)**	**116,591,463**
Net increase in cash and cash equivalents	**202,600,501**	**97,374,053**
Effect of movements in exchange rates on cash and cash equivalents	(6,789,265)	60,430,951
Cash and cash equivalents at the beginning of year	307,512,683	149,707,679
Cash and cash equivalents as at the end of year (Note 12)	**503,323,919**	**307,512,683**

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

'000 KZT	**Attributable to equity holders of the Bank**								
	Share capital	**Additional paid-in capital**	**General reserve**	**Revaluation reserve for available-for-sale financial assets**	**Cumulative translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2016	167,878,470	1,461,271	15,181,181	(728,086)	3,314,696	(99,806,356)	87,301,176	401,463	87,702,639
Total comprehensive income									
Profit for the year	-	-	-	-	-	4,763,224	4,763,224	64,812	4,828,036
Other comprehensive income									
Items that are or may be reclassified subsequently to profit or loss:	-	-	-	-	-	-	-	-	-
Net change in revaluation reserve of available-for-sale financial assets	-	-	-	324,709	-	-	324,709	48	324,757
Net change in cumulative translation reserve	-	-	-	-	1,096,006	-	1,096,006	32,339	1,128,345
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*324,709*	*1,096,006*	-	*1,420,715*	*32,387*	*1,453,102*
Total other comprehensive income	-	-	-	**324,709**	**1,096,006**	-	**1,420,715**	**32,387**	**1,453,102**
Total comprehensive income for the year	-	-	-	**324,709**	**1,096,006**	**4,763,224**	**6,183,939**	**97,199**	**6,281,138**
Balance at 31 December 2016	**167,878,470**	**1,461,271**	**15,181,181**	**(403,377)**	**4,410,702**	**(95,043,132)**	**93,485,115**	**498,662**	**93,983,777**

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.

'000 KZT	**Attributable to equity holders of the Bank**								
	Share capital	**Additional paid-in capital**	**General reserve**	**Revaluation reserve for available-for-sale financial assets**	**Cumulative translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2015	167,878,470	1,461,271	15,181,181	36,033	(322,175)	(107,036,498)	77,198,282	257,619	77,455,901
Total comprehensive income									
Profit for the year	-	-	-	-	-	7,230,142	7,230,142	70,123	7,300,265
Other comprehensive income									
Items that are or may be reclassified subsequently to profit or loss:	-	-	-	-	-	-	-	-	-
Net change in revaluation reserve of available-for-sale financial assets	-	-	-	(764,119)	-	-	(764,119)	(12)	(764,131)
Net change in cumulative translation reserve	-	-	-	-	3,636,871	-	3,636,871	111,204	3,748,075
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*(764,119)*	*3,636,871*	-	*2,872,752*	*111,192*	*2,983,944*
Total other comprehensive income	**-**	**-**	**-**	**(764,119)**	**3,636,871**	**-**	**2,872,752**	**111,192**	**2,983,944**
Total comprehensive income for the year	**-**	**-**	**-**	**(764,119)**	**3,636,871**	**7,230,142**	**10,102,894**	**181,315**	**10,284,209**
Transactions with owners recorded directly in equity									
Dividends of subsidiaries to minority shareholder	-	-	-	-	-	-	-	(37,471)	(37,471)
Total transactions with owners	-	-	-	-	-	-	-	**(37,471)**	**(37,471)**
Balance at 31 December 2015	**167,878,470**	**1,461,271**	**15,181,181**	**(728,086)**	**3,314,696**	**(99,806,356)**	**87,301,176**	**401,463**	**87,702,639**

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 comprise the financial statements of ATFBank JSC (the Bank) and its subsidiaries (together, the Group).

ATFBank JSC Bank was established on 3 November 1995 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 in October 2003. The Bank operates under a general banking license issued on 28 December 2007 by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Institutions. The license supersedes all previously issued general banking and other licenses.

ATFBank JSC and its subsidiaries provide retail and corporate banking services in Kazakhstan and Kyrgyzstan, as well as cash collection services in Kazakhstan. The Bank accepts deposits from the public, extends loans, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its corporate and retail customers.

The Bank's registered office is 100 Furmanov Street, Almaty, Republic of Kazakhstan, 050000.

The Bank is a member of the obligatory deposit insurance system, which operates under the Law of the Republic of Kazakhstan "On Obligatory Insurance of Second Tier Banks Deposits" dated 7 July 2006 and is governed by the National Bank of the Republic of Kazakhstan (the NBRK).

The Bank has a primary listing on the Kazakhstan Stock Exchange (the "KASE") and certain of its debt securities are listed on the Luxembourg and London Stock Exchanges. As at 31 December 2016 the Bank had 17 branches located throughout Kazakhstan (31 December 2015: 17 branches).

The principal subsidiaries of the Bank are as follows:

			Ownership, %	
Name	**Country of incorporation**	**Principal activities**	**31 December 2016**	**31 December 2015**
Tobet Group LLP	Kazakhstan	Cash collection	100.0	100.0
Optima Bank OJSC	Kyrgyzstan	Banking	97.1	97.1
Shymkent Brewery LLP	Kazakhstan	Doubtful and bad assets management	100.0	-

In April 2016, the Bank has registered as its subsidiary Organisation on Management of Doubtful and Bad Assets of ATFBank JSC LLP, where it has 100% ownership. The primary activity of the company is to manage doubtful and bad assets of the Bank. In July 2016, the organisation was re-registered as Shymkent Brewery LLP.

(b) Shareholders

As at 31 December 2016 the following shareholders owned the outstanding ordinary shares:

Shareholders	31 December 2016 %	31 December 2015 %
KNG Finance LLC	99.78	99.78
Other shareholders	0.22	0.22
	100.00	**100.00**

1 Background, continued

(c) Kazakhstan business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but 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 Kazakhstan. In addition, significant devaluation of tenge and drop of the global oil prices in 2015 have increased the risk of uncertainty in business environment. The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been 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 – Tobet Group LLP and Shymkent Brewery 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 them. The functional currency of the Bank's subsidiary Optima Bank OJSC is Kyrgyz Som.

The KZT is also the presentation currency for the purposes of this consolidated financial information.

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

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs 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:

- deferred taxes - Note 11;
- loan impairment estimates and sale of mortgage portfolio – Note 16;
- assets held for sale – Note 17;
- estimates of fair values of financial instruments, including derivative financial instruments - Note 34.

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 2016.

Disclosure Initiative (Amendments to IAS 1) was issued in December 2014. The amendments address concerns expressed about some of the existing presentation and disclosure requirements in IAS 1 *Presentation of Financial Statements* and ensure that entities are able to use judgment when applying those requirements. As a result, it introduces five, narrow-focus improvements to the disclosure requirements that relate to materiality, order of the notes, subtotals, accounting policies and disaggregation. The amendments also clarify the requirements in paragraph 82A of IAS 1 for presenting an entity's share of items of other comprehensive income of associates and joint ventures accounted for using the equity method. Following these amendments presentation of consolidated financial statements was changed as follows:

- Loans to customers - The Group presented in the consolidated financial statements loans to customers separately for large corporates, small- and medium-sized companies and retail customers;
- Current accounts and deposits from customers - The Group presented in the consolidated statement of financial position current accounts and deposit accounts separately.

Comparative information is reclassified to conform to changes in presentation of the consolidated financial statements in the current year.

The effect of changes due to reclassifications on the corresponding figures can be summarised as follows:

'000 KZT	As previously reported	Effect of reclassification	As restated
Consolidated Statement of Financial Position as at 31 December 2015			
Loans to customers:	790,282,556	(790,282,556)	-
Loans to large corporates	-	517,569,640	517,569,640
Loans to small- and medium-sized companies	-	130,278,460	130,278,460
Loans to retail customers	-	142,434,456	142,434,456
Current tax asset	1,144,393	(1,144,393)	-
Other assets	11,673,704	1,144,393	12,818,097
Current accounts and deposits from customers	907,824,271	(907,824,271)	-
Current accounts	-	260,441,848	260,441,848
Term deposit accounts	-	647,382,423	647,382,423
Deferred tax liability	35,031	(35,031)	-
Other liabilities	3,625,894	35,031	3,660,925
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015			
Net income on sale of foreclosed assets	78,352	(78,352)	-
General administrative expenses	(18,690,304)	(1,160,337)	(19,850,641)
Taxes other than income tax	(892,566)	892,566	-
Other operating expenses	(253,356)	346,123	92,767

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 Group entities.

(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 (If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire), plus the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the date of acquisition. If a contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

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.

(i) 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, including cases when the rights of protection arising from lending operation collateral become material. 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) Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(v) Acquisitions and disposals of non-controlling interests

The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

(vi) 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.

(b) Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Bank. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of income and comprehensive income.

(c) Foreign currency transactions

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 retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated to the functional currency using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(i) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to tenge at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to KZT at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests.

3 Significant accounting policies, continued

(c) Foreign currency transactions, continued

(ii) Foreign operations, continued

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(d) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK, the National Bank of the Kyrgyz Republic 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 the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(e) 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
- 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.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(i) Classification, continued

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.

(ii) 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.

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 their sale or other disposal, except for:

- loans and receivables which are measured at amortized 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.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(iii) 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 initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) 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.

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 net-short 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 levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vi) Gains and 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;

3 Significant accounting policies, continued

(e) Financial instruments, continued

(vi) Gains and losses on subsequent measurement, continued

- 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 and 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.

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 within deposits and balances from banks or current accounts and deposits from customers, as appropriate. 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 within loans and advances to banks or loans to customers, as appropriate. 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.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(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.

(f) Property, plant and equipment

(i) Owned assets

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

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

(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	25 years
- Computer equipment	5 years
- Vehicles	7 years
- Fixtures and fittings	8 years

(g) 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 profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 2 to 10 years.

(h) Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3 Significant accounting policies, continued

(i) Impairment

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 relating 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 (the loans and receivables). The Group reviews its loans and receivables, to assess impairment on a regular basis.

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 related 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.

3 Significant accounting policies, continued

(i) Impairment, continued

(i) Financial assets carried at amortised cost, continued

Loans to customers overdue for 90 days are generally written off partially or in full against the related allowance for loan impairment, when proceeds from sale of collateral were received, or there is no real possibility to recover the proceeds, or the loans are uncollectible and amount of loss has been determined. Recovery of previously written off amounts reduces the amount of loss recorded in the consolidated statement of profit or loss and other comprehensive income. The Group writes off a loan balance of both secured and unsecured loans to customers, when management determines that the loans are uncollectible and when all necessary steps to collect the loan 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 assets.

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.

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.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then 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) Other non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. 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. 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. An impairment loss is reversed only 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. An impairment loss in respect of goodwill is not reversed.

3 Significant accounting policies, continued

(j) Reserves

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 amount of such liability is significant, 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 the risks specific to the liability.

(k) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Loans to customers, available for immediate sale for which the Group actively seeks potential buyers and the probability of it being sold is high, included in assets held for sale, are measured at lower of their carrying value which is amortised costs or fair value less costs to sell.

(l) 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.

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.

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.

(m) Share capital

(i) Ordinary shares

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

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

3 Significant accounting policies, continued

(m) Share capital, continued

(iii) Dividends

The ability of the Group to declare and pay dividends is subject to acting legislation of the Republic of Kazakhstan.

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

(n) Taxation

Income tax comprises current and deferred tax. 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.

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

Deferred tax assets and liabilities are 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 assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities 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 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.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

3 Significant accounting policies, continued

(m) Income and expense recognition

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

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.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

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 reduce the total lease expense over the term of the lease.

(p) 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 (including revenues and expenses related to transactions with other components of the same Group); 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.

(q) 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 2016, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 9 *Financial Instruments*

IFRS 9 Financial instruments, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

(i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

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

3 Significant accounting policies, continued

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

(a) IFRS 9 *Financial Instruments,* continued

(ii) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months ('12-month ECL') or expected credit losses resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Initial amount of expected credit losses recognized for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognised are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the PDxLGDxEAD approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

(iii) Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

(iv) Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Group does not intend to adopt this standard early.

The Group has not started a formal assessment of potential impact on its consolidated financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Group's consolidated financial statements. Currently the Group is in the process of development of IFRS 9 implementation plan.

3 Significant accounting policies, continued

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

(b) Other amendments

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

- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*
- Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 *Income Taxes*).

4 Net interest income

	2016 '000 KZT	2015 '000 KZT
Interest income		
Loans to customers	91,671,010	76,264,422
Cash and cash equivalents	35,784,181	553,198
Investment securities held to maturity	936,902	-
Available-for-sale financial assets	39,181	1,034,067
Deposits and loans to banks	31,121	65,924
Financial instruments at fair value through profit or loss	5,850	5,851
	128,468,245	**77,923,462**
Interest expense		
Current accounts and deposits from customers	(61,365,771)	(34,138,125)
Other borrowed funds	(10,055,055)	(8,163,729)
Subordinated borrowings	(9,814,239)	(4,947,601)
Deposits and balances from banks and other financial institutions	(1,204,999)	(3,050,314)
	(82,440,064)	**(50,299,769)**
	46,028,181	**27,623,693**

In accordance with requirements of IAS 39, interest should continue to be accrued on impaired financial assets. Included within interest income on loans to customers for the year ended 31 December 2016 is a total of KZT 10,648,896 thousand (for the year ended 31 December 2015: KZT 11,182,376 thousand) accrued mainly on impaired corporate and SME loans.

Included in interest income on loans to customers is interest income on loans which have been classified by the Group as at 31 December 2016 as assets held for sale in the amount of KZT 9,563,237 thousand (2015: KZT 1,001,648 thousand) (Note 17).

