ATFBank JSC

Separate 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 separate financial statements of ATFBank JSC (the Bank), which comprise the separate statement of financial position as at 31 December 2016, the separate 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 separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 December 2016, and its separate financial performance and its separate 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 Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to customers	
Please refer to the Notes 3 (Significant accounting policies) and 16 (Loans to customers) in the separate financial statements.	
The key audit matter	***How the matter was addressed in our audit***
The impairment of loans to customers is estimated by management through the application of judgement and use of highly subjective assumptions. Due to the significance of loans to customers (representing 55% 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.	Our audit procedures included evaluating and testing the Bank'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 Bank 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 Bank'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 Bank'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 separate financial statements, we specifically challenged the Bank's assumptions on the expected future cash flows, including the value of realisable collateral based on our own understanding and available market information.

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 Bank.	In particular, for corporate loans, which were restructured during the year and classified by the Bank as unimpaired as at 31 December 2016 (Note 16(a)), we specifically challenged, in most cases with involvement of our own valuation specialists, the Bank'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 Bank, its recent performance and industry developments. We have assessed the methodology used by the Bank 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 Bank's actual historic experience. These actual rates were compared to those assumed by the Bank 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 Bank's exposure to credit risk.

<table>
<tr><th colspan="2">Accounting for assets held for sale</th></tr>
<tr><td colspan="2">Please refer to the Notes 3 (Significant accounting policies) and 17 (Assets held for sale) in the separate financial statements.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>In 2015 the Bank 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.</td><td>We challenged the Bank'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 separate financial statements. We challenged the Bank's assumptions on the expected future cash flows, value of realisable collateral based on our own understanding and available market information.</td></tr>
</table>

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank for 2016 but does not include the separate financial statements and our auditors' report thereon. The Annual Report of the Bank for 2016 is expected to be made available to us after the date of this auditors' report.

Our opinion on the separate 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 separate 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 separate 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 Separate Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Separate 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate 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 Separate 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	118,496,524	70,238,206
Interest expense	4	(78,739,137)	(47,567,945)
Net interest income		**39,757,387**	**22,670,261**
Fee and commission income	5	13,044,115	10,808,021
Fee and commission expense	6	(3,052,403)	(3,399,763)
Net fee and commission income		**9,991,712**	**7,408,258**
Net loss on financial instruments at fair value through profit or loss		(12,637)	(6,257)
Net gain on derivative financial instruments	7	1,589,215	30,070,566
Net foreign exchange gain		1,800,526	(13,324,041)
Dividend income		1,621,802	1,272,730
Net loss on available-for-sale financial assets		-	(65,027)
Other operating expense	10	(1,866,801)	(461,444)
Operating income		**52,881,204**	**47,565,046**
Impairment losses	8	(33,395,654)	(22,739,763)
General administrative expenses	9	(18,311,715)	(16,183,876)
Profit before income tax		**1,173,835**	**8,641,407**
Income tax benefit (expense)	11	3,005,669	(2,607,325)
Profit for the year		**4,179,504**	**6,034,082**

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

	Note	2016 '000 KZT	2015 '000 KZT
Other comprehensive (loss)/ income 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		-	(828,738)
- Net change in fair value transferred to profit or loss		323,149	65,027
Total items that are or may be reclassified subsequently to profit or loss		*323,149*	*(763,711)*
Other comprehensive income (loss) for the year, net of income tax		**323,149**	**(763,711)**
Total comprehensive income for the year		**4,502,653**	**5,270,371**
Earnings per share			
Basic earnings per share, in KZT	26	105	160
Diluted earnings per share, in KZT		105	160

The separate financial statements as set out on pages 10 to 87 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 separate statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the separate financial statements.

	Note	2016 '000 KZT	2015 '000 KZT
ASSETS			
Cash and cash equivalents	12	466,738,571	262,536,406
Financial instruments at fair value through profit or loss			
- Held by the Bank	13	91,503	26,759,782
Available-for-sale financial assets			
- Held by the Bank		97,635	97,635
Held-to maturity investments	14	15,797,878	15,471,825
Deposits and loans to banks	15	11,872,789	11,366,546
Loans to customers:			
Loans to large corporates	16	502,338,395	498,050,804
Loans to small- and medium-sized companies	16	100,124,646	102,982,203
Loans to retail customers	16	149,120,517	129,347,866
Assets held for sale	17	73,993,939	71,385,592
Investments in subsidiaries	18	4,170,888	2,539,621
Property, equipment and intangible assets	19	14,969,563	16,600,297
Deferred tax asset	11	5,890,283	2,668,579
Other assets	20	16,471,129	14,069,503
Total assets		**1,361,677,736**	**1,153,876,659**
LIABILITIES			
Deposits and balances from banks and other financial institutions	21	9,095,113	11,378,281
Current accounts and deposits from customers:			
Current accounts	22	417,602,974	217,920,828
Term deposit accounts	22	653,300,437	599,637,299
Other borrowed funds	23	104,686,396	151,463,101
Subordinated borrowings	23	93,094,781	95,057,199
Other liabilities	24	3,649,068	2,673,637
Total liabilities		**1,281,428,769**	**1,078,130,345**
EQUITY			
Share capital	25	167,878,470	167,878,470
Additional paid-in capital		359,002	359,002
General reserve		15,181,181	15,181,181
Revaluation reserve for available-for-sale financial assets		(383,747)	(706,896)
Accumulated losses		(102,785,939)	(106,965,443)
Total equity		**80,248,967**	**75,746,314**
Total liabilities and equity		**1,361,677,736**	**1,153,876,659**

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

	2016 '000 KZT	2015 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest income	89,870,739	53,502,031
Interest expense	(68,454,337)	(45,701,973)
Fee and commission income	12,634,860	10,577,074
Fee and commission expense	(3,119,768)	(1,559,411)
Net receipts from financial instruments at fair value through profit or loss	2,661,822	4,733,341
Net receipts from foreign exchange	3,939,002	6,449,158
Net other expenses payments	(24,759)	(50,446)
Personnel expenses payments	(7,480,655)	(6,915,136)
Other general administrative expenses	(8,217,602)	(7,236,555)
Net change in operating assets		
Financial instruments at fair value through profit or loss	25,789,500	-
Deposits and loans to banks	(4,321,200)	2,462,500
Loans to customers	(34,897,562)	6,416,473
Other assets	(2,231,506)	1,438,920
Net change in operating liabilities		
Deposits and balances from banks and other financial institutions	(2,927,300)	1,683,054
Current accounts and deposits from customers	254,257,226	(74,954,243)
Other liabilities	134,538	(307,329)
Net cash from (used in) operating activities before income tax paid	**257,612,998**	**(49,462,542)**
Income tax paid	(744,196)	(170,828)
Cash flows from (used in) operations	**256,868,802**	**(49,633,370)**