5 Fee and commission income

	2016 '000 KZT	2015 '000 KZT
Bank transfers	4,293,589	3,979,783
Cash operations	2,460,328	2,056,319
Plastic cards	2,028,440	1,801,398
Guarantees and letters of credit	1,815,627	1,378,707
Agency services on insurance agreements	1,800,903	645,298
Foreign currency trading	1,192,806	1,019,044
Safe operations	83,564	53,138
Customer service	65,615	84,060
Fiduciary operations	59,826	100,608
Custodian services	52,842	71,612
Other	644,469	518,382
	14,498,009	**11,708,349**

The Group acts as an insurance company agent offering the insurance products to the consumer loan borrowers. Commission and fee income on the insurance contracts comprises commissions and fees for agency services that the Group has received from its partners. The Group does not share the insurance risk, which is a full responsibility of the partner. Commission and fee income on insurance is recognised in profit or loss as the Group provides agency services to the insurance company.

6 Fee and commission expenses

	2016 '000 KZT	2015 '000 KZT
Expenses on insurance of customer deposits	1,865,805	1,740,497
Plastic cards	1,050,117	723,525
Bank transfers	427,551	333,367
Guarantees	80,661	797,066
Custodian services	50,621	35,522
Foreign currency trading	33,578	31,159
Securities operations	8,141	12,100
Other	58,086	40,507
	3,574,560	**3,713,743**

7 Net income from derivative financial instruments

Net income from derivative financial instruments for the years ended 31 December 2016 and 31 December 2015 comprises mostly the results from currency swaps.

8 Impairment losses

	2016 '000 KZT	2015 '000 KZT
Loans to customers	(20,599,172)	(23,560,174)
Assets held for sale	(10,583,884)	-
Deposits and loans to banks	(3,363,714)	(28,102)
Other assets	(191,856)	(29,695)
Credit related commitments	(16,801)	58,342
	(34,755,427)	**(23,559,629)**

9 General administrative expenses

	2016 '000 KZT	2015 '000 KZT
Personnel expenses		
Employee benefits	12,004,884	8,972,314
Payroll related taxes	1,177,550	941,162
	13,182,434	**9,913,476**
Other general administrative expenses		
Depreciation and amortisation	2,366,962	2,143,629
Repair and maintenance	1,613,158	1,456,466
Rent of real estate	1,523,673	1,372,460
Taxes other than income tax	927,000	892,566
Security	842,288	676,440
Communication and information services	543,002	475,418
Advertising and marketing	395,245	256,810
Collectors	384,018	270,780
Insurance	370,503	250,702
Professional services	367,744	771,554
Lease of vehicles	276,817	247,216
Stationery, publications, packaging	222,399	214,094
Travel expenses	176,096	141,839
Transportation and logistics	88,082	112,673
Fines and penalties	44,351	81,521
Representation expenses	25,590	15,542
Other	359,862	557,455
	23,709,224	**19,850,641**

Expenses on taxes other than income tax for the year ended 31 December 2016 comprised mostly the VAT expenses of KZT 542,968 thousand (31 December 2015: KZT 550,556 thousand) and property tax expenses of KZT 371,357 thousand (31 December 2015: KZT 222,525 thousand).

10 Other operating (expense)/income

	2016 '000 KZT	2015 '000 KZT
Other revenue		
Income from repurchase of subordinated bonds	543,930	-
Income from cash collection services	420,869	397,928
Dividends on other equity securities	35,880	24,088
Income from sale of fixed assets	30,598	57,913
Income from sale of foreclosed assets	-	78,352
Other	41,866	168,725
	1,073,143	**727,006**
Other expenses		
Loss on transaction of sale of mortgage loan portfolio (Note 16 (g))	(2,350,000)	(500,000)
Loss on sale of foreclosed assets	(71,415)	-
Other	(69,424)	(134,239)
	(2,490,839)	**(634,239)**
	(1,417,696)	**92,767**

11 Income tax (benefit)/expense

	2016 '000 KZT	2015 '000 KZT
Current year tax expense		
Current year	429,164	496,022
Deferred tax		
Origination and reversal of temporary differences	(3,238,458)	2,422,346
Total income tax expense	**(2,809,294)**	**2,918,368**

The Bank and its subsidiaries, other than Optima Bank OJSC, are subject to taxation in the Republic of Kazakhstan. Optima Bank OJSC is subject to income tax in Kyrgyzstan.

The Group's applicable tax rate for the period ended 31 December 2016 is the income tax rate of 20% for Kazakhstan companies (31 December 2015: 20%).

The applicable tax rate for current tax is 10% for Optima Bank OJSC (2015: 10%).

During 2016, the Bank re-filed the Tax Returns for 2012-2015. The Bank claimed additional deduction for the total amount of KZT 1,984,151 thousand for bad debt related to interest income on loans overdue for over 3 years as well as with regard to other administrative expenses. During 2015, the Bank re-filed the Tax Returns for 2011-2013. The Bank claimed additional deduction for the total amount of KZT 251,941 thousand mainly with regard to other administrative expenses.

11 Income tax (benefit)/expense, continued

Reconciliation of effective tax rate:

	2016 '000 KZT	%	2015 '000 KZT	%
Profit before income tax	**2,018,742**	**100**	**10,218,633**	**100**
Income tax at applicable tax rate	403,748	20	2,043,727	20
Non-taxable income from government securities	(5,009,026)	(248)	-	-
Income of subsidiaries taxed at different rates	(247,502)	(12)	(277,331)	(3)
Withholding tax on dividends	216,035	11	172,879	2
Non-deductible impairment losses	3,027,382	150	557,618	5
Non-deductible interest and commission expenses	22,233	1	41,591	-
Forgiven debt	709,115	35	260,393	3
Compensation for previous deductions on bad debt	-	-	197,087	2
Overprovided in prior period	(1,984,151)	(98)	(251,941)	(2)
Other non-deductible expenses	52,872	3	174,345	2
	(2,809,294)	**(139)**	**2,918,368**	**29**

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 assets or liabilities as at 31 December 2016 and 2015. Deferred tax assets are recorded in these consolidated financial statements. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim deductions in future periods. Deferred tax asset is recognised in these consolidated financial statements based on the Bank's long-term business plan.

2016 '000 KZT	**Balance at 1 January 2016**	**Recognised in profit or loss**	**Effect of foreign exchange difference**	**Balance at 31 December 2016**
Property, equipment and intangible assets	(1,064,705)	84,430	(3,001)	(983,276)
Other assets	332,643	692,543	-	1,025,186
Financial instruments at fair value through profit or loss	(5,063,713)	5,063,713	-	-
Tax losses carried forward	8,431,010	(2,602,228)	-	5,828,782
	2,635,235	**3,238,458**	**(3,001)**	**5,870,692**

2015 '000 KZT	**Balance at 1 January 2015**	**Recognised in profit or loss**	**Effect of foreign exchange difference**	**Balance at 31 December 2015**
Loans to customers	(3,148,857)	3,148,857	-	-
Property, equipment and intangible assets	(973,416)	(80,653)	(10,636)	(1,064,705)
Other assets	186,101	146,542	-	332,643
Financial instruments at fair value through profit or loss	-	(5,063,713)	-	(5,063,713)
Tax losses carried forward	9,004,389	(573,379)	-	8,431,010
	5,068,217	**(2,422,346)**	**(10,636)**	**2,635,235**

11 Income tax (benefit)/expense, continued

As at 31 December 2016 the deferred liabilities on property, plant and equipment and intangible assets include the liabilities of foreign subsidiaries in the amount of KZT 33,996 thousand (31 December 2015: KZT 35,031 thousand) (Note 23).

12 Cash and cash equivalents

	2016 '000 KZT	**2015 '000 KZT**
Petty cash	51,460,058	29,665,284
Nostro accounts with the National Bank of the Republic of Kazakhstan	61,898,464	148,999,655
Nostro accounts with the National Bank of the Kyrgyz Republic	6,475,897	9,268,669
Nostro accounts with other banks		
- rated AA- to AA+	13,856,451	15,743,240
- rated A- to A+	7,922,570	19,626,551
- rated BBB- to BBB+	10,101,650	39,842,709
- rated BB- to BB+	13,890,116	562,263
- rated below B+	417,244	63,160
- not rated	20,216,098	19,935,577
Reverse repurchase agreements up to 90 days	6,002,135	8,016,713
Short-term notes of the National Bank of the Republic of Kazakhstan up to 90 days	294,304,192	-
Short-term notes of the National Bank of the Kyrgyz Republic up to 90 days	7,199,018	-
Term deposits with other banks up to 90 days		
- rated below B+	3,339,982	13,352,159
- not rated	6,240,044	2,436,703
Total cash and cash equivalents	**503,323,919**	**307,512,683**

None of the cash equivalents are impaired or past due.

The above table is based on the credit ratings assigned by Standard & Poor's or other agencies converted into Standard & Poor's scale.

As at 31 December 2016 and 31 December 2015, included into cash equivalents are claims on reverse repurchase agreements up to 90 days made at KASE. These agreements are secured by treasury bills of the Ministry of Finance of the Republic of Kazakhstan of fair value of KZT 6,138,141 thousand as at 31 December 2016 (31 December 2015: KZT 8,526,008 thousand).

As at 31 December 2016 the Group has one bank (31 December 2015: two banks), whose balances exceeded 10% of statutory equity. The gross value of these balances as at 31 December 2016 is KZT 356,202,656 thousand (31 December 2015: KZT 165,998,559 thousand).

Minimum reserve requirements

Minimum reserve requirements are calculated in accordance with Resolution of the Board of the National Bank of the Republic of Kazakhstan No.38 dated 20 March 2015. As at 31 December 2015, to meet minimum reserve requirements, minimum reserve was calculated by the Bank as cash on hand denominated in national currency in the amount not exceeding 70% of average minimum reserve requirements for 28 calendar days and balances on correspondent accounts with the NBRK denominated in national currency. Since 5 January 2016, to meet minimum reserve requirements minimum reserve was calculated by the Bank as cash on hand denominated in national currency and balances on correspondent accounts with the NBRK denominated in national currency. As at 31 December 2016, the Bank complies with minimum reserve requirements, and minimum reserve amounts to KZT 15,119,144 thousand (31 December 2015: KZT 11,342,834 thousand).

13 Financial instruments at fair value through profit or loss

	2016 '000 KZT	2015 '000 KZT
Held by the Group		
ASSETS		
Debt and other fixed-income instruments		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	79,602	91,990
Derivative financial instruments		
Foreign currency contracts	11,901	26,667,792
	91,503	**26,759,782**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	162,722	657
	162,722	**657**

None of the financial assets at fair value through profit and loss are past due.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of the foreign currency forward and swap contracts outstanding at 31 December 2016 and 2015 with details of the contractual exchange rates and remaining maturities. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, together with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rate	
	2016 '000 KZT	2015 '000 KZT	2016	2015
Buy USD sell KZT				
From 3 to 12 months	-	27,312,000		182.08
More than12 months	-	-		
Sell USD buy KZT				
Less than 1 month		41,245,150		343.71
Buy EURO sell USD				
Less than 1 month	-	-		-
Sell USD buy RUB				
Less than 1 month	666,580	-	60.28	-
Sell USD buy KGS				
Less than 3 month	2,499,395	-	69.23	-
From 3 to 12 months	370,519	-	69.23	-

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

As at 30 June 2016, included into derivative financial instruments was a currency swap contract concluded in August 2014 with the National Bank of the Republic of Kazakhstan, according to which the Group has to provide the sum of KZT 27,312,000 thousand in exchange for USD 150,000,000 in August 2016. Under the terms and conditions of the currency swap contract, the Bank provided KZT 27,312,000 thousand in exchange for USD 150,000,000. As at 31 December 2015, the fair value of this swap was KZT 26,223,842 thousand. On 4 August 2016, the currency swap contract was performed.

14 Held-to-maturity investments

	2016 '000 KZT	2015 '000 KZT
Held-to-maturity investments		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	15,797,878	15,471,825
Total held-to-maturity investments	**15,797,878**	**15,471,825**

Investments without a determinable fair value

At 31 December 2015, treasury notes of the Ministry of Finance of the Republic of Kazakhstan of KZT 15,471,825 thousand were reclassified from available-for-sale financial assets to held-to-maturity investments as the Bank's management decided against to holding these securities until the end of its maturity. These securities are measured and reclassified at fair value as at the date of its reclassification. Interest income on these securities as at the date of their reclassification amounted to KZT 945,757 thousand and was included into interest income on available-for-sale financial assets. Official price quotations for similar debt securities with similar terms are available on the local stock exchange.

As at 31 December 2016 and 2015, the held-to-maturity investments are neither past due nor impaired.

15 Deposits and loans to banks

	2016 '000 KZT	2015 '000 KZT
Account with the National Bank of the Republic of Kazakhstan	998,235	5,707,766
Deposits with other banks:		
- rated A- to A+	8	-
- rated BBB- to BBB+	10,031,089	5,168,683
- rated BB- to BB+	393,115	472,746
- rated below B+	423,677	350
- rated D	3,394,201	-
- not rated	191,526	163,555
	15,431,851	**11,513,100**
Impairment allowance	(3,394,201)	(31,226)
Deposits and loans to banks	**12,037,650**	**11,481,874**

The above table is based on the credit ratings assigned by Standard & Poor's or other agencies converted into Standard & Poor's scale.

As at 31 December 2016 and 2015 none of the deposits and loans to banks are overdue.

As at 31 December 2016 included into deposits and loans to banks was deposit placed with Kazinvestbank JSC of KZT 3,363,729 thousand with maturity on 17 January 2017. As at the date of issue of these financial statements, that amount has not been repaid.

15 Deposits and loans to banks, continued

In December 2016, according to the order of the Management Board of the National Bank of the Republic of Kazakhstan (the "National Bank"), Kazinvestbank JSC licence for banking operations was recalled and a temporary administration was appointed. Ability to get back deposit placed with Kazinvestbank JSC will depend on the actions to be taken by the temporary administration and the National Bank and measures to be undertaken by the Group to have this debt repaid. Based on all available information on the structure of assets of Kazinvestbank JSC and the ability to foreclose them, the Group recognised an impairment allowance for 100% of the outstanding balance in its consolidated financial statements.

Money on the special account with the National Bank of the Republic of Kazakhstan comprises funds provided by Damu Entrepreneurship Development Fund JSC ("Damu") and Development Bank of Kazakhstan JSC ("DBK") in accordance with the loan agreement concluded with Damu and DBK. Funds are to be distributed to small and medium businesses on preferential terms. In accordance with the agreements with Damu and DBK funds may be withdrawn with account of the National Bank of the Republic of Kazakhstan only after approval of Damu and DBK. Therefore, balances in the account are restricted funds.

As at 31 December 2016 and 31 December 2015, included into advances and loans to banks were deposits of KZT 10,864,095 thousand and KZT 5,658,430 thousand, respectively, issued as collaterals to other banks for the acceptance of letters of credit and issuance of bank guarantees against counter-guarantees of the Group as instructed by the Group's customers.

Analysis of movements in the impairment allowance

	2016 '000 KZT	2015 '000 KZT
Balance at the beginning of the year	31,226	-
Net charge for the year	3,363,714	28,102
Effect of foreign currency translation	(739)	3,124
Balance at the end of the year	**3,394,201**	**31,226**

16 Loans to customers

	2016 '000 KZT	2015 '000 KZT
Loans to corporate customers		
Loans to large corporates	642,710,429	655,984,581
Loans to small and medium size companies	135,084,986	138,973,410
Total loans to corporate customers	**777,795,415**	**794,957,991**
Loans to retail customers		
Mortgage loans	64,200,029	60,839,237
Consumer loans	103,168,012	85,608,015
Auto loans	2,104,859	2,276,439
Total loans to retail customers	**169,472,900**	**148,723,691**
Gross loans to customers	**947,268,315**	**943,681,682**
Impairment allowance	(140,641,602)	(153,399,126)
Net loans to customers	**806,626,713**	**790,282,556**

16 Loans to customers, continued

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 ‘000 KZT	**Loans to retail customers ‘000 KZT**	**Total ‘000 KZT**
Balance at the beginning of the year	147,109,891	6,289,235	153,399,126
Net charge for the year	17,369,550	3,229,622	20,599,172
Write-offs	(34,640,632)	(1,908,152)	(36,548,784)
Reversals	3,189,444	2,150,218	5,339,662
Effect of foreign currency translation	(1,925,380)	(222,194)	(2,147,574)
Balance at the end of the year	**131,102,873**	**9,538,729**	**140,641,602**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

	Loans to corporate customers ‘000 KZT	**Loans to retail customers ‘000 KZT**	**Total ‘000 KZT**
Balance at the beginning of the year	187,859,497	3,874,824	191,734,321
Net charge for the year	17,983,385	5,576,789	23,560,174
Write-offs	(141,848,856)	(8,205,859)	(150,054,715)
Reversals	14,003,758	2,888,305	16,892,063
Effect of foreign currency translation	69,112,107	2,155,176	71,267,283
Balance at the end of the year	**147,109,891**	**6,289,235**	**153,399,126**

During 2014-2016, upon decision of the management of the Bank, significant amounts of impaired loans overdue for more than 360 days were written off in the amount of provisions charged. This has not affected the carrying value of loans and their classification in terms of credit quality and overdue aging. Loans to customers are written off, in part or in full, when the loans are deemed uncollectible.

As at 31 December 2016 the Group has recovered the previously written off loans for the total amount of KZT 5,339,662 thousand (31 December 2015: KZT 16,892,063 thousand). Recovery has been due to the Group work with the troubled borrowers and with regard to these loans the Groups expects that the debt will be repaid in the form of cash and through the Bank’s recognition of the collaterals in its balance sheet and subsequent sale thereof. During 2016, the previously written off debt was repaid in the amount of KZT 3,646,142 thousand and the Group recognised the property for KZT 1,693,520 thousand related to the previously written-off loans in its consolidated statement of financial position.

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 2016 and 31 December 2015:

	2016 '000 KZT	2015 '000 KZT
Loans to corporate customers		
Loans to large corporates		
Loans without individual signs of impairment:		
Standard loans, not overdue	277,694,398	425,474,875
Restructured not overdue loans	141,225,313	1,003,684
Loans with individual signs of impairment:		
- not past due	82,276,331	76,093,347
- overdue less than 90 days	3,022,429	27,607,670
- overdue more than 90 days and less than 1 year	31,304,833	1,202,758
- overdue more than 1 year	107,187,125	124,602,247
Total loans to corporate customers	**642,710,429**	**655,984,581**
Impairment allowance on loans to large corporates	(122,073,946)	(138,414,941)
Net loans to large corporates	**520,636,483**	**517,569,640**
Loans to small and medium size companies		
Loans without individual signs of impairment:		
Standard loans, not overdue	88,516,478	85,178,376
Loans with individual signs of impairment:		
- not past due	5,779,957	9,495,112
- overdue less than 90 days	4,162,642	1,372,999
- overdue more than 90 days and less than 1 year	3,898,489	3,536,055
- overdue more than 1 year	32,727,420	39,390,868
Total loans to small and medium size companies	**135,084,986**	**138,973,410**
Impairment allowance on loans to small- and medium-sized companies	(9,028,927)	(8,694,950)
Net loans to small and medium-sized companies	**126,056,059**	**130,278,460**
Total loans to corporate customers	**777,795,415**	**794,957,991**
Impairment allowance on loans to corporate customers	(131,102,873)	(147,109,891)
Net loans to corporate customers	**646,692,542**	**647,848,100**

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	2016 '000 KZT	2015 '000 KZT
Loans to retail customers		
Mortgage loans		
- not past due	42,420,097	41,318,037
- overdue less than 30 days	1,427,671	1,749,125
- overdue 30-89 days	733,903	1,114,470
- overdue 90-179 days	1,267,749	1,154,137
- overdue 180-360 days	2,602,142	1,059,868
- overdue more than 360 days	15,748,467	14,443,600
Total mortgage loans	**64,200,029**	**60,839,237**
Impairment allowance on mortgage loans	(4,856,318)	(3,422,251)
Net mortgage loans	**59,343,711**	**57,416,986**
Consumer loans		
- not past due	81,186,075	66,709,761
- overdue less than 30 days	4,787,909	3,296,069
- overdue 30-89 days	1,025,521	1,267,701
- overdue 90-179 days	2,865,268	1,656,523
- overdue 180-360 days	1,851,393	1,012,467
- overdue more than 360 days	11,451,846	11,665,494
Total consumer loans	**103,168,012**	**85,608,015**
Impairment allowance on consumer loans	(4,628,769)	(2,773,414)
Net consumer loans	**98,539,243**	**82,834,601**
Auto loans		
- not past due	1,774,388	1,904,500
- overdue less than 30 days	23,751	21,533
- overdue 30-89 days	7,010	11,803
- overdue 90-179 days	1,563	11,140
- overdue 180-360 days	27,811	29,509
- overdue more than 360 days	270,336	297,954
Total auto loans	**2,104,859**	**2,276,439**
Impairment allowance on auto loans	(53,642)	(93,570)
Net auto loans	**2,051,217**	**2,182,869**
Total loans to retail customers	**169,472,900**	**148,723,691**
Impairment allowance on loans to retail customers	(9,538,729)	(6,289,235)
Net loans to retail customers	**159,934,171**	**142,434,456**
Total loans to customers	**947,268,315**	**943,681,682**
Impairment allowance	(140,641,602)	(153,399,126)
Net loans	**806,626,713**	**790,282,556**

As at 31 December 2016 included in the loan portfolio are renegotiated loans to retail customers that would otherwise be past due or impaired for KZT 2,690,995 thousand (31 December 2015: KZT 879,857 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

As described above, the Group for the years 2014-2016 wrote off significant amounts of impaired loans overdue for more than 90 days in the amount of impairment allowance. If the Group did not write off those loans, as at 31 December 2016 the balance of impairment allowance would have been of KZT 464,936,305 thousand or 38.2% of the loan portfolio, presented as follows:

	Impairment allowance to gross loans before write off, %	**Impairment allowance to gross loans after write off, %**
Loans to large corporates	42.5%	19.3%
Loans to small and medium size companies	36.0%	5.0%
Mortgage loans	21.8%	7.6%
Consumer loans	25.8%	4.5%
Auto loans	15.7%	2.5%
Total loans to customers	**38.2%**	**15.2%**

If the Group did not write off certain impaired loans, as at 31 December 2015 the balance of impairment allowance would have been of KZT 440,227,583 thousand or 37.61%, presented as follows:

	Impairment allowance to gross loans before write off, %	**Impairment allowance to gross loans after write off, %**
Loans to large corporates	41.7%	21.5%
Loans to small and medium size companies	33.1%	5.7%
Mortgage loans	24.0%	5.8%
Consumer loans	18.0%	3.2%
Auto loans	16.8%	4.1%
Total loans to customers	**37.6%**	**16.9%**

16 Loans to customers, continued

(i) Key assumptions and judgments for estimating the impairment of loans to corporate customers, continued

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

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

- historic annual loss rate of 1%;
- migration rates for corporate loans with gross exposure of less than KZT 200,000 thousand are constant and can be estimated based on historic loss migration pattern for the past 12 months;
- a delay of 12 to 24 months in obtaining proceeds from the sale of foreclosed collateral.

Historically the collateral realisation period, using both in-court and out-of-court procedures, exceeded 24 months, which, in fact, is longer than the exposure periods used to calculate the present value of the expected future cash flows from loans to customers as at 31 December 2016. Said period has been due to the active work with the bad borrowers and collaterals on the part of both the Group and the court officers. The procedures of collection of overdue debt of such kind are at the closing stage with regard to majority of the impaired loans. As at 31 December 2016, the decisions of the court in favor of the Group with regard to the major portion of the past due impaired loans were received from the high court instances; as a result, the management expects significant reduction in the period for collateral realisation.

Changes in these estimates could affect the loan impairment allowance. Change in 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 for loans to corporate customers as at 31 December 2016 would be KZT 6,466,925 thousand lower/higher (31 December 2015: KZT 6,478,481 thousand).

(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 12 months;
- a delay of 24 months in obtaining proceeds from the foreclosure and sale of collateral.

Change in 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 for loans to retail customers as at 31 December 2016 would be KZT 4,798,025 thousand lower/higher (31 December 2015: KZT 4,273,034 thousand).

16 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2016 '000 KZT	Carrying amount of loans to customers	Fair value of collateral- for collateral assessed as of reporting date	Fair value of collateral- for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment				
Cash and deposits	32,244,313	32,244,313	-	-
Real estate	209,535,844	155,088,399	54,447,445	-
Motor vehicles	22,470,324	20,675,322	1,795,002	-
Equipment	4,635,817	2,203,794	2,432,023	-
Cash in the future	63,764,991	15,179,588	48,585,403	-
Finished goods	20,869,695	-	20,869,695	-
Voluntary insurance agreement	20,238,305	19,510,719	727,586	
Share in capital	6,749,346	409	6,748,937	-
Other collateral	8,233,104	7,399,453	833,651	-
Corporate guarantees (State owned companies)	687,452	-	-	687,452
Corporate guarantees (unrated)	48,612,370	-	-	48,612,370
No collateral or other credit enhancement (at carrying amount)	53,936,202	-	-	53,936,202
Total loans without individual signs of impairment	**491,977,763**	**252,301,997**	**136,439,742**	**103,236,024**
Overdue or impaired loans				
Cash and deposits	53,708	53,708	-	-
Real estate	119,489,569	109,210,489	10,279,080	-
Motor vehicles	7,665,830	7,653,854	11,976	-
Equipment	1,128,856	1,128,856	-	-
Other collateral	1,565,291	1,564,289	1,002	-
Corporate guarantees (unrated)	23,010,862	-	-	23,010,862
No collateral or other credit enhancement (at carrying amount)	1,800,663	-	-	1,800,663
Total overdue or impaired loans	**154,714,779**	**119,611,196**	**10,292,058**	**24,811,525**
Total loans to corporate customers	**646,692,542**	**371,913,193**	**146,731,800**	**128,047,549**

Included in the table above collaterals for the corporate loans, which were restructured and not overdue of KZT 141,225,313 thousand consist of real estate of KZT 42,898,126 thousand, cash coming in future of KZT 39,394,593 thousand, voluntary insurance agreement KZT 11,205,553 thousand, guarantee provided by the shareholder of the borrowers of KZT 73,737,973 thousand.

16 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements, continued

(i) Loans to corporate customers, continued

31 December 2015 '000 KZT	Carrying amount of loans to customers	Fair value of collateral- for collateral assessed as of reporting date	Fair value of collateral- for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment				
Cash and deposits	28,693,940	28,693,940	-	-
Real estate	189,030,863	115,865,705	73,165,158	-
Motor vehicles	35,240,469	35,139,249	101,220	-
Equipment	4,263,728	4,260,833	2,895	-
Cash in the future	57,587,389	6,438,856	51,148,533	-
Finished goods	22,358,266	16,974,737	5,383,529	-
Share in capital	876,207	6	876,201	-
Other collateral	11,932,834	10,186,461	1,746,373	-
Corporate guarantees (State owned companies)	29,933,684	-	-	29,933,684
Corporate guarantees (unrated)	40,011,519	-	-	40,011,519
No collateral or other credit enhancement (at carrying amount)	78,797,565	-	-	78,797,565
Total loans without individual signs of impairment	**498,726,464**	**217,559,787**	**132,423,909**	**148,742,768**
Overdue or impaired loans				
Cash and deposits	516,066	516,066	-	-
Real estate	144,468,553	131,160,642	13,307,911	-
Motor vehicles	425,330	414,241	11,089	-
Equipment	1,422,069	1,029,682	392,387	-
Other collateral	1,607,067	1,603,387	3,680	-
Corporate guarantees (unrated)	368,517	-	-	368,517
No collateral or other credit enhancement (at carrying amount)	314,034	-	-	314,034
Total overdue or impaired loans	**149,121,636**	**134,724,018**	**13,715,067**	**682,551**
Total loans to corporate customers	**647,848,100**	**352,283,805**	**146,138,976**	**149,425,319**

The tables above are presented excluding overcollateralisation.