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

	2016 '000 KZT	2015 '000 KZT
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	1,927,528	1,122,057
Purchases of available-for-sale financial assets	-	(3,574)
Sales of available-for-sale financial assets	-	9,795,785
(Disposal) / recovery of investments in subsidiaries	(212)	354,429
Purchases of property and equipment and intangible assets	(568,326)	(1,933,593)
Sales of property and equipment and intangible assets	162,127	269,873
Cash flows from investing activities	**1,521,117**	**9,604,977**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of loans	22,915,000	9,133,000
Repayment of loans	(1,288,120)	(6,595,145)
Proceeds from subordinated borrowings	-	58,143,763
Repayment of subordinated borrowings	(944,166)	-
Proceeds from debt securities issued	-	55,005,621
Repayment of debt securities	(67,258,247)	-
Cash flows (used in) from financing activities	**(46,575,533)**	**115,687,239**
Net increase in cash and cash equivalents	**211,814,386**	**75,658,846**
Effect of movements in exchange rates on cash and cash equivalents	(7,612,221)	51,032,732
Cash and cash equivalents at the beginning of the year	262,536,406	135,844,828
Cash and cash equivalents as at the end of year (Note 12)	**466,738,571**	**262,536,406**

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

'000 KZT	**Share capital**	**Additional paid-in capital**	**General reserve**	**Revaluation reserve for available-for-sale financial assets**	**Accumulated losses**	**Total equity**
Balance at 1 January 2016	167,878,470	359,002	15,181,181	(706,896)	(106,965,443)	75,746,314
Total comprehensive income						
Profit for the year	-	-	-	-	4,179,504	4,179,504
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets	-	-	-	323,149	-	323,149
Total other comprehensive income	-	-	-	**323,149**	-	**323,149**
Total comprehensive income for the year	-	-	-	**323,149**	4,179,504	**4,502,653**
Balance at 31 December 2016	**167,878,470**	**359,002**	**15,181,181**	**(383,747)**	**(102,785,939)**	**80,248,967**
Balance as at 1 January 2015	167,878,470	359,002	15,181,181	56,815	(112,999,525)	70,475,943
Total comprehensive income						
Profit for the year	-	-	-	-	6,034,082	6,034,082
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets	-	-	-	(763,711)	-	(763,711)
Total other comprehensive loss	-	**-**	**-**	**(763,711)**	**-**	**(763,711)**
Total comprehensive income for the year	-	**-**	**-**	**(763,711)**	**6,034,082**	**5,270,371**
Balance at 31 December 2015	**167,878,470**	**359,002**	**15,181,181**	**(706,896)**	**(106,965,443)**	**75,746,314**

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

1 Background

(a) Organisation and operations

ATFBank JSC (the "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 provides retail and corporate banking services in Kazakhstan, 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 Bank issues its general purpose consolidated financial statements in accordance with IFRS. The consolidated financial statements is available from the Bank at the Bank's legal address.

(b) Shareholders

As at 31 December 2016 and 201, the following shareholders owned the outstanding ordinary shares:

Shareholders	31 December 2016 %	31 December 2015 %
KNG Finance LLC	99.78	99.78
Other shareholders, each holding less than 5%	0.22	0.22
	100.00	**100.00**

(c) Kazakhstan business environment

The Bank's operations are primarily located in Kazakhstan. Consequently, the Bank 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 separate financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

2 Basis of preparation, continued

(b) Basis of measurement

The separate 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 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 KZT is also the presentation currency for the purposes of these separate financial statements.

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

(d) Use of estimates and judgments

The preparation of separate 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 35.

(e) Changes in accounting policies and presentation

The Bank 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 separate financial statements was changed as follows:

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

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

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation, continued

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
Statement of Financial Position as at 31 December 2015			
Loans to customers:	730,380,873	(730,380,873)	-
Loans to large corporates	-	498,050,804	498,050,804
Loans to small- and medium-sized companies	-	102,982,203	102,982,203
Loans to retail customers	-	129,347,866	129,347,866
Current tax asset	1,127,869	(1,127,869)	-
Other assets	12,941,634	1,127,869	14,069,503
Current accounts and deposits from customers	817,558,127	(817,558,127)	-
Current accounts	-	217,920,828	217,920,828
Term deposit accounts	-	599,637,299	599,637,299
Separate 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	(15,033,993)	(1,149,883)	(16,183,876)
Taxes other than income tax	(872,282)	872,282	-
Other operating expenses	(817,397)	355,953	(461,444)

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

(a) Accounting of investments in subsidiaries in separate financial statements

Subsidiaries are entities controlled by the Bank. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are stated in these separate financial statements at cost less impairment losses.

3 Significant accounting policies, continued

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank 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.

(c) Cash and cash equivalents

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

(d) Financial instruments

(i) Classification

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

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

The Bank 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.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

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 Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

- 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 Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition, designates as at fair value through profit or loss.
- the Bank 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 separate statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

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

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;

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iii) Measurement, continued

- investments in subsidiaries which are measured at cost.

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

(iv) Amortised cost

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

(v) Fair value measurement principles

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

When available, the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(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;
- 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 Bank 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 Bank 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 Bank is recognised as a separate asset or liability in the separate statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged, or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its separate 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 Bank 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 Bank 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 Bank purchases its own debt, it is removed from the separate 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 Bank 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 separate 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.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(viii) Repurchase and reverse repurchase agreements, continued

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.

(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 Bank 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 separate 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.

(e) Property 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
- Office furniture and fixtures and fittings	8 years.

3 Significant accounting policies, continued

(f) Intangible assets

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

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

Amortisation is charged to 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.

(g) 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.

(h) Impairment

The Bank 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 Bank 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 Bank 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 Bank reviews its loans and receivables, to assess impairment on a regular basis.