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.

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 impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME 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.

16 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements, continued

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Group's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 80%.

The following table provides information on fair value of real estate collateral securing mortgage loans, net of impairment:

31 December 2016 '000 KZT	Carrying amount of loans to customers	Fair value of collateral- for collateral assessed as of reporting date	Fair value of collateral - for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans	41,917,296	16,407,634	18,933,837	6,575,825
Overdue loans	17,426,415	15,434,848	1,805,294	186,273
Total mortgage loans	**59,343,711**	**31,842,482**	**20,739,131**	**6,762,098**

31 December 2015 '000 KZT	Carrying amount of loans to customers	Fair value of collateral- for collateral assessed as of reporting date	Fair value of collateral- for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans	40,541,134	14,494,282	17,174,633	8,872,219
Overdue loans	16,875,852	15,707,097	672,974	495,781
Total mortgage loans	**57,416,986**	**30,201,379**	**17,847,607**	**9,368,000**

The tables above are presented excluding overcollateralisation.

For certain mortgage loans 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 may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For impaired or overdue mortgage loans management believes that the fair value of collateral is at least 98.89% of the carrying amount of the loans as at 31 December 2016 (31 December 2015: 96.99%).

Auto loans are secured by the underlying cars. The Group's policy is to issue auto loans with a loan-to-value ratio of a maximum of 80%.

For impaired or overdue auto loans management believes that the fair value of collateral is at least 94.18% of the carrying amount of the loans as at 31 December 2016 (31 December 2015: 93.89%).

16 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements, continued

(ii) Loans to retail customers, continued

The following table provides information on collateral securing consumer loans, net of impairment, by types of collateral:

31 December 2016 '000 KZT	**Carrying amount of loans to customers**	**Fair value of collateral- for collateral assessed as of reporting date**	**Fair value of collateral - for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Not overdue loans				
Cash and deposits	45,360	45,360	-	-
Real estate	25,578,613	16,661,564	8,917,049	-
Other collateral (equipment, motor vehicles, movables)	8,101,974	1,952	8,100,022	-
No collateral or other credit enhancement (at carrying amount)	46,820,178	-	-	46,820,178
Total not overdue loans	**80,546,125**	**16,708,876**	**17,017,071**	**46,820,178**
Overdue or impaired loans				
Cash and deposits	-	-	-	-
Real estate	13,423,488	12,706,844	716,644	-
Other collateral (equipment, motor vehicles)	2,058,240	33,854	2,024,386	-
No collateral or other credit enhancement (at carrying amount)	2,511,390	-	-	2,511,390
Total overdue or impaired loans	**17,993,118**	**12,740,698**	**2,741,030**	**2,511,390**
Total consumer loans	**98,539,243**	**29,449,574**	**19,758,101**	**49,331,568**

31 December 2015 '000 KZT	**Carrying amount of loans to customers**	**Fair value of collateral- for collateral assessed as of reporting date**	**Fair value of collateral- for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Not overdue loans				
Cash and deposits	64,875	64,875	-	-
Real estate	29,838,696	13,513,761	16,324,935	-
Other collateral (equipment, motor vehicles, movables)	7,809,967	16,835	7,793,132	-
No collateral or other credit enhancement (at carrying amount)	28,153,748	-	-	28,153,748
Total not overdue loans	**65,867,286**	**13,595,471**	**24,118,067**	**28,153,748**
Overdue or impaired loans				
Cash and deposits	2,066	2,066	-	-
Real estate	13,578,201	13,263,446	314,755	-
Other collateral (equipment, motor vehicles)	51,376	14,095	37,281	-
No collateral or other credit enhancement (at carrying amount)	3,335,672	-	-	3,335,672
Total overdue or impaired loans	**16,967,315**	**13,279,607**	**352,036**	**3,335,672**
Total consumer loans	**82,834,601**	**26,875,078**	**24,470,103**	**31,489,420**

16 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements, continued

(iii) Repossessed collateral

During the year ended 31 December 2016, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 1,693,520 thousand (31 December 2015: KZT 3,628,652 thousand). As at 31 December 2016, the repossessed collateral comprises:

	2016 '000 KZT	**2015 '000 KZT**
Real estate	10,329,617	9,108,752
Other assets	1,083	92,931
Total repossessed collateral	**10,330,700**	**9,201,683**

The Group's policy is to sell these assets as soon as it is practicable.

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located in Kazakhstan who operate in the following economic sectors:

	2016 '000 KZT	**2015 '000 KZT**
Individuals	169,472,900	148,723,691
Wholesale trade	167,662,577	194,009,175
Real estate	126,855,675	65,392,978
Construction	117,723,133	104,548,996
Transport	70,739,251	89,958,621
Food	65,658,879	82,277,533
Retail trade	39,551,050	41,971,231
Agriculture	11,158,923	10,180,327
Mining	9,928,034	8,263,129
Chemical	9,554,453	8,551,399
Metallurgy	4,736,542	3,736,336
Oil and gas industry	3,626,587	3,412,206
Entertainment	3,617,200	4,681,247
Hotel services	3,362,666	5,032,592
Textile	2,735,344	3,109,564
Communication	1,169,179	813,858
Other	139,715,922	169,018,799
	947,268,315	**943,681,682**
Impairment allowance	(140,641,602)	(153,399,126)
	806,626,713	**790,282,556**

(e) Significant credit exposures

As at 31 December 2016 the Group has 10 borrowers or groups of related borrowers (31 December 2015: 6), whose loan balances exceed 10% of statutory equity. The gross value of these balances as at 31 December 2016 is KZT 258,854,301 thousand (31 December 2015: KZT 165,283,805 thousand).

(e) Loan maturities

The maturity of the loan portfolio is presented in Note 28, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than the term based on contractual terms

16 Loans to customers, continued

(g) Transfers of financial assets

In July 2013, the Group sold a portfolio of mortgage loans with a carrying value of KZT 35,524,925 thousand for KZT 38,781,330 thousand, but provided a guarantee that will purchase individual loans back or exchange it for other individual loans if a loan becomes delinquent for more than two months. The amount that will be repurchased or exchanged is limited to 20% of transferred financial assets at the date of sale. The net gain recognised in other income at the date of transfer amounted to KZT 440,475 thousand.

During 2016 the Group recognised loss of KZT 2,350,000 thousand (2015: KZT 500,000 thousand) resulted from early repayment of mortgage loans made prior to re-registration of the assignment contracts and the Bank unpreparedness as at the reporting date to substitute these loans with other loans with similar and acceptable terms for the buyer. If such ability arises in the future, the Bank will have a right to provide substitution and recover the loss.

The Group has determined that a part of risks and rewards has been transferred to the transferee. The Group neither retained, nor transferred substantially all risks and rewards. The Group has retained control over non-transferred assets and continues recognising these assets to the extent of its continuing involvement in these assets. The Group's continuing involvement in the portfolios transferred is recognised in the statement of financial position as assets from continuing involvement within loans to customers of KZT 5,432,318 thousand (31 December 2015: KZT 7,104,985 thousand), with corresponding liability on continuing involvement included in deposits and balances from banks and other financial institutions of KZT 5,432,318 thousand (31 December2015: KZT 7,104,985 thousand) (Note 20).

17 Assets held for sale

	2016 ’000 KZT	**2015 ’000 KZT**
Assets held for sale, gross	84,577,823	71,385,592
Impairment allowance	(10,583,884)	-
Assets held for sale, net of impairment	**73,993,939**	**71,385,592**

As at 31 December 2016, included in assets held for sale was a portion of bad loan portfolio overdue more than 360 days of net carrying amount of KZT 73,993,939 thousand (31 December 2015: KZT 71,385,592 thousand), for which the Group actively seeks potential buyers. According to the plans approved by the Bank, bad loan portfolio was expected to be disposed by the end of 2016. However, due to circumstances beyond control of the Group, the Group has not completed sale during this period. Currently, management is in the process of completion negotiations with a potential buyer and expects that the sale will be completed during the third quarter of 2017.

Movement in the impairment allowance of assets held for sale for 2016 and 2015 is as follows:

	2016 ’000 KZT	**2015 ’000 KZT**
Balance at the beginning of the year	-	-
Net charge (recovery)	10,583,884	-
Balance at the end of the year	**10,583,884**	-

18 Property, plant and equipment and intangible assets

'000 KZT	Land and buildings	Motor vehicles	Computer equipment and fixtures and fitting	Construction in progress	Software	Total
Cost						
Balance at 1 January 2016	18,634,069	519,012	10,988,450	124,196	4,357,766	34,623,493
Additions	1,974	47,323	365,133	149,936	172,327	736,693
Disposals	(163,441)	(40,689)	(1,033,674)	-	(975)	(1,238,779)
Transfers	2,966	-	140,362	(143,328)	-	-
Transfer to other assets	-	-	-	(86,962)		(86,962)
Effect of foreign currency translation	77,982	12,841	163,869	3,110	79,572	337,374
Balance at 31 December 2016	**18,553,550**	**538,487**	**10,624,140**	**46,952**	**4,608,690**	**34,371,819**
Depreciation and amortisation						
Balance at 1 January 2016	(5,253,004)	(382,784)	(7,007,995)	-	(2,988,624)	(15,632,407)
Depreciation and amortisation for the year	(648,333)	(36,823)	(1,128,733)	-	(553,073)	(2,366,962)
Disposals	55,758	40,316	993,749	-	975	1,090,798
Effect of foreign currency translation	(13,488)	(11,461)	(91,829)	-	(40,283)	(157,061)
Balance at 31 December 2016	**(5,859,067)**	**(390,752)**	**(7,234,808)**	**-**	**(3,581,005)**	**(17,065,632)**
Carrying amount						
At 31 December 2016	**12,694,483**	**147,735**	**3,389,332**	**46,952**	**1,027,685**	**17,306,187**
Cost						
Balance at 1 January 2015	18,214,304	616,250	8,978,630	439,792	3,689,817	31,938,793
Additions	267,190	23,237	1,648,659	120,611	407,483	2,467,180
Disposals	(276,730)	(167,404)	(476,970)	(1,756)	(3,339)	(926,199)
Transfers	152,216	-	358,315	(519,461)	8,930	-
Transfer to other assets	-	-	-	(2,927)	-	(2,927)
Effect of foreign currency translation	277,089	46,929	479,816	87,937	254,875	1,146,646
Balance at 31 December 2015	**18,634,069**	**519,012**	**10,988,450**	**124,196**	**4,357,766**	**34,623,493**
Depreciation and amortisation						
Balance at 1 January 2015	(4,638,097)	(467,687)	(6,150,305)	-	(2,316,070)	(13,572,159)
Depreciation and amortisation for the year	(637,279)	(39,671)	(938,070)	-	(528,609)	(2,143,629)
Disposals	70,840	166,273	416,465	-	3,339	656,917
Effect of foreign currency translation	(48,468)	(41,699)	(336,085)	-	(147,284)	(573,536)
Balance at 31 December 2015	**(5,253,004)**	**(382,784)**	**(7,007,995)**	**-**	**(2,988,624)**	**(15,632,407)**
Carrying amount						
At 31 December 2015	**13,381,065**	**136,228**	**3,980,455**	**124,196**	**1,369,142**	**18,991,086**

19 Other assets

	2016 '000 KZT	2015 '000 KZT
Accrued fee and commission income	1,114,029	708,265
Other financial assets	531,456	325,295
Total other financial assets	**1,645,485**	**1,033,560**
Foreclosed property	12,748,963	11,760,679
Advances paid for administrative activities	2,350,353	834,197
Current tax asset	1,676,681	1,144,393
Advances paid for acquisition of property, equipment and intangible assets	669,402	584,574
Prepayment to marshal of the court	368,764	22,800
Taxes prepaid other than income tax	223,999	229,177
Inventories	212,600	215,689
Precious metals	7,244	6,826
Settlements with employees	5,043	3,996
Other assets	720,311	504,402
Total other non-financial assets	**18,983,360**	**15,306,733**
Impairment allowance	(3,290,226)	(3,522,196)
Total other assets	**17,338,619**	**12,818,097**

As at 31 December 2016 and 31 December 2015, the Group had no past due or impaired financial assets.

During the year ended 31 December 2016, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 1,693,520 thousand (31 December 2015: KZT 3,628,652 thousand) (Note 16(c)).

In 2016 the Group disposed of the foreclosed asset of net carrying amount of KZT 485,915 thousand (2015: KZT 427,472 thousand) and recognised loss from sale of KZT 71,415 thousand (2015: income - KZT 78,352 thousand). As at 31 December 2016 and 2015, the carrying value of the foreclosed properties is the lower of cost and net realisable value, where the selling price is based on the results of valuation performed by an independent appraiser.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2016 and 2015 are as follows:

	2016 '000 KZT	2015 '000 KZT
Balance at the beginning of the year	3,522,196	3,239,942
Net charge for the year	191,856	29,695
Net reversals for the year	(421,030)	223,805
Effect of foreign currency translation	(2,796)	28,754
Balance at the end of the year	**3,290,226**	**3,522,196**

20 Deposits and balances from banks and other financial institutions

	2016 '000 KZT	2015 '000 KZT
Liability on continuing involvement in loans to customers (Note 16(g))	5,432,318	7,104,985
Vostro accounts	543,190	244,735
Term deposits	148,883	4,083,065
Other	2,876,796	545,017
	9,001,187	**11,977,802**

As at 31 December 2016 and 2015 the Group has no banks whose balance exceeded 10% of statutory equity. As at 31 December 2016 included within other liabilities to other financial institutions are estimated liabilities of the Group recognised from the transaction on a sale of portfolio of mortgage loans in the amount of KZT 2,850,000 thousand, as described in Note 16(g) (as at 31 December 2015: KZT 500,000 thousand).

21 Current accounts and deposits from customers

	2016 '000 KZT	2015 '000 KZT
Current accounts and demand deposits		
- Corporate	424,182,726	229,092,263
- Retail	43,497,551	31,349,585
	467,680,277	**260,441,848**
Term deposits		
- Corporate	278,817,189	271,946,710
- Retail	397,332,354	375,435,713
	676,149,543	**647,382,423**
	1,143,829,820	**907,824,271**

As at 31 December 2016, the Group maintained customer deposit balances of KZT 46,603,442 thousand (31 December 2015: KZT 48,120,925 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 31 December 2016, the Group has eight customers (31 December 2015: six customers), whose balances exceed 10% of statutory equity. The total balances of the above mentioned customers as at 31 December 2016 are KZT 444,935,713 thousand (31 December 2015: KZT 227,853,428 thousand).

22 Subordinated borrowings and other borrowed funds

	2016 '000 KZT	2015 '000 KZT
Subordinated borrowings		
- Subordinated debt securities issued	93,094,781	95,057,199
Total subordinated borrowings	**93,094,781**	**95,057,199**
Other borrowed funds		
- Loans issued by banks and financial institutions	49,957,640	25,526,183
	49,957,640	**25,526,183**
Bonds issued		
- USD Eurobonds	-	68,968,525
- KZT bonds	58,678,597	58,518,915
	58,678,597	**127,487,440**
Total other borrowed funds	**108,636,237**	**153,013,623**

22 Subordinated borrowings and other borrowed funds, continued

In case of bankruptcy, the repayment of the subordinated borrowings will be made after full repayment of all other liabilities of the Group.

On 11 May 2016, the Bank repaid the fifth issue of the eurobonds of nominal value of USD 350,000 thousand that is equivalent to KZT 117,110,000 thousand, and the coupon amount is USD 15,750 thousand or the equivalent of KZT 5,269,950 thousand. The amount of principal repaid, less earlier repurchased by the Bank bonds, amounted to USD 201,011 thousand or the equivalent of KZT 67,258,247 thousand, the coupon amount is USD 9,045 thousand or the equivalent of KZT 3,026,621 thousand.

In December 2016 the Group repurchased part of liabilities on the subordinated debt for KZT 944,166 thousand in the amount of 4,450,000 bonds of nominal value of USD 4,450,000 or the equivalent of KZT 1,488,096 thousand. As a result of this, income from repurchase of own bonds amounted to KZT 543,930 thousand and was recognised in the consolidated statement of profit or loss (Note 10).

Financial covenants

In accordance with the contractual terms of certain long-term loans, the Group is required to maintain certain financial ratios, including with regard to its capital and lending exposure. The Group was in compliance with these ratios as at 31 December 2016 and 31 December 2015.

23 Other liabilities

	2016 '000 KZT	2015 '000 KZT
Accrued expenses on deposit guarantee fund	430,879	384,597
Accrued fee and commission expense	215,093	322,070
Other financial liabilities	5,145	9,607
Total other financial liabilities	**651,117**	**716,274**
Amounts payable to employees	1,089,346	526,504
Provision for guarantees and letters of credit issued	574,972	556,022
Other taxes payable	529,590	512,073
Vacation reserve	455,282	372,653
Deferred income	396,355	354,914
Accrued administrative expenses	226,019	317,279
Prepayments and other creditors	155,261	115,808
Deferred tax liability	33,996	35,031
Corporate income tax liability	13,277	154,367
Total other non-financial liabilities	**3,474,098**	**2,944,651**
	4,125,215	**3,660,925**

24 Share capital and reserves

(a) Issued capital

As at 31 December 2016, authorised share capital comprised 54,000,000 ordinary shares (31 December 2015: 54,000,000), of which 45,294,733 ordinary shares had been issued (31 December 2015: 45,294,733) and 45,265,543 ordinary shares were outstanding (31 December 2015: 45,265,543 shares). The ordinary shares have no par value.

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 shareholders meetings.

24 Share capital and reserves, continued

(b) Treasury shares

As at 31 December 2016, the Group held 29,190 treasury shares (31 December 2015: 29,190).

(c) Nature and purpose of reserves

General reserve

The general reserve is created, as permitted by the statutory regulations of the Republic of Kazakhstan, for general risks, including future losses and other unforeseen risks or contingencies. During the years ended 31 December 2016 and 2015, no transfers to general reserve were made.

Revaluation reserve for available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

Cumulative translation reserve

The cumulative translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(d) 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.

At a general shareholders' meeting held in May 2016, the Bank made a decision not to pay any dividends (31 December 2015: nil).

25 Earnings per share

The calculation of basic and diluted earnings per share as at 31 December 2016 is based on the net profit attributable to ordinary shares of KZT 4,763,224 thousand (31 December 2015: net earnings of KZT 7,230,142 thousand) and a weighted average number of outstanding ordinary shares - 45,265,543 (31 December 2015: 45,265,543).

The following table shows the profit for the years ended 31 December 2016 and 2015 and share data used in the basic and diluted earnings per share calculations:

	2016	**2015**
Profit attributable to ordinary shareholders (KZT'000)	4,763,224	7,230,142
Weighted average number of participating shares for basic earnings per share	45,265,543	45,265,543
Basic and diluted earnings per share (KZT)	**105**	**160**

There are no potentially dilutive shares for the years ended 31 December 2016 and 2015.

26 Book value per share

Under the listing rules of the Kazakh Stock Exchange the Group should present book value per share in its consolidated statement of financial position. Book value per share as at 31 December 2016 is calculated based on outstanding ordinary shares of 45,265,543 (31 December 2015: 45,265,543) and net assets of KZT 92,956,092 thousand (31 December 2015: KZT 86,333,497 thousand) and is calculated as follows:

	31 December 2016 '000 KZT	31 December 2015 '000 KZT
Total assets	1,452,833,739	1,259,237,116
Intangible assets	(1,027,685)	(1,369,142)
Total liabilities	(1,358,849,962)	(1,171,534,477)
Net assets	**92,956,092**	**86,333,497**

Book value per share as at 31 December 2016 and 2015 is presented below:

	31 December 2016 '000 KZT	31 December 2015 '000 KZT
Net assets	92,956,092	86,333,497
Outstanding ordinary shares at the end of the year	45,265,543	45,265,543
Book value per share (in KZT)	**2,054**	**1,907**

27 Analysis by segments

The Group has four reportable segments, as described below, which are the strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the reportable segments:

- Corporate banking - extension of loans, overdrafts, credit facilities and other types of financing to corporate and institutional customers, opening and maintenance of current accounts and deposit accounts, provision of customer services, custodial services, non-cash settlements, foreign exchange operations and trade finance;
- Small and medium size business – extension of loans, overdrafts, credit facilities and other types of financing to small and medium size enterprises, private entrepreneurs and farm households, opening and maintenance of current accounts and deposit accounts, provision of customer services, trade finance and electronic service systems;
- Retail banking – services for individual customers, including extension of consumer loans and mortgage loans, maintenance of current accounts, savings and deposit accounts, safekeeping, credit and debit cards and services related to cash and foreign exchange;
- Other segments include subsidiaries as well as departments responsible for asset and liability management and treasury functions.

27 Analysis by segments, continued

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by management. 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. Since the majority of each segment's revenues are from interest and management relies primarily on net interest revenue to assess performance of the segment and makes decisions about resources to be allocated to the segments.

Assets of the Group are concentrated mainly in the Republic of Kazakhstan, and revenues are derived mainly from operations in, and connected with, the Republic of Kazakhstan.

Segment breakdown of assets and liabilities is set out below:

	2016 '000 KZT	2015 '000 KZT
ASSETS		
Corporate banking	527,440,348	497,900,471
Small and medium size business	134,337,073	97,820,550
Retail banking	206,668,977	135,218,392
Other segments	584,387,341	528,297,703
Total assets	**1,452,833,739**	**1,259,237,116**
LIABILITIES		
Corporate banking	507,207,822	269,557,364
Small and medium size business	131,834,311	135,843,365
Retail banking	395,942,703	368,284,320
Other segments	323,865,126	397,849,428
Total liabilities	**1,358,849,962**	**1,171,534,477**

27 Analysis by segments, continued

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

'000 KZT	Corporate banking	Small and medium size business	Retail banking	Other segments	Total
Net interest income	17,704,118	3,378,588	7,248,208	17,697,267	46,028,181
Net fee and commission income	2,262,626	3,804,392	4,688,769	167,662	10,923,449
Net trading income	624,310	881,253	640,616	2,803,280	4,949,459
Other operating (expense)/income	5,333	13,367	19,803	(1,456,199)	(1,417,696)
Revenue	**20,596,387**	**8,077,600**	**12,597,396**	**19,212,010**	**60,483,393**
General administrative expenses, including taxes, other than income tax	(2,896,766)	(5,297,436)	(7,823,296)	(5,324,764)	(21,342,262)
Depreciation and amortisation	(6,307)	(6,282)	(248,566)	(2,105,807)	(2,366,962)
Operating expenses	**(2,903,073)**	**(5,303,718)**	**(8,071,862)**	**(7,430,571)**	**(23,709,224)**
Segment result before impairment losses	**17,693,314**	**2,773,882**	**4,525,534**	**11,781,439**	**36,774,169**
Impairment losses	(16,664,873)	(8,154,285)	(5,099,359)	(4,836,910)	(34,755,427)
(Loss)/profit of the reporting segment before taxation	**1,028,441**	**(5,380,403)**	**(573,825)**	**6,944,529**	**2,018,742**
Income tax expense	-	-	-	2,809,294	2,809,294
Net profit for the year	**1,028,441**	**(5,380,403)**	**(573,825)**	**9,753,823**	**4,828,036**
Capital expenditure	-	-	-	821,521	821,521
Deferred tax assets	-	-	-	5,904,688	5,904,688
Deferred tax liabilities	-	-	-	33,996	33,996

27 Analysis by segments, continued

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

'000 KZT	Corporate banking	Small and medium size business	Retail banking	Other segments	Total
Net interest income	14,214,963	1,101,043	6,368,702	5,938,985	27,623,693
Net fee and commission income	1,118,975	3,556,093	3,300,360	19,178	7,994,606
Net trading income	678,491	745,974	731,701	15,761,671	17,917,837
Other operating (expense)/income	(1,729)	3,292	(304,125)	395,329	92,767
Revenue	**16,010,700**	**5,406,402**	**10,096,638**	**22,115,163**	**53,628,903**
General administrative expenses, including taxes, other than income tax	(3,179,429)	(4,756,454)	(7,599,719)	(2,171,410)	(17,707,012)
Depreciation and amortisation	(8,400)	(3,883)	(266,473)	(1,864,873)	(2,143,629)
Operating expenses	**(3,187,829)**	**(4,760,337)**	**(7,866,192)**	**(4,036,283)**	**(19,850,641)**
Segment result before impairment losses	**12,822,871**	**646,065**	**2,230,446**	**18,078,880**	**33,778,262**
Impairment losses	(12,886,586)	(1,676,774)	(6,702,660)	(2,293,609)	(23,559,629)
(Loss)/profit of the reporting segment before taxation	**(63,715)**	**(1,030,709)**	**(4,472,214)**	**15,785,271**	**10,218,633**
Income tax expense	-	-	-	(2,918,368)	(2,918,368)
Net profit for the year	**(63,715)**	**(1,030,709)**	**(4,472,214)**	**12,866,903**	**7,300,265**
Capital expenditure	-	-	-	2,467,180	2,467,180
Deferred tax assets	-	-	-	2,670,266	2,670,266
Deferred tax liabilities	-	-	-	35,031	35,031

28 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity 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, bank 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 its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. The Management Board member is responsible for the overall risk management and reports directly to the CEO and indirectly to the Board of Directors. Head of Compliance Control is responsible for the compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting compliance risks and money laundering and financing terrorism risks. Compliance Control reports directly 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 Committees: Credit Committee/Risk Committee, Credit Administrations and an Asset and Liability Management Committee (ALCO). 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.

(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, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The market risk management objectives are to manage and control that exposure to market risk does not fall out of the acceptable parameters, ensuring the optimisation of profitability obtained for risk accepted.

Overall authority for market risk is vested in the Credit Committee and Risk Committee, which are chaired by the CEO. Market risk limits are considered by Credit Committee and Risk Committee for further approval of the Board of Directors.

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.