The Bank 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 Bank 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.

3 Significant accounting policies, continued

(h) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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 Bank 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.

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 separate statement of profit or loss and other comprehensive income. The Bank 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.

3 Significant accounting policies, continued

(h) Impairment, continued

(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 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.

(i) Provisions

A provision is recognised in the separate statement of financial position when the Bank 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.

(j) 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 Bank 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.

(k) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Bank 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.

3 Significant accounting policies, continued

(k) Credit related commitments, continued

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

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss.
- if the Bank 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.

(l) 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.

(iii) Dividends

The ability of the Bank 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.

(m) 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 Bank 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.

3 Significant accounting policies, continued

(m) Taxation, continued

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 Bank takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Bank 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 Bank 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.

(n) Recognition of income and expenses in separate financial statements

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.

(o) Segment reporting

An operating segment is a component of a Bank 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 Bank); 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 separate financial statements. The Bank plans to adopt these pronouncements when they become effective.

The Bank has not yet analysed the likely impact of the new standards on its financial position or performance.

3 Significant accounting policies, continued

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

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.

(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 recognize 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 recognized 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.

3 Significant accounting policies, continued

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

IFRS 9 *Financial Instruments, continued*

(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 Bank does not intend to adopt the standard earlier.

The Bank has not started a formal assessment of potential impact on its separate 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 Bank's separate financial statements. Currently, the Bank is in the process of development of IFRS 9 implementation plan.

Other changes

The following new or amended standards are not expected to have a significant impact on the Bank's separate 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	81,893,029	68,616,013
Cash and cash equivalents	35,593,629	545,503
Held-to-maturity investment securities	936,902	-
Deposits and loans to banks	67,114	125,082
Financial instruments at fair value through profit or loss	5,850	5,851
Available-for-sale financial assets	-	945,757
	118,496,524	**70,238,206**
Interest expense		
Current accounts and deposits from customers	(58,301,465)	(31,467,377)
Subordinated borrowings	(9,814,239)	(4,947,601)
Other borrowed funds	(9,439,592)	(8,108,741)
Deposits and balances from banks and other financial institutions	(1,183,841)	(3,044,226)
	(78,739,137)	**(47,567,945)**
	39,757,387	**22,670,261**

4 Net interest income, continued

In accordance with the 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 8,583,758 thousand (for the year ended 31 December 2015: KZT 10,463,906 thousand) accrued mainly on impaired corporate and SME loans.

Included within interest income on loans to customers is an interest income of KZT 9,563,237 thousand on loans which the Bank classifies as assets held for sale as at 31 December 2016 (2015: KZT 1,001,648 thousand) (Note 17).

5 Fee and commission income

	2016 '000 KZT	2015 '000 KZT
Bank transfers	3,890,560	3,712,841
Cash operations	1,944,325	1,751,623
Agency services on insurance agreements	1,800,903	645,298
Plastic cards	1,741,762	1,615,196
Guarantees and letters of credit	1,730,148	1,329,995
Foreign currency trading	1,092,525	981,507
Processing centre services	113,651	63,330
Safe operations	66,497	53,138
Customer service	65,615	84,060
Fiduciary operations	59,787	100,608
Custodian services	52,842	71,612
Project management	3,785	2,231
Other	481,715	396,582
	13,044,115	**10,808,021**

The Bank 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 Bank has received from its partners. The Bank does not share the insurance risk, which is a full responsibility of the partner. Fee and commission income on insurance is recognised in profit or loss as the Bank provides agency services to the insurance company.

6 Fee and commission expenses

	2016 '000 KZT	2015 '000 KZT
Expenses on insurance of customer deposits	1,695,859	1,634,266
Plastic cards	907,675	659,519
Bank transfers	283,348	240,879
Guarantees	80,661	797,066
Custodian services	50,621	35,522
Securities operations	8,141	12,035
Foreign currency trading	-	41
Other	26,098	20,435
	3,052,403	**3,399,763**

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	(19,307,694)	(22,761,226)
Assets held for sale	(10,583,884)	-
Loans and advances to banks	(3,363,714)	(28,102)
Other assets	(123,561)	(7,638)
Credit related commitments	(16,801)	58,301
Investments in subsidiaries	-	(1,098)
	(33,395,654)	**(22,739,763)**

9 General administrative expenses

	2016 '000 KZT	2015 '000 KZT
Personnel expenses		
Employee benefits	8,563,243	6,669,592
Payroll related taxes	735,523	662,118
	9,298,766	**7,331,710**
Other general administrative expenses		
Depreciation and amortisation	1,860,559	1,802,927
Repair and maintenance	1,238,577	1,193,348
Rent	1,172,271	1,150,158
Taxes other than income tax	903,416	872,282
Security	643,759	540,812
Transportation and logistics	603,108	475,883
Communication and information services	497,791	439,729
Collectors	366,638	263,458
Advertising and marketing	310,049	190,405
Insurance	324,477	199,214
Professional services	279,034	739,126
Stationery, publications, packaging	164,667	166,038
Travel expenses	134,096	95,476
Lease of vehicles	118,066	113,647
Fines and penalties	44,369	81,216
Representation expenses	13,713	7,055
Other	338,359	521,392
	18,311,715	**16,183,876**

Expenses on taxes other than income tax for the year ended 31 December 2016 comprised mostly the VAT expenses of KZT 537,929 thousand (31 December 2015: KZT 550,311 thousand) and property tax expenses of KZT 367,754 thousand (31 December 2015: KZT 219,572 thousand).

10 Other operating expenses

	2016 '000 KZT	2015 '000 KZT
Other revenue		
Income on repurchase of subordinated bonds	543,930	-
Dividends on other equity securities	35,880	24,088
Proceeds from sales of property, plant and equipment	27,547	57,907
Income on sale of foreclosed assets	-	78,352
Other	13,940	8,708
	621,297	**169,055**
Other expenses		
Loss on transaction of sale of mortgage loan portfolio (Note 16)	(2,350,000)	(500,000)
Loss on sale of foreclosed assets	(71,415)	-
Other	(66,683)	(130,499)
	(2,488,098)	**(630,499)**
	(1,866,801)	**(461,444)**

11 Income tax (benefit) expense

	2016 '000 KZT	2015 '000 KZT
Current year tax expense		
Current year	216,035	172,879
Deferred tax		
Origination and reversal of temporary differences	(3,221,704)	2,434,446
Total income tax expense	**(3,005,669)**	**2,607,325**

The Bank is the subject to taxation in the Republic of Kazakhstan.