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

28 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 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 for major financial instruments is as follows:

'000 KZT	**Less than 3 month**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Non-interest bearing**	**Carrying amount**
31 December 2016						
ASSETS						
Cash equivalents	451,863,861	-	-	-	-	451,863,861
Financial instruments at fair value through profit or loss	-	560	-	79,042	-	79,602
Available-for-sale financial assets	-	315,008	-	-	97,635	412,643
Held-to-maturity investments	133,467	6,896,431	8,767,980	-	-	15,797,878
Deposits and loans to banks	2,059,714	4,982,991	4,828,381	166,564	-	12,037,650
Loans to customers:						
corporate	76,721,574	127,845,145	210,678,570	105,391,194	-	520,636,483
small and medium business	26,573,560	31,837,550	52,040,959	15,603,990	-	126,056,059
retail	6,716,528	12,820,140	58,510,001	81,887,502	-	159,934,171
Assets held for sale	-	73,993,939	-	-	-	73,993,939
	564,068,704	**258,691,764**	**334,825,891**	**203,128,292**	**97,635**	**1,360,812,286**
LIABILITIES						
Deposits and balances from banks and other financial institutions	135,231	2,851,830	5,433,039	37,897	543,190	9,001,187
Current accounts and deposits from customers:						
current accounts	305,402,779	-	-	-	162,277,498	467,680,277
term deposits	179,866,837	249,452,511	179,325,593	67,504,602	-	676,149,543
Other borrowed funds	2,837,905	24,076,913	5,516,418	76,205,001	-	108,636,237
Subordinated borrowings	2,402,353	32,233,116	-	58,459,312	-	93,094,781
	490,645,105	**308,614,370**	**190,275,050**	**202,206,812**	**162,820,688**	**1,354,562,025**
	73,423,599	**(49,922,606)**	**144,550,841**	**921,480**	**(162,723,053)**	**6,250,261**

28 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2015						
ASSETS						
Financial instruments at fair value through profit or loss	-	576	-	91,414	-	91,990
Available-for-sale financial assets	1,765,720	-	-	-	97,635	1,863,355
Held-to-maturity investments	133,467	91,416	15,246,942	-	-	15,471,825
Deposits and loans to banks	2,722,169	8,214,967	429,410	115,328	-	11,481,874
Loans to customers						
corporate	97,421,182	113,027,901	224,667,194	82,453,363	-	517,569,640
small and medium business	27,068,170	21,195,533	62,168,971	19,845,786	-	130,278,460
retail	4,143,790	13,768,218	57,754,050	66,768,398	-	142,434,456
Assets held for sale	-	71,385,592	-	-	-	71,385,592
	133,254,498	**227,684,203**	**360,266,567**	**169,274,289**	**97,635**	**890,577,192**
LIABILITIES						
Deposits and balances from banks and other financial institutions	4,092,022	500,941	7,108,961	31,143	244,735	11,977,802
Current accounts and deposits from customers:						
current accounts	120,282,117	-	-	-	140,159,731	260,441,848
term deposits	91,368,153	259,593,716	243,192,521	53,228,033		647,382,423
Other borrowed funds	2,980,203	69,076,640	5,286,026	75,670,754	-	153,013,623
Subordinated borrowings	2,402,353	481,681	34,001,000	58,172,165	-	95,057,199
	221,124,848	**329,652,978**	**289,588,508**	**187,102,095**	**140,404,466**	**1,167,872,895**
	(87,870,350)	**(101,968,775)**	**70,678,059**	**(17,827,806)**	**(140,306,831)**	**(277,295,703)**

28 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2016 and 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2016 Average effective interest rate, %			31 December 2015 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	11.86	0.07	0.38	0.47	0.05	-
Including Reverse REPO	17.1	-	-	36.4	-	-
Financial instruments at fair value through profit or loss	7.2	-	-	6.1	-	-
Available-for-sale financial assets	-	-	8.4	-	-	7.7
Held-to-maturity investments	6.1	-	-	5.7	-	-
Deposits and loans to banks	-	4.5	0.6	5.4	2.8	4.4
Loans to customers	13.0	8.3	21.2	11.8	9.2	21.2
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions	11.8	-	13.3	6.1	2.9	-
Current accounts and deposits from customers:	7.9	3.5	3.5	6.3	3.6	4.6
Subordinated borrowings	11.0	9.9	-	10.9	10.1	-
Other borrowed funds						
- Loans	3.8	-	12.9	3.3	6.4	15.0
- Bonds issued	10.3	10.0	-	10.1	9.4	-

28 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2016 and 2015 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2016		2015	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel rise	(4,874)	(2,180)	(6,341)	(6,972)
100 bp parallel fall	5,297	1,095	6,962	7,593

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate 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 2016 and 2015 is as follows:

	2016		2015	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel rise	287,853	287,853	(1,314,775)	(1,314,775)
100 bp parallel fall	(287,853)	(287,853)	1,314,775	1,314,775

(ii) Currency risk

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

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

28 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:

	KZT KZT'000	US D KZT'000	EUR KZT'000	RUB KZT'000	KGS KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS							
Cash and cash equivalents	323,542,065	145,129,729	8,614,121	2,069,303	22,207,724	1,760,977	503,323,919
Financial instruments at fair value through profit or loss	79,602	-	-	-	-	-	79,602
Available-for-sale financial assets	97,635	-	-	-	315,008	-	412,643
Held-to-maturity investments	15,797,878	-	-	-	-	-	15,797,878
Deposits and loans to banks	1,125,257	2,248,047	8,220,342	393,115	-	50,889	12,037,650
Loans to customers							
corporate	257,581,161	260,263,875	1,229,751	3,399	1,558,297	-	520,636,483
small and medium business	84,169,034	31,602,683	397,253	-	9,887,089	-	126,056,059
retail	106,343,095	46,643,044	27,160		6,920,872	-	159,934,171
Assets held for sale	34,712,402	39,148,481	133,056	-	-	-	73,993,939
Other financial assets	1,027,997	334,625	32,432	54,226	196,195	10	1,645,485
Total assets	**824,476,126**	**525,370,484**	**18,654,115**	**2,520,043**	**41,085,185**	**1,811,876**	**1,413,917,829**

28 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

	KZT KZT'000	US D KZT'000	EUR KZT'000	RUB KZT'000	KGS KZT'000	Other currencies KZT'000	Total KZT'000
LIABILITIES							
Deposits and balances from banks and other financial institutions	5,814,594	2,974,018	1,802	33,135	177,638	-	9,001,187
Current accounts and deposits from customers:							
current accounts	330,453,923	100,597,453	16,055,881	1,839,389	17,013,556	1,720,075	467,680,277
term deposits	270,538,950	393,221,527	3,934,113	122,120	8,332,833	-	676,149,543
Other borrowed funds	104,686,404	-	-	-	3,949,833	-	108,636,237
Subordinated borrowings	60,862,888	32,231,893	-	-	-	-	93,094,781
Other financial liabilities	560,931	7,707	9,703	10	72,438	328	651,117
Total liabilities	**772,917,690**	**529,032,598**	**20,001,499**	**1,994,654**	**29,546,298**	**1,720,403**	**1,355,213,142**
The effect of derivatives held for risk management	-	(2,203,335)	-	(654,679)	2,707,193	-	(150,821)
Net position	**51,558,436**	**(5,865,449)**	**(1,347,384)**	**(129,290)**	**14,246,080**	**91,473**	**58,553,866**

28 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 2015:

	KZT KZT'000	US D KZT'000	EUR KZT'000	RUB KZT'000	KGS KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS							
Cash and cash equivalents	31,802,648	236,024,518	22,683,095	2,283,149	14,096,453	622,820	307,512,683
Financial instruments at fair value through profit or loss	91,990	-	-	-	-	-	91,990
Available-for-sale financial assets	97,635	-	-	-	1,765,720	-	1,863,355
Held-to-maturity investments	15,471,825	-	-	-	-	-	15,471,825
Deposits and loans to banks	5,824,687	4,608,834	1,005,016	43,337	-	-	11,481,874
Loans to customers							
corporate	206,629,409	306,121,611	2,478,992	3,506	2,336,122	-	517,569,640
small and medium business	84,931,672	34,606,619	76,838	-	10,663,331	-	130,278,460
retail	85,132,905	52,845,694	18,758	-	4,437,099	-	142,434,456
Assets held for sale	36,860,967	33,564,982	959,643	-	-	-	71,385,592
Other financial assets	528,268	351,940	35,672	8,459	109,214	7	1,033,560
Total assets	**467,372,006**	**668,124,198**	**27,258,014**	**2,338,451**	**33,407,939**	**622,827**	**1,199,123,435**

28 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

	KZT KZT'000	US D KZT'000	EUR KZT'000	RUB KZT'000	KGS KZT'000	Other currencies KZT'000	Total KZT'000
LIABILITIES							
Deposits and balances from banks and other financial institutions	10,972,670	145,378	1,954	27,850	829,950	-	11,977,802
Current accounts and deposits from customers:							
current accounts	150,392,840	79,773,220	16,569,540	2,679,500	10,636,771	389,977	260,441,848
term deposits	131,448,317	498,701,475	10,426,797	181,780	6,624,054		647,382,423
Other borrowed funds	82,494,576	68,968,525	-	-	1,550,522	-	153,013,623
Subordinated borrowings	60,619,216	34,437,983	-	-	-	-	95,057,199
Other financial liabilities	632,353	6,602	7,284	7	69,574	454	716,274
Total liabilities	**436,559,972**	**682,033,183**	**27,005,575**	**2,889,137**	**19,710,871**	**390,431**	**1,168,589,169**
The effect of derivatives held for risk management	13,933,150	12,583,337	-	-	150,648	-	26,667,135
Net position	**44,745,184**	**(1,325,648)**	**252,439**	**(550,686)**	**13,847,716**	**232,396**	**57,201,401**

28 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2016 and 2015 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on 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.

	2016 KZT'000	2015 KZT'000
25% appreciation of USD against KZT	(1,173,090)	(265,130)
25% appreciation of EUR against KZT	(269,477)	50,488
25% appreciation of RUB against KZT	(25,858)	(110,137)
25% appreciation of KGS against KZT	2,849,216	2,770,696
25% appreciation of other foreign currencies against KZT	18,295	46,479

A strengthening of the KZT against the above currencies at 31 December 2016 and 2015 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) Value at Risk estimates

The Group utilises 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 upon a 99 percent confidence level and assumes a 10-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 movements in market prices are determined with reference to market data from at least the last 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 possible scenarios, particularly those that are of an extreme nature
- a 10-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 a prolonged 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.

28 Risk management, continued

(b) Market risk, continued

(iii) Value at Risk estimates, continued

The VAR measure is dependent upon the position and the volatility of market prices. The VAR of an unchanged position reduces if market volatility declines and vice versa.

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 of losses that could occur in respect of the portfolio of financial instruments at fair value as at 31 December is as follows:

	31 December 2016 KZT'000	31 December 2015 KZT'000
Foreign exchange risk	(142,295)	(1,710,828)
	(142,295)	**(1,710,828)**

(iv) 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.

As at 31 December 2016 and 2015 the Group is not exposed to other price risk.

(c) Credit risk

Credit risk 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 review and approval of 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.

28 Risk management, continued

(c) Credit risk, continued

Corporate loan credit applications are originated by the relevant client managers of the Corporate Underwriting Unit and are then passed on to Credit Analysis Unit. Credit applications prepared by the Relationship Manager and a Credit Analyst are the basis for the Risk Underwriter's due diligence and recommendation. After the Credit Risk Underwriter has concluded his analysis, the application is presented to the respective Credit Committee or Credit Administration for its decision. Individual transactions are also reviewed by the Legal, Collateral Assessment and Monitoring, Security, Accounting and Tax Departments depending on the requirements of the respective application.

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. Retail loan credit applications are reviewed by the Bank's branches through the use of scoring models and application data verification procedures.

Apart from individual customer analysis, the credit portfolio is assessed by the Group with regard to credit concentration and market risks.

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

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

	2016 KZT'000	2015 KZT'000
ASSETS		
Cash equivalents	451,863,861	277,847,399
Financial instruments at fair value through profit or loss	91,503	26,759,782
Available-for-sale financial assets	315,008	1,765,720
Held-to-maturity investments	15,797,878	15,471,825
Deposits and loans to banks	12,037,650	11,481,874
Loans to customers		
corporate	520,636,483	517,569,640
small and medium business	126,056,059	130,278,460
retail	159,934,171	142,434,456
Assets held for sale	73,993,939	71,385,592
Other financial assets	1,645,485	1,033,560
Total maximum exposure	**1,362,372,037**	**1,196,028,308**

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and 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 30.

As at 31 December 2016, the Group has one counterparty with carrying amount of balances of KZT 356,202,656 thousand, which exceed 10% of maximum credit risk exposure (31 December 2015: one counterparty, KZT 154,707,421 thousand).

28 Risk management, continued

(c) Credit risk, continued

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 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 statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

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

- loans to customers secured by cash bank deposits;
- sale and repurchase, and reverse sale and repurchase agreements.

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. Financial assets and liabilities subject to enforceable master netting and similar arrangements are as follows at 31 December 2016:

KZT'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amount of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset 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	63,337,660	-	63,337,660	-	(43,592,283)	19,745,377
Amounts receivable under reverse repurchase agreements	6,002,135	-	6,002,135	(6,002,135)	-	-
Total financial assets	**69,339,795**	**-**	**69,339,795**	**(6,002,135)**	**(43,592,283)**	**19,745,377**
Current accounts and deposits from customers:	(43,592,283)	-	(43,592,283)	43,592,283	-	-
Total financial liabilities	**(43,592,283)**	**-**	**(43,592,283)**	**43,592,283**	**-**	**-**

28 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

Financial assets and liabilities subject to enforceable master netting and similar arrangements are as follows at 31 December 2015:

KZT'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amount of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset 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	78,375,564	-	78,375,564	-	(45,536,196)	32,839,368
Amounts receivable under reverse repurchase agreements	8,016,713	-	8,016,713	(8,016,713)	-	-
Total financial assets	**86,392,277**	**-**	**86,392,277**	**(8,016,713)**	**(45,536,196)**	**32,839,368**
Current accounts and deposits from customers:	(45,536,196)	-	(45,536,196)	45,536,196	-	-
Total financial liabilities	**(45,536,196)**	**-**	**(45,536,196)**	**45,536,196**	**-**	**-**

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 at amortised cost. The amounts in the above tables that are offset in the consolidated statement of financial position are measured on the same basis.

(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 honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term 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 smoothly to unforeseen liquidity requirements.

28 Risk management, continued

(d) Liquidity risk, continued

The liquidity management policy requires:

- projecting cash flows by major currencies and considering 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 Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, inter-bank facilities and other money market instruments, to ensure that sufficient liquidity is maintained within the Group as a whole.