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

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	**1,173,835**	**100**	**8,641,407**	**100**
Income tax charge at the applicable tax rate	234,767	20	1,728,281	20
Non-taxable income from government securities	(5,009,026)	(427)	-	-
Non-taxable income from dividends	(324,360)	(28)	(259,364)	(3)
Withholding tax on dividends	216,035	18	172,879	2
Non-deductible impairment losses	3,027,382	258	557,618	6
Non-deductible interest and commission expenses	22,233	2	41,591	-
Forgiven debt	709,115	60	260,393	3
Compensation for previous deductions on bad debt	-	-	197,087	2
Overprovided in prior periods	(1,984,151)	(169)	(251,941)	(2)
Other non-deductible expenses	102,336	9	160,781	2
	(3,005,669)	**(256)**	**2,607,325**	**30**

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 separate financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim the deductions in future periods. Deferred tax asset is recognised in these separate financial statements based on the Bank's long-term business plan.

2016 '000 KZT	**Balance at 1 January 2016**	**Recognised in profit or loss**	**Balance at 31 December 2016**
Property, equipment and intangible assets	(1,031,361)	67,677	(963,684)
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	(2,602,229)	5,828,781
	2,668,579	**3,221,704**	**5,890,283**

2015 '000 KZT	**Balance at 1 January 2015**	**Recognised in profit or loss**	**Balance at 31 December 2015**
Loans to customers	(3,148,857)	3,148,857	-
Property, equipment and intangible assets	(938,608)	(92,753)	(1,031,361)
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
	5,103,025	**(2,434,446)**	**2,668,579**

12 Cash and cash equivalents

	2016 '000 KZT	2015 '000 KZT
Petty cash	44,413,272	24,470,648
Nostro accounts with the National Bank of the Republic of Kazakhstan	61,898,464	148,999,655
Nostro accounts with other banks		
- rated AA- to AA+	13,856,451	15,743,239
- rated A- to A+	7,007,720	7,823,034
- rated BBB- to BBB+	2,135,719	24,086,381
- rated BB- to BB+	13,417,071	280,898
- rated below B+	417,244	13,415,318
- not rated	19,946,321	19,700,520
Reverse repurchase agreements up to 90 days	6,002,135	8,016,713
Term deposits with the National Bank of the Republic of Kazakhstan up to 90 days	294,304,192	-
Term deposits with other banks up to 90 days		
- rated below B+	3,339,982	-
Total cash and cash equivalents	**466,738,571**	**262,536,406**

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 2015, included into cash equivalents are claims on reverse repurchase agreements up to 90 days made at Kazakhstan Stock Exchange. As at 31 December 2016 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 (31 December 2015: KZT 8,526,008 thousand).

As at 31 December 2016 the Bank 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 Bank		
ASSETS		
Debt and other fixed-income instruments		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	79,602	91,990
Financial derivatives		
Foreign currency contracts	11,901	26,667,792
	91,503	**26,759,782**

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
Sell USD buy RUB				
Less than 1 month	666,580		60.28	

As at 31 December 2015, 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 Bank 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
Held-to-maturity investments	**15,797,878**	**15,471,825**

14 Held-to-maturity investments, continued

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
Deposits and loans		
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	429,759
- rated below B+	423,677	-
- rated D	3,394,201	-
- not rated	26,665	91,564
	15,266,990	**11,397,772**
Impairment allowance	(3,394,201)	(31,226)
Deposits and loans to banks	**11,872,789**	**11,366,546**

None of the deposits and loans to banks are overdue.

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.

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 Bank 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 Bank recognised an impairment allowance for 100% of the outstanding balance in its separate financial statements.

Money on the current 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 deposits 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 Bank as instructed by the Bank's customers.

15 Deposits and loans to banks, continued

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	622,611,824	634,596,832
Loans to small and medium size companies	105,357,668	109,250,668
Total loans to corporate customers	**727,969,492**	**743,847,500**
Loans to retail customers		
Mortgage loans	55,573,617	50,232,723
Consumer loans	100,184,779	82,535,499
Auto loans	2,104,858	2,276,439
Total loans to retail customers	**157,863,254**	**135,044,661**
Gross loans to customers	**885,832,746**	**878,892,161**
Impairment allowance	(134,249,188)	(148,511,288)
Net loans to customers	**751,583,558**	**730,380,873**

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	142,814,493	5,696,795	148,511,288
Net charge for the year	16,277,849	3,029,845	19,307,694
Write-offs	(34,630,256)	(1,884,713)	(36,514,969)
Reversals	3,006,157	2,126,263	5,132,420
Effect of foreign currency translation	(1,961,792)	(225,453)	(2,187,245)
Balance at the end of the year	**125,506,451**	**8,742,737**	**134,249,188**

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	185,968,320	3,694,221	189,662,541
Net charge for the year	17,729,605	5,031,621	22,761,226
Write-offs	(142,229,735)	(7,836,806)	(150,066,541)
Reversals	14,001,385	2,887,781	16,889,166
Effect of foreign currency translation	67,344,918	1,919,978	69,264,896
Balance at the end of the year	**142,814,493**	**5,696,795**	**148,511,288**

16 Loans to customers, continued

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 Bank has recovered the previously written off loans for the total amount of KZT 5,132,420 thousand (31 December 2015: KZT 16,892,063 thousand). Recovery has been due to the Bank work with the troubled borrowers and with regard to these loans the Bank 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 3,536,679 thousand and the Bank recognised the property for KZT 1,595,741 thousand related to the previously written-off loans in its separate statement of financial position.

(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	258,441,503	406,444,475
- Restructured not overdue loans	141,225,313	1,003,684
Impaired loans:		
- not past due	81,963,021	74,653,722
- overdue less than 90 days	3,022,429	27,607,670
- overdue more than 90 days and less than 1 year	31,304,833	421,032
- overdue more than 1 year	106,654,725	124,466,249
Total loans to large corporates	**622,611,824**	**634,596,832**
Impairment allowance on loans to large corporates	(120,273,429)	(136,546,028)
Net loans to large corporates	**502,338,395**	**498,050,804**
Loans to small and medium size companies		
Loans without individual signs of impairment	62,131,885	57,740,979
Impaired loans:		
- not past due	4,333,386	8,664,798
- overdue less than 90 days	3,827,422	1,027,108
- overdue more than 90 days and less than 1 year	3,272,818	3,090,880
- overdue more than 1 year	31,792,157	38,726,903
Total loans to small and medium size companies	**105,357,668**	**109,250,668**
Impairment allowance on loans to small- and medium-sized companies	(5,233,022)	(6,268,465)
Net loans to small and medium-sized companies	**100,124,646**	**102,982,203**
Total loans to corporate customers	**727,969,492**	**743,847,500**
Impairment allowance on loans to corporate customers	(125,506,451)	(142,814,493)
Net loans to corporate customers	**602,463,041**	**601,033,007**

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	34,631,917	31,237,249
- overdue less than 30 days	1,208,561	1,628,221
- overdue 30-89 days	609,422	939,044
- overdue 90-179 days	1,148,935	1,124,528
- overdue 180-360 days	2,380,663	922,296
- overdue more than 360 days	15,594,119	14,381,385
Total mortgage loans	**55,573,617**	**50,232,723**
Impairment allowance on mortgage loans	(4,206,213)	(2,923,380)
Net mortgage loans	**51,367,404**	**47,309,343**
Consumer loans		
- not past due	78,274,436	63,710,144
- overdue less than 30 days	4,769,530	3,272,687
- overdue 30-89 days	1,018,660	1,255,401
- overdue 90-179 days	2,859,350	1,640,695
- overdue 180-360 days	1,833,464	1,000,741
- overdue more than 360 days	11,429,339	11,655,831
Total consumer loans	**100,184,779**	**82,535,499**
Impairment allowance on consumer loans	(4,482,881)	(2,679,845)
Net consumer loans	**95,701,898**	**79,855,654**
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	270,335	297,954
Total auto loans	**2,104,858**	**2,276,439**
Impairment allowance on auto loans	(53,643)	(93,570)
Net auto loans	**2,051,215**	**2,182,869**
Total loans to retail customers	**157,863,254**	**135,044,661**
Impairment allowance on loans to retail customers	(8,742,737)	(5,696,795)
Net loans to retail customers	**149,120,517**	**129,347,866**
Total loans to customers	**885,832,746**	**878,892,161**
Impairment allowance	(134,249,188)	(148,511,288)
Net loans	**751,583,558**	**730,380,873**

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 Bank 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 Bank 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 Bank 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%**

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

(i) Loans to corporate customers

The Bank 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 Bank 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 6,024,630 thousand lower/higher (31 December 2015: KZT 6,010,330 thousand).

16 Loans to customers, continued

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

(ii) Loans to retail customers

The Bank 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 4,473,616 thousand lower/higher (31 December 2015: KZT 3,880,436 thousand).

(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	31,791,491	31,791,491	-	-
Real estate	176,510,056	155,088,400	21,421,656	-
Motor vehicles	22,410,533	20,675,322	1,735,211	-
Cash in the future	63,764,991	15,179,588	48,585,403	
Equipment	4,633,674	2,203,794	2,429,880	-
Finished goods	20,869,695	-	20,869,695	-
Voluntary insurance agreement	20,238,305	19,510,719	727,586	-
Other collateral	7,590,555	7,399,453	191,102	-
Share in capital	6,749,346	409	6,748,937	-
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	**457,794,670**	**251,849,176**	**102,709,470**	**103,236,024**
Overdue or impaired loans				
Cash and deposits	53,708	53,708	-	-
Real estate	109,456,139	109,210,489	245,650	-
Motor vehicles	7,653,854	7,653,854	-	-
Equipment	1,128,856	1,128,856	-	-
Other collateral	1,564,289	1,564,289	-	-
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	**144,668,371**	**119,611,196**	**245,650**	**24,811,525**
Total loans to corporate customers	**602,463,041**	**371,460,372**	**102,955,120**	**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	24,850,669	24,850,669	-	-
Real estate	155,642,193	115,865,705	39,776,488	-
Motor vehicles	35,158,772	35,139,249	19,523	-
Equipment	4,260,833	4,260,833	-	-
Cash in the future	57,587,389	6,438,856	51,148,533	-
Finished goods	22,358,266	16,974,737	5,383,529	-
Other collateral	11,129,835	10,186,461	943,374	-
Share in capital	876,207	6	876,201	-
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)	78,797,566	-	-	78,797,566
Total loans without individual signs of impairment	**460,606,933**	**213,716,516**	**98,147,648**	**148,742,769**
Overdue or impaired loans				
Cash and deposits	516,066	516,066	-	-
Real estate	135,787,760	131,160,642	4,627,118	-
Motor vehicles	414,241	414,241	-	-
Equipment	1,422,069	1,029,682	392,387	-
Other collateral	1,603,387	1,603,387	-	-
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	**140,426,074**	**134,724,018**	**5,019,505**	**682,551**
Total loans to corporate customers	**601,033,007**	**348,440,534**	**103,167,153**	**149,425,320**

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 Bank does not necessarily update the valuation of collateral as at each reporting date.

The Bank 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.

16 Loans to customers, continued

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

(i) Loans to corporate customers, continued

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.

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Bank'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	34,562,461	16,407,634	11,579,002	6,575,825
Overdue loans	16,804,943	15,434,848	1,183,822	186,273
Total mortgage loans	**51,367,404**	**31,842,482**	**12,762,824**	**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	30,854,961	14,494,282	7,494,767	8,865,912
Overdue loans	16,454,382	15,707,095	251,505	495,782
Total mortgage loans	**47,309,343**	**30,201,377**	**7,746,272**	**9,361,694**

The tables above are presented excluding overcollateralisation.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Bank 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: 98.69%).

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

16 Loans to customers, continued

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

(ii) Loans to retail customers, continued

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: 94.35%).