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

The following tables show the undiscounted cash flows on financial assets and 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. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

28 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative financial assets						
Cash and cash equivalents	504,041,538	-	-	-	504,041,538	503,323,919
Financial instruments at fair value through profit or loss	-	-	5,600	123,842	129,442	79,602
Available-for-sale financial assets	-	-	319,099	97,635	416,734	412,643
Held-to-maturity investments		182,000	7,557,015	10,012,980	17,751,995	15,797,878
Deposits and loans to banks	209,782	1,856,923	4,982,991	4,994,945	12,044,641	12,037,650
Loans to customers						
corporate	35,478,707	30,897,730	163,427,603	370,942,983	600,747,023	520,636,483
small and medium business	4,211,499	12,595,981	37,895,071	96,097,118	150,799,669	126,056,059
retail	5,184,105	10,360,409	41,483,257	179,328,014	236,355,785	159,934,171
Assets held for sale	-	-	73,993,939	-	73,993,939	73,993,939
Other financial assets	1,479,119	3,849	142,275	20,242	1,645,485	1,645,485
Derivative assets						
Net settled derivatives	11,901	-	-	-	11,901	11,901
Gross settled derivatives						
Inflow	666,580	-	-	-	666,580	666,580
Outflow	(654,679)	-	-	-	(654,679)	(654,679)
Total assets	**550,616,651**	**55,896,892**	**329,806,850**	**661,617,759**	**1,597,938,152**	**1,413,929,730**

28 Risk management, continued

(d) Liquidity risk, continued

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative financial liabilities						
Deposits and balances from banks and other financial institutions	(569,994)	(108,427)	(2,851,872)	(5,471,049)	(9,001,342)	(9,001,187)
Current accounts and deposits from customers:						
current accounts	(467,680,277)	-	-	-	(467,680,277)	(467,680,277)
term deposits	(49,628,995)	(132,228,664)	(268,650,348)	(289,972,583)	(740,480,590)	(676,149,543)
Other borrowed funds	(670,962)	(2,836,362)	(29,836,872)	(122,727,310)	(156,071,506)	(108,636,237)
Subordinated borrowings		(3,088,740)	(6,421,640)	(142,938,238)	(152,448,618)	(93,094,781)
Other financial liabilities	(651,117)	-	-	-	(651,117)	(651,117)
Derivative liabilities						
Net settled derivatives						
Gross settled derivatives	(24,735)	(121,693)	(16,294)	-	(162,722)	(162,722)
Inflow	473,721	1,879,245	354,227	-	2,707,193	2,707,193
Outflow	(498,456)	(2,000,938)	(370,521)	-	(2,869,915)	(2,869,915)
Total liabilities	**(519,226,080)**	**(138,383,886)**	**(307,777,026)**	**(561,109,180)**	**(1,526,496,172)**	**(1,355,375,864)**
Net liquidity gap on recognised financial assets and liabilities	**31,390,571**	**(82,486,994)**	**22,029,824**	**100,508,579**	**71,441,980**	**58,553,866**
Credit related commitments	**174,982,239**	**-**	**-**	**-**	**174,982,239**	**174,982,239**

28 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative financial assets						
Cash and cash equivalents	295,866,258	11,765,852	-	-	307,632,110	307,512,683
Financial instruments at fair value through profit or loss	-	-	5,600	153,955	159,555	91,990
Available-for-sale financial assets	1,869,635	-	-	-	1,869,635	1,863,355
Held-to-maturity investments	-	182,000	752,000	18,270,440	19,204,440	15,471,825
Deposits and loans to banks	287,763	2,434,406	8,214,967	544,738	11,481,874	11,481,874
Loans to customers						
corporate	20,541,880	43,326,748	101,423,209	434,142,025	599,433,862	517,569,640
small and medium business	4,259,712	8,126,953	24,416,100	126,924,219	163,726,984	130,278,460
retail	9,784,716	6,256,203	25,604,024	226,668,463	268,313,406	142,434,456
Assets held for sale	-	-	71,385,592	-	71,385,592	71,385,592
Other financial assets	901,250	3,399	102,713	26,198	1,033,560	1,033,560
Derivative assets						
Net settled derivatives	443,950	-	25,118,935	-	25,562,885	26,667,792
Gross settled derivatives						
Inflow	41,245,150	-	52,430,935	-	93,676,085	94,780,992
Outflow	(40,801,200)	-	(27,312,000)	-	(68,113,200)	(68,113,200)
Total assets	**333,955,164**	**72,095,561**	**257,023,140**	**806,730,038**	**1,469,803,903**	**1,225,791,227**

28 Risk management, continued

(d) Liquidity risk, continued

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative financial liabilities						
Deposits and balances from banks and other financial institutions	(327,536)	(4,115,071)	(500,941)	(7,112,727)	(12,056,275)	(11,977,802)
Current accounts and deposits from customers:						
current accounts	(260,441,848)	-	-	-	(260,441,848)	(260,441,848)
term deposits	(45,238,781)	(46,525,730)	(281,488,012)	(337,869,495)	(711,122,018)	(647,382,423)
Other borrowed funds	(47,464)	(3,554,897)	(75,147,376)	(132,181,876)	(210,931,613)	(153,013,623)
Subordinated borrowings	-	(3,088,740)	(6,970,521)	(154,474,568)	(164,533,829)	(95,057,199)
Other financial liabilities	(683,612)	(26,900)	(5,762)	-	(716,274)	(716,274)
Derivative liabilities						
Net settled derivatives	(657)	-	-	-	(657)	(657)
Gross settled derivatives						
Inflow	150,648	-	-	-	150,648	150,648
Outflow	(151,305)	-	-	-	(151,305)	(151,305)
Total liabilities	**(306,739,898)**	**(57,311,338)**	**(364,112,612)**	**(631,638,666)**	**(1,359,802,514)**	**(1,168,589,826)**
Net liquidity gap on recognised financial assets and liabilities	**27,215,266**	**14,784,223**	**(107,089,472)**	**175,091,372**	**110,001,389**	**57,201,401**
Credit related commitments	**226,809,432**	**-**	**-**	**-**	**226,809,432**	**226,809,432**

28 Risk management, continued

(d) Liquidity risk, continued

The gross nominal inflow/(outflow) disclosed in the tables above represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

The table below show an analysis, by expected maturities, of the amounts recognised in the statement of financial position 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	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	503,323,919	-	-	-	-	-	-	503,323,919
Financial instruments at fair value through profit or loss	11,901	-	560	-	79,042	-	-	91,503
Available-for-sale financial assets	-	-	315,008	-	-	97,635	-	412,643
Held-to-maturity investments	-	133,467	6,896,431	8,767,980	-	-	-	15,797,878
Deposits and loans to banks	202,796	1,856,918	4,982,991	4,828,381	166,564	-	-	12,037,650
Loans to customers:								
Loans to large corporates	12,542,551	8,071,006	125,688,754	228,905,952	105,273,874	-	40,154,346	520,636,483
Loans to small- and medium-sized companies	4,188,023	3,867,071	28,964,030	49,581,098	15,745,612	-	23,710,225	126,056,059
Loans to retail customers	762,493	2,545,962	12,024,408	56,124,679	76,480,842	-	11,995,787	159,934,171
Assets held for sale	-	-	73,993,939	-	-	-	-	73,993,939
Property, plant and equipment and intangible assets	-	-	-	-	-	17,306,187	-	17,306,187
Deferred tax asset	-	-	-	5,904,688	-	-	-	5,904,688
Other assets	3,183,451	126,917	2,236,890	11,690,083	101,278	-	-	17,338,619
Total assets	**524,215,134**	**16,601,341**	**255,103,011**	**365,802,861**	**197,847,212**	**17,403,822**	**75,860,358**	**1,452,833,739**

28 Risk management, continued

(d) Liquidity risk, continued

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Financial instruments at fair value through profit or loss	(24,736)	(121,694)	(16,292)	-	-	-	-	(162,722)
Deposits and balances from banks and other financial institutions	(569,994)	(108,427)	(2,851,830)	(5,433,039)	(37,897)	-	-	(9,001,187)
Current accounts and deposits from customers:								
Current accounts	(467,680,277)	-	-	-	-	-	-	(467,680,277)
Term deposit accounts	(49,555,127)	(130,311,710)	(249,452,511)	(179,325,593)	(67,504,602)	-	-	(676,149,543)
Other borrowed funds	(616,210)	(2,221,695)	(24,076,913)	(5,516,418)	(76,205,001)	-	-	(108,636,237)
Subordinated borrowings	-	(2,402,353)	(387,257)	(31,845,859)	(58,459,312)	-	-	(93,094,781)
Other liabilities	(2,691,406)	(82,354)	(624,026)	(714,033)	(13,396)	-	-	(4,125,215)
Total liabilities	**(521,137,750)**	**(135,248,233)**	**(277,408,829)**	**(222,834,942)**	**(202,220,208)**	**-**	**-**	**(1,358,849,962)**
Net position	**3,077,384**	**(118,646,892)**	**(22,305,818)**	**142,967,919**	**(4,372,996)**	**17,403,822**	**75,860,358**	**93,983,777**

28 Risk management, continued

(d) Liquidity risk, continued

The table below show an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2015:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	295,862,062	11,650,621	-	-	-	-	-	307,512,683
Financial instruments at fair value through profit or loss	443,950	-	26,224,418	-	91,414	-	-	26,759,782
Available-for-sale financial assets	1,765,720	-	-	-	-	97,635	-	1,863,355
Held-to-maturity investments	-	133,467	91,416	15,246,942	-	-	-	15,471,825
Deposits and loans to banks	287,763	2,434,406	8,214,967	429,410	115,328	-	-	11,481,874
Loans to customers:								
Loans to large corporates	20,633,091	21,104,217	85,363,334	239,840,919	94,466,466	-	56,161,613	517,569,640
Loans to small- and medium-sized companies	6,440,714	4,030,541	19,376,533	59,588,189	21,288,569	-	19,553,914	130,278,460
Loans to retail customers	694,383	972,373	12,880,523	55,279,015	60,787,621	-	11,820,541	142,434,456
Assets held for sale	-	-	71,385,592	-	-	-	-	71,385,592
Property, plant and equipment and intangible assets	-	-	-	-	-	18,991,086	-	18,991,086
Deferred tax asset	-	-	-	2,670,266	-	-	-	2,670,266
Other assets	2,194,804	86,235	199,984	9,185,180	7,501	1,144,393	-	12,818,097
Total assets	**328,322,487**	**40,411,860**	**223,736,767**	**382,239,921**	**176,756,899**	**20,233,114**	**87,536,068**	**1,259,237,116**

28 Risk management, continued

(d) Liquidity risk, continued

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Financial instruments at fair value through profit or loss	(657)	-	-	-	-	-	-	(657)
Deposits and balances from banks and other financial institutions	(323,286)	(4,013,471)	(500,941)	(7,108,961)	(31,143)	-	-	(11,977,802)
Current accounts and deposits from customers:								
Current accounts	(260,441,848)	-	-	-	-	-	-	(260,441,848)
Term deposit accounts	(45,204,858)	(46,163,295)	(259,593,716)	(243,192,521)	(53,228,033)	-	-	(647,382,423)
Other borrowed funds	(45,106)	(2,935,097)	(69,076,640)	(5,286,026)	(75,670,754)	-	-	(153,013,623)
Subordinated borrowings	-	(2,402,353)	(481,681)	(34,001,000)	(58,172,165)	-	-	(95,057,199)
Other liabilities	(2,960,358)	(298,323)	(206,844)	(192,826)	(2,574)	-	-	(3,660,925)
Total liabilities	**(308,976,113)**	**(55,812,539)**	**(329,859,822)**	**(289,781,334)**	**(187,104,669)**	-	**-**	**(1,171,534,477)**
Net position	**19,346,374**	**(15,400,679)**	**(106,123,055)**	**92,458,587**	**(10,347,770)**	**20,233,114**	**87,536,068**	**87,702,639**

28 Risk management, continued

(d) Liquidity risk, continued

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band, is given below:

- less than 1 month: KZT 49,555,127 thousand (31 December 2015: KZT 45,204,858 thousand);
- from 1 to 3 months: KZT 130,311,710 thousand (31 December 2015: KZT 46,163,295 thousand);
- from 3 to 12 months: KZT 249,452,511 thousand (31 December 2015: KZT 259,593,716 thousand);
- from 1 to 5 years: KZT 179,325,593 thousand (31 December 2015: KZT 243,192,521 thousand).
- more than 5 years: KZT 67,504,602 thousand (31 December 2015: KZT 53,228,033 thousand).

(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.

29 Capital management

The NBRK sets and monitors capital requirements for the Group as a whole. The Bank and its subsidiaries are directly supervised by their respective local regulators.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. As at 31 December 2016, under the current capital requirements set by the NBRK, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. Amendments to guidelines on standard values and methods of calculating prudential ratios approved by the Committee for Regulation and Supervision of Financial Market and Financial Institutions are effective as of 1 January 2015, according to which the capital adequacy ratio was set at 7.5%. In addition to capital adequacy ratios, the capital conservation buffer for 2015 was set at 1%. As at 31 December 2016 and 2015, the minimum ratio was set at 8.5%. As at 31 December 2016, the Bank's statutory capital ratio was 17.3% (31 December 2015: 16.5%). The Bank complied with the statutory capital requirements as at 31 December 2016 and 2015.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I and Basel II.

29 Capital management, continued

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2016 and 2015:

	2016 KZT'000	2015 KZT'000
Tier 1 capital		
Share capital	167,878,470	167,878,470
Additional paid-in capital	1,461,271	1,461,271
Disclosed reserves	(75,451,249)	(81,310,479)
Non-controlling interests	498,662	401,463
Total tier 1 capital	**94,387,154**	**88,430,725**
Tier 2 capital		
Hybrid capital instruments	31,845,859	34,001,000
Asset revaluation reserve	(403,377)	(728,086)
Subordinated borrowings (unamortised portion)	47,193,577	44,215,363
Equity investments stated at cost	(97,635)	(97,635)
Total tier 2 capital	**78,538,424**	**77,390,642**
Total equity	**172,925,578**	**165,821,367**
Risk-weighted assets		
Banking book	1,036,341,132	1,113,998,701
Trading book	17,443,330	17,746,757
Total risk-weighted assets	**1,053,784,462**	**1,131,745,458**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**16.41**	**14.65**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**8.96**	**7.81**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group complied with all externally imposed capital requirements as at 31 December 2016 and 2015.

30 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 credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

30 Commitments, continued

The contractual amounts of commitments as at 31 December 2016 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 counterparties failed completely to perform as contracted.

	2016 KZT'000	2015 KZT'000
Contracted amount		
Loan and credit line commitments	103,293,448	173,404,054
Guarantees	68,971,413	48,880,159
Letters of credit	2,717,378	4,525,219
	174,982,239	**226,809,432**
Less provisions	(574,972)	(556,022)
Less cash collateral	(3,011,159)	(2,584,729)
	171,396,108	**223,668,681**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Group.