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				
Real estate	23,119,723	16,661,564	6,458,159	-
Other collateral (equipment, motor vehicles, movables)	7,879,168	1,952	7,877,216	-
No collateral or other credit enhancement (at carrying amount)	46,786,081	-	-	46,786,081
Total not overdue loans	**77,784,972**	**16,663,516**	**14,335,375**	**46,786,081**
Overdue or impaired loans				
Real estate	13,369,598	12,706,844	662,754	-
Other collateral (equipment, motor vehicles)	2,057,574	33,855	2,023,719	-
No collateral or other credit enhancement (at carrying amount)	2,489,754	-	-	2,489,754
Total overdue or impaired loans	**17,916,926**	**12,740,699**	**2,686,473**	**2,489,754**
Total consumer loans	**95,701,898**	**29,404,215**	**17,021,848**	**49,275,835**

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				
Real estate	27,276,321	13,513,761	13,762,560	-
Other collateral (equipment, motor vehicles, movables)	7,647,727	16,835	7,630,892	-
No collateral or other credit enhancement (at carrying amount)	28,149,017	-	-	28,149,017
Total not overdue loans	**63,073,065**	**13,530,596**	**21,393,452**	**28,149,017**
Overdue or impaired loans				
Real estate	13,418,900	13,263,445	155,455	-
Other collateral (equipment, motor vehicles)	46,828	14,095	32,733	-
No collateral or other credit enhancement (at carrying amount)	3,316,861	-	-	3,316,861
Total overdue or impaired loans	**16,782,589**	**13,277,540**	**188,188**	**3,316,861**
Total consumer loans	**79,855,654**	**26,808,136**	**21,581,640**	**31,465,878**

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 Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 1,595,741 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	10,228,424	9,108,752
Other assets	1,083	16,514
Total repossessed collateral	**10,229,507**	**9,125,266**

The Bank'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
Wholesale trade	167,662,577	194,009,175
Individuals	157,863,254	135,044,661
Real estate	126,855,675	65,392,978
Construction	115,124,539	102,110,025
Transport	69,896,304	88,841,463
Food	62,448,529	76,480,431
Retail trade	14,537,988	14,696,689
Agriculture	9,999,703	8,740,008
Chemical	9,511,811	8,488,333
Mining	9,300,267	8,262,730
Metallurgy	4,736,542	3,639,162
Entertainment	3,507,508	4,151,220
Oil and gas	2,811,298	2,985,787
Textile	1,086,350	2,087,633
Hotel services	978,031	3,379,751
Communication	837,089	677,502
Other	128,675,281	159,904,613
	885,832,746	**878,892,161**
Impairment allowance	(134,249,188)	(148,511,288)
	751,583,558	**730,380,873**

(e) Significant credit exposures

As at 31 December 2016 the Bank has ten 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 29, 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 Bank, 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

(f) Transfers of financial assets

In July 2013, the Bank 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 Bank 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 Bank has determined that a part of risks and rewards has been transferred to the transferee. The Bank neither retained, nor transferred substantially all risks and rewards. The Bank has retained control over non-transferred assets and continues recognising these assets to the extent of its continuing involvement in these assets. The Bank'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 21),

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 for 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 Bank 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 its control, the Bank failed to complete a 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 Investments in subsidiaries

The Bank has investments in following subsidiaries:

			Ownership, %		'000 KZT	
Name of the company	**Country of incorporation**	**Principal activity**	**2016**	**2015**	**2016**	**2015**
Optima Bank OJSC (formerly "UniCreditBank" OJSC)	Kyrgyzstan	Banking	97.1	97.1	3,840,150	2,218,349
Tobet Group LLP (former ATF Inkassatsiya LLP)	Kazakhstan	Cash collection	100.0	100.0	330,526	321,272
Shymkent Brewery LLP	Kazakhstan	Doubtful and bad assets management	100	-	212	-
					4,170,888	**2,539,621**

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.

19 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	17,513,345	120,283	8,939,786	86,962	3,411,660	30,072,036
Additions	1,974	13,177	338,345	-	107,097	460,593
Disposals	(163,441)	(23,579)	(958,186)	-	(975)	(1,146,181)
Transfer to other assets	-	-	(9,226)	(86,962)	-	(96,188)
Balance at 31 December 2016	**17,351,878**	**109,881**	**8,310,719**	**-**	**3,517,782**	**29,290,260**
Depreciation and amortisation						
Balance at 1 January 2016	(5,082,359)	(97,035)	(5,821,645)	-	(2,470,700)	(13,471,739)
Depreciation and amortisation for the year	(620,746)	(6,022)	(844,766)	-	(389,025)	(1,860,559)
Disposals	55,758	23,579	931,289	-	975	1,011,601
Balance at 31 December 2016	**(5,647,347)**	**(79,478)**	**(5,735,122)**	**-**	**(2,858,750)**	**(14,320,697)**
Carrying amount						
At 31 December 2016	**11,704,531**	**30,403**	**2,575,597**	**-**	**659,032**	**14,969,563**

19 Property, plant and equipment and intangible assets, continued

	Land and buildings	Motor vehicles	Computer equipment and fixtures and fitting	Construction in progress	Software	Total
Cost						
Balance at 1 January 2015	17,473,207	268,349	7,818,926	234,827	3,095,745	28,891,054
Additions	120,181	7	1,579,320	4,326	308,995	2,012,829
Disposals	(222,387)	(148,073)	(458,460)	-	-	(828,920)
Transfers	142,344	-	-	(149,264)	6,920	-
Transfer to other assets	-	-	-	(2,927)	-	(2,927)
Balance at 31 December 2015	**17,513,345**	**120,283**	**8,939,786**	**86,962**	**3,411,660**	**30,072,036**
Depreciation and amortisation						
Balance at 1 January 2015	(4,535,419)	(239,805)	(5,472,700)	-	(2,037,841)	(12,285,765)
Depreciation and amortisation for the year	(617,780)	(4,773)	(747,515)	-	(432,859)	(1,802,927)
Disposals	70,840	147,543	398,570	-	-	616,953
Balance at 31 December 2015	**(5,082,359)**	**(97,035)**	**(5,821,645)**	**-**	**(2,470,700)**	**(13,471,739)**
Carrying amount						
At 31 December 2015	**12,430,986**	**23,248**	**3,118,141**	**86,962**	**940,960**	**16,600,297**

20 Other assets

	2016 '000 KZT	2015 '000 KZT
Accrued fee and commission income	1,090,614	687,284
Other financial assets	113,078	66,604
Dividends receivable	-	1,944,205
Total other financial assets	**1,203,692**	**2,698,093**
Foreclosed property	12,568,385	11,684,262
Advances paid for administrative activities	2,230,895	642,051
Current tax asset	1,656,030	1,127,869
Advances paid for acquisition of property, equipment and intangible assets	661,726	553,993
Prepayment to marshal of the court	368,764	22,800
Taxes prepaid other than income tax	175,813	172,692
Inventories	146,436	150,860
Precious metals	7,244	6,826
Settlements with employees	4,941	3,409
Other assets	600,457	460,637
Total other non-financial assets	**18,420,691**	**14,825,399**
Impairment allowance	(3,153,254)	(3,453,989)
Total other assets	**16,471,129**	**14,069,503**

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

During the year ended 31 December 2016, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 1,595,741 thousand (31 December 2015: KZT 3,628,652 thousand) (Note 16(c)). In 2016 the Bank 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.