Of these commitments, there are no counterparties at 31 December 2016 whose balances exceed 10% of the Bank's statutory capital (2015: KZT 83,281,625 thousand are to three customers).

Movements in provision for losses on credit related commitments for the year ended 31 December 2016 and 2015 are as follows:

	2016 KZT'000	2015 KZT'000
Balance at the beginning of the year	556,022	596,508
Net charge for the year	16,801	(58,342)
Effect of foreign currency translation	2,149	17,856
Balance at the end of the year	**574,972**	**556,022**

31 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December 2016 are payable as follows:

	2016 KZT'000	2015 KZT'000
Less than 1 year	285,733	273,327
Between 1 and 5 years	596,083	434,739
More than 5 years	5,340	8,677
	887,156	**716,743**

The Group leases a number of premises under operating leases.

During the year ended 31 December 2016 KZT 1,523,673 thousand is recognised as an expense in profit or loss in respect of operating leases (31 December 2015: KZT 1,372,460 thousand).

32 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 premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to 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 financial position.

(b) Litigation

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 conditions or the results of future operations.

(c) Taxation contingencies

The taxation system in 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, in particular recognition of income, expenses and other items of the financial statements under IFRS. 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 the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

33 Related party transactions

(a) Control relationships

As at 31 December 2016 and 31 December 2015 the Bank’s parent company is KNG Finance LLP.

The ultimate controlling owner of the Group is Mr. Galimzhan Yessenov.

The Group’s parent KNG Finance LLP produces publicly available financial statements.

33 Related party transactions, continued

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the year ended 31 December 2016 and 2015 is as follows:

	2016 KZT'000	2015 KZT'000
Short term employee benefits	2,195,720	256,761

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

(b) Transactions with the members of the Board of Directors and the Management Board, continued

The outstanding balances and average interest rates as at 31 December 2016 and 2015 for transactions with the members of the Board of Directors and the Management Board, key management personnel of the Parent Company and their close family members are as follows:

	2016 KZT'000	Average interest rate, %	2015 KZT'000	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	36,583	11.27	39,344	11.33
LIABILITIES				
Current accounts and deposits from customers	2,864,059	2.72	1,331,773	3.81
Other liabilities	972,222	-	-	-

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board, key management personnel of the Parent Company and their close family members for the year ended 31 December 2016 and 2015 are as follows:

	2016 KZT'000	2015 KZT'000
Profit or loss		
Interest income	4,598	4,698
Interest expense	(77,778)	(19,472)

(c) Transactions with the Parent Company and other related parties

Other related parties include entities under control or significant influence of the parent company and the ultimate controlling owner.

33 Related party transactions, continued

(c) Transactions with the Parent Company and other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2016 and 2015 and related profit or loss amounts of transactions for the year ended 31 December 2016 and 2015 with other related parties are as follows:

	2016					2015				
	Parent company		Other related parties			Parent company		Other related parties		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Consolidated statement of financial position										
ASSETS										
Loans to customers										
- in USD	-	-	-	-	-	-	-	-	-	-
- In KZT	-	-	-			-	-	2,041,636	12.0	2,041,636
Other assets				-	-					
- in KZT	-	-	-	-		-	-	53,422	-	53,422
LIABILITIES					-					
Current accounts and deposits from customers:										
- in KZT	25,585	-	174,372	5.76	199,957	4,058	-	205,432	0.12	209,490
- in USD	53,058	0.44	132,314	-	185,372	4,747,366	1.96	46,065	1.0	4,793,431
- in other currency	201	-	710	-	911	211	-	5,150	-	5,361
Other liabilities	-	-	-	-	-	-	-	142	-	142
Profit/(loss)										
Interest income	-	-	93,157	-	93,157	-	-	173,468	-	173,468
Interest expense	(51,218)	-	(32,738)	-	(83,956)	(128,089)	-	(280)	-	(128,369)
Fee and commission income	1,897	-	271,698		273,595	1,367	-	646,397	-	647,764
Other general and administrative expenses	(130,800)	-	(54,551)	-	(185,351)	-	-	(72,237)	-	(72,237)

34 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 2016:

KZT'000	Trading	Held-to-maturity	Loans, deposits and receivables	Available-for-sale	Other at amortised cost	Total carrying amount	Fair value
Cash equivalents	-	-	451,863,861	-	-	451,863,861	451,863,861
Financial instruments at fair value through profit or loss	91,503	-	-	-	-	91,503	91,503
Available-for-sale financial assets	-	-	-	315,008	-	315,008	315,008
Held-to-maturity investments	-	15,797,878	-	-	-	15,797,878	14,942,126
Deposits and loans to banks	-	-	12,037,650	-	-	12,037,650	12,037,650
Loans to customers							
Loans to large corporates	-	-	520,636,483	-	-	520,636,483	517,361,491
Loans to small- and medium-sized companies	-	-	126,056,059	-	-	126,056,059	122,521,811
Loans to retail customers	-	-	159,934,171	-	-	159,934,171	159,324,553
Assets held for sale	-	-	73,993,939	-	-	73,993,939	74,443,800
Other financial assets	-	-	1,645,485	-	-	1,645,485	1,645,485
	91,503	**15,797,878**	**1,346,167,648**	**315,008**	**-**	**1,362,372,037**	**1,354,547,288**

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

(a) Accounting classifications and fair values, continued

KZT'000	Trading	Held-to-maturity	Loans, deposits and receivables	Available-for-sale	Other at amortised cost	Total carrying amount	Fair value
Financial instruments at fair value through profit or loss	162,722	-	-	-	-	162,722	162,722
Deposits and balances from banks and other financial institutions	-	-	-	-	9,001,187	9,001,187	9,001,187
Current accounts and deposits from customers:							
Current accounts					467,680,277	467,680,277	467,680,277
Term deposit accounts					676,149,543	676,149,543	681,870,001
Other borrowed funds	-	-	-	-	108,636,237	108,636,237	106,809,758
Subordinated borrowings	-	-	-	-	93,094,781	93,094,781	82,379,973
Other financial liabilities	-	-	-	-	651,117	651,117	651,117
	162,722	**-**	**-**	**-**	**1,355,213,142**	**1,355,375,864**	**1,348,555,035**

34 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 2015:

'000 KZT	Trading	Held-to-maturity	Loans, deposits and receivables	Available-for-sale	Other at amortised cost	Total carrying amount	Fair value
Cash equivalents	-	-	277,847,399	-	-	277,847,399	277,847,399
Financial instruments at fair value through profit or loss	26,759,782	-	-	-	-	26,759,782	26,759,782
Available-for-sale financial assets	-	-	-	1,765,720	-	1,765,720	1,765,720
Held-to-maturity investments	-	15,471,825	-	-	-	15,471,825	15,471,825
Deposits and loans to banks	-	-	11,481,874	-	-	11,481,874	11,481,874
Loans to customers							
Loans to large corporates	-	-	517,569,640	-	-	517,569,640	512,675,155
Loans to small- and medium-sized companies	-	-	130,278,460	-	-	130,278,460	129,745,014
Loans to retail customers	-	-	142,434,456	-	-	142,434,456	144,654,633
Assets held for sale		-	71,385,592	-	-	71,385,592	71,776,640
Other financial assets	-	-	1,033,560	-	-	1,033,560	1,033,560
	26,759,782	**15,471,825**	**1,152,030,981**	**1,765,720**	**-**	**1,196,028,308**	**1,193,211,602**

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

(a) Accounting classifications and fair values, continued

KZT'000	Trading	Held-to-maturity	Loans, deposits and receivables	Available-for-sale	Other at amortised cost	Total carrying amount	Fair value
Financial instruments at fair value through profit or loss	657	-	-	-	-	657	657
Deposits and balances from banks and other financial institutions	-	-	-	-	11,977,802	11,977,802	11,977,802
Current accounts and deposits from customers:							
Current accounts	-	-	-	-	260,441,848	260,441,848	260,441,848
Term deposit accounts	-	-	-	-	647,382,423	647,382,423	656,001,994
Other borrowed funds	-	-	-	-	153,013,623	153,013,623	155,727,097
Subordinated borrowings	-	-	-	-	95,057,199	95,057,199	91,230,547
Other financial liabilities	-	-	-	-	716,274	716,274	716,274
	657	**-**	**-**	**-**	**1,168,589,169**	**1,168,589,826**	**1,176,096,219**

34 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 settlement 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 for determining the fair value of common and simpler financial instruments. 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 like 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 at 31 December 2016 the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 97,635 thousand (31 December 2015: KZT 97,635 thousand) cannot be determined.

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

- discount rates of 5.8% – 15.9%, 7.5% - 17.3% и 9.2% – 23.5% are used for discounting future cash flows from loans to corporate customers, loans to small and medium-size businesses, and loans to retail customers, respectively (2015: 8.2% – 16.5%, 9.4% - 15.4% и 10.2% – 18.1%, respectively);
- discount rate of 11.35% is used for discounting future cash flows from deposits of customers in tenge and 2.61% is used for discounting future cash flows from deposits of customers in foreign currency (2015: 9.14% and 2.98%, respectively);
- quoted market prices are used for determination of fair value of debt securities issued and other borrowed funds.

34 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 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 significant 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 valuations. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

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			
- Debt and other fixed-income instruments	79,602	-	79,602
- Derivative assets	11,901	-	11,901
- Derivative liabilities	(162,722)	-	(162,722)
Available-for-sale financial assets			
- Debt and other fixed-income instruments	315,008	-	315,008
	243,789	**-**	**243,789**

The table below analyses financial instruments measured at fair value at 31 December 2015, 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			
- Debt and other fixed-income instruments	91,990	-	91,990
- Derivative assets	443,950	26,223,842	26,667,792
- Derivative liabilities	(657)	-	(657)
Available-for-sale financial assets			
- Debt and other fixed-income instruments	1,765,720	-	1,765,720
	2,301,003	**26,223,842**	**28,524,845**

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.

In accordance with the terms and conditions of swap agreements signed with the NBRK, the NBRK has a right, having sent a notice to a counterparty at least one day before the date of early closing of a swap transaction, to close unilaterally a transaction with financial derivatives before the schedule.

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

(b) Fair value hierarchy, continued

Due to existence of such option, the Group has adopted approach to use NDF 1-week forward rate (an average of bid/offer price) to measure fair value of swap. Fair value is determined on a weekly basis as a difference between the swap value according to the forecast forward rate and transaction rate. The currency swap was closed on 4 August 2016. As at 31 December 2015 the fair value of the swap was KZT 26,223,842 thousand.

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 on 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(e)(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	
	Derivative assets	
	2016 KZT'000	2015 KZT'000
Balance at 1 January	26,223,842	353,147
Net (loss)/profit from financial instruments at fair value through profit or loss	(434,342)	25,027,170
Issues	-	843,525
Settlement	(25,789,500)	-
Balance at 31 December	**-**	**26,223,842**

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. For fair value measurements in Level 3, changes in discount rate used for KZT leg by a 100 basis point (bp) would have the following effects as at 31 December 2016:

	2016 KZT'000		2015 KZT'000	
	Effect on profit or loss		Effect on profit or loss	
KZT'000	**Favourable**	**Unfavourable**	**Favourable**	**Unfavourable**
Financial instruments at fair value through profit or loss:				
- Derivative assets	-	-	138,499	(136,524)
Total	**-**	**-**	**138,499**	**(136,524)**

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

(b) Fair value hierarchy, continued

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values using unobservable inputs, based on the averages of the upper and lower quartiles, respectively, of the Group's ranges of possible estimates. Key inputs and assumptions used in the models as at 31 December 2015:

- Changing the estimated risk-free rate for KZT leg by 1% as at 31 December 2015
- Changing the estimated risk-free rate for USD leg by 0.5% as at December 2015.

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 equivalents	451,863,861	-	451,863,861	451,863,861
Held-to-maturity investments	14,942,126	-	14,942,126	15,797,878
Deposits and loans to banks	12,037,650	-	12,037,650	12,037,650
Loans to customers				
Loans to large corporates	517,361,491	-	517,361,491	520,636,483
Loans to small- and medium-sized companies	122,521,811	-	122,521,811	126,056,059
Loans to retail customers	-	159,324,553	159,324,553	159,934,171
Assets held for sale		74,443,800	74,443,800	73,993,939
Liabilities				
Deposits and balances from banks and other financial institutions	9,001,187	-	9,001,187	9,001,187
Current accounts and deposits from customers:				
Current accounts	467,680,277	-	467,680,277	467,680,277
Term deposit accounts	681,870,001	-	681,870,001	676,149,543
Other borrowed funds	106,809,758	-	106,809,758	108,636,237
Subordinated borrowings	82,379,973	-	82,379,973	93,094,781

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

(b) Fair value hierarchy, 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 2015:

KZT'000	Level 2:	Level 3	Total fair values	Total carrying amount
Assets				
Cash equivalents	277,847,399	-	277,847,399	277,847,399
Held-to-maturity investments	15,471,825	-	15,471,825	15,471,825
Deposits and loans to banks	11,481,874	-	11,481,874	11,481,874
Loans to customers				
Loans to large corporates	512,675,155	-	512,675,155	517,569,640
Loans to small- and medium-sized companies	129,745,014	-	129,745,014	130,278,460
Loans to retail customers		144,654,633	144,654,633	142,434,456
Assets held for sale	-	71,776,640	71,776,640	71,385,592
Liabilities				
Deposits and balances from banks and other financial institutions	11,977,802	-	11,977,802	11,977,802
Current accounts and deposits from customers:				
Current accounts	260,441,848	-	260,441,848	260,441,848
Term deposit accounts	656,001,994	-	656,001,994	647,382,423
Other borrowed funds	155,727,097	-	155,727,097	153,013,623
Subordinated borrowings	91,230,547	-	91,230,547	95,057,199