(a) 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	3,453,989	3,199,458
Net charge for the year	123,561	7,638
Net reversals for the year	(419,794)	244,920
Effect of foreign currency translation	(4,502)	1,973
Balance at the end of the year	**3,153,254**	**3,453,989**

21 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	781,514	393,838
Term deposits	4,486	3,334,441
Other	2,876,795	545,017
	9,095,113	**11,378,281**

As at 31 December 2016 and 2015 the Bank 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 Bank 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).

22 Current accounts and deposits from customers

	2016 '000 KZT	2015 '000 KZT
Current accounts and demand deposits		
- Corporate	385,209,109	194,226,776
- Retail	32,393,865	23,694,052
	417,602,974	**217,920,828**
Term deposits		
- Corporate	273,549,721	255,538,817
- Retail	379,750,716	344,098,482
	653,300,437	**599,637,299**
	1,070,903,411	**817,558,127**

As at 31 December 2016, the Bank maintained customer deposit balances of KZT 44,941,622 thousand (31 December 2015: KZT 41,593,083 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Bank. As at 31 December 2016, the Bank 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).

23 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	46,007,799	23,975,661
	46,007,799	**23,975,661**
Bonds issued		
- USD Eurobonds	-	68,968,525
- KZT notes	58,678,597	58,518,915
	58,678,597	**127,487,440**
Total other borrowed funds	**104,686,396**	**151,463,101**

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

23 Subordinated borrowings and other borrowed funds, continued

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 Bank 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 separate statement of profit or loss (Note 10).

Financial covenants

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

24 Other liabilities

	2016 '000 KZT	2015 '000 KZT
Accrued expenses on deposit guarantee fund	430,879	384,597
Accrued commission expense	135,996	249,553
Capital commitments	1,521	3,845
Total other financial liabilities	**568,396**	**637,995**
Amounts payable to employees	1,038,901	40,989
Provision for guarantees and letters of credit issued	574,762	555,810
Deferred income	392,157	351,377
Vacation reserve	364,135	279,459
Other taxes payable	363,628	397,206
Accrued administrative expenses	260,649	337,508
Prepayments and other creditors	86,440	73,293
Total other non-financial liabilities	**3,080,672**	**2,035,642**
	3,649,068	**2,673,637**

25 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.

(b) Treasury shares

As at 31 December 2016, the Bank held 29,190 of its own shares (31 December 2015: 29,190).

25 Share capital and reserves, continued

(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.

(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).

26 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 in accordance with the Group's consolidated financial statements, which include ATFBank JSC and its subsidiaries (the "Group"), 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.

27 Book value per share

Under the listing rules of the Kazakh Stock Exchange the Bank should present book value per share in its 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 79,589,935 thousand (31 December 2015: KZT 74,805,354 thousand) and is calculated as follows:

	31 December 2016 '000 KZT	31 December 2015 '000 KZT
Total assets	1,361,677,736	1,153,876,659
Intangible assets	(659,032)	(940,960)
Total liabilities	(1,281,428,769)	(1,078,130,345)
Net assets	**79,589,935**	**74,805,354**

27 Book value per share, continued

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	79,589,935	74,805,354
Outstanding ordinary shares at the end of the year	45,265,543	45,265,543
Book value per share (in KZT)	**1,758**	**1,653**

28 Segment analysis

The Bank 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.

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

28 Segment analysis, continued

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	493,231,338	422,937,246
Total assets	**1,361,677,736**	**1,153,876,659**
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	246,443,933	304,445,296
Total liabilities	**1,281,428,769**	**1,078,130,345**

28 Segment analysis, 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	11,426,473	39,757,387
Net fee and commission income	2,262,626	3,804,392	4,688,769	(764,075)	9,991,712
Net trading income	624,310	881,253	640,616	1,230,925	3,377,104
Other operating income	5,333	13,367	19,803	(283,502)	(244,999)
Revenue	**20,596,387**	**8,077,600**	**12,597,396**	**11,609,821**	**52,881,204**
General administrative expenses, including taxes, other than income tax	(2,896,766)	(5,297,436)	(7,823,296)	(433,658)	(16,451,156)
Depreciation and amortisation	(6,307)	(6,282)	(248,566)	(1,599,404)	(1,860,559)
Operating expenses	**(2,903,073)**	**(5,303,718)**	**(8,071,862)**	**(2,033,062)**	**(18,311,715)**
Segment result before impairment losses	**17,693,314**	**2,773,882**	**4,525,534**	**9,576,759**	**34,569,489**
Impairment losses	(16,664,873)	(8,154,285)	(5,099,359)	(3,477,137)	(33,395,654)
(Loss)/profit of the reporting segment before taxation	**1,028,441**	**(5,380,403)**	**(573,825)**	**6,099,622**	**1,173,835**
Income tax expense	-	-	-	3,005,669	3,005,669
Net profit for the year	**1,028,441**	**(5,380,403)**	**(573,825)**	**9,105,291**	**4,179,504**
Capital expenditure	-	-	-	568,326	568,326
Deferred tax assets	-	-	-	5,890,283	5,890,283

28 Segment analysis, 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	985,553	22,670,261
Net fee and commission income	1,118,975	3,556,093	3,300,360	(567,170)	7,408,258
Net trading income	678,491	745,974	731,701	14,519,075	16,675,241
Other operating income	(1,729)	3,292	(304,125)	1,113,848	811,286
Revenue	**16,010,700**	**5,406,402**	**10,096,638**	**16,051,306**	**47,565,046**
General administrative expenses, including taxes, other than income tax	(3,179,429)	(4,756,454)	(7,599,719)	1,154,653	(14,380,949)
Depreciation and amortisation	(8,400)	(3,883)	(266,473)	(1,524,171)	(1,802,927)
Operating expenses	**(3,187,829)**	**(4,760,337)**	**(7,866,192)**	**(369,518)**	**(16,183,876)**
Segment result before impairment losses	**12,822,871**	**646,065**	**2,230,446**	**15,681,788**	**31,381,170**
Impairment losses	(12,886,586)	(1,676,774)	(6,702,660)	(1,473,743)	(22,739,763)
(Loss)/profit of the reporting segment before taxation	**(63,715)**	**(1,030,709)**	**(4,472,214)**	**14,208,045**	**8,641,407**
Income tax expense	-	-	-	(2,607,325)	(2,607,325)
Net profit for the year	**(63,715)**	**(1,030,709)**	**(4,472,214)**	**11,600,720**	**6,034,082**
Capital expenditure	-	-	-	2,012,829	2,012,829
Deferred tax assets	-	-	-	2,668,579	2,668,579

29 Risk management

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

(a) Risk management policies and procedures

The Bank's risk management policy has the following objectives: to identify, analyse and manage risks faced by the Bank, establish limits on risk levels and relevant controls, and continuously assess levels of risks and ensure that exposure to risks stays within the established 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank also utilises Value-at-Risk (VAR) methodology to monitor market risk of its trading positions.

(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 Bank 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.

29 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

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	422,325,299	-	-	-	-	422,325,299
Financial instruments at fair value through profit or loss	-	560	-	79,042	-	79,602
Available-for-sale financial assets					97,635	97,635
Held-to-maturity investments	133,467	6,896,431	8,767,980	-		15,797,878
Deposits and loans to banks	2,061,417	4,982,991	4,828,381	-	-	11,872,789
Loans to customers:						
corporate	74,688,834	123,703,458	198,554,909	105,391,194	-	502,338,395
small and medium business	23,069,630	25,264,978	36,188,753	15,601,285	-	100,124,646
retail	5,612,904	10,781,002	52,389,035	80,337,576	-	149,120,517
Assets held for sale	-	73,993,939	-	-	-	73,993,939
	527,891,551	**245,623,359**	**300,729,058**	**201,409,097**	**97,635**	**1,275,750,700**
LIABILITIES						
Deposits and balances from banks and other financial institutions	28,931	2,850,744	5,432,319	1,605	781,514	9,095,113
Current accounts and deposits from customers:						
current accounts	285,070,560	-	-	-	132,532,414	417,602,974
term deposits	174,057,917	235,800,019	175,964,481	67,478,020	-	653,300,437
Other borrowed funds	2,731,784	23,821,833	1,927,778	76,205,001	-	104,686,396
Subordinated borrowings	2,402,353	32,233,116	-	58,459,312	-	93,094,781
	464,291,545	**294,705,712**	**183,324,578**	**202,143,938**	**133,313,928**	**1,277,779,701**
	63,600,006	**(49,082,353)**	**117,404,480**	**(734,841)**	**(133,216,293)**	**(2,029,001)**

29 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-12 months	1-5 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	-	-	-	-	97,635	97,635
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	-	-	11,366,546
Loans to customers						
corporate	95,560,443	107,638,331	212,398,666	82,453,364		498,050,804
small and medium business	22,994,394	13,279,356	46,832,189	19,876,264		102,982,203
retail	3,036,154	11,515,193	50,422,079	64,374,440		129,347,866
Assets held for sale	-	71,385,592	-	-	-	71,385,592
	124,446,627	**212,125,431**	**325,329,286**	**166,795,482**	**97,635**	**828,794,461**
LIABILITIES						
Deposits and balances from banks and other financial institutions	3,377,102	500,941	7,106,400	-	393,838	11,378,281
Current accounts and deposits from customers:						
current accounts	108,115,282				109,805,546	217,920,828
term deposits	81,157,785	240,531,509	224,747,816	53,200,189		599,637,299
Other borrowed funds	2,980,188	69,022,337	3,789,822	75,670,754	-	151,463,101
Subordinated borrowings	2,402,353	481,681	34,001,000	58,172,165	-	95,057,199
	198,032,710	**310,536,468**	**269,645,038**	**187,043,108**	**110,199,384**	**1,075,456,708**
	(73,586,083)	**(98,411,037)**	**55,684,248**	**(20,247,626)**	**(110,101,749)**	**(246,662,247)**

29 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	0.03	0.01	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	-	-	-	-	-	-
Held-to-maturity investments	6.1	-	-	5.7	-	-
Deposits and loans to banks	-	4.5	0.3	5.4	3.3	-
Loans to customers	13.0	7.6	7.1	11.8	8.5	21.6
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions	11.8	-	-	6.1	2.9	-
Current accounts and deposits from customers:	7.9	3.5	1.3	6.3	3.5	2.1
Subordinated borrowings	11.0	9.9	-	10.9	10.1	-
Other borrowed funds						
- Loans	3.8	-	-	3.3	0.1	-
- Bonds issued	10.3	10.0	-	10.1	9.4	-

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)	(684)	(6,341)	(6,341)
100 bp parallel fall	5,297	684	6,962	6,962

29 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis, continued

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	214,306	214,306	(1,383,904)	(1,383,904)
100 bp parallel fall	(214,306)	(214,306)	1,383,904	1,383,904

(ii) Currency risk

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

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

29 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	USD KZT'000	EUR KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	323,535,598	133,603,113	7,027,261	1,309,873	1,262,726	466,738,571
Financial instruments at fair value through profit or loss	79,602	-	-	-	-	79,602
Available-for-sale financial assets	97,635	-	-	-	-	97,635
Held-to-maturity investments	15,797,878	-	-	-	-	15,797,878
Deposits and loans to banks	1,125,257	2,134,067	8,220,342	393,115	8	11,872,789
Loans to customers						
corporate	257,581,161	243,524,084	1,229,751	3,399	-	502,338,395
small and medium business	84,169,035	15,558,358	397,253	-	-	100,124,646
retail	106,343,094	42,750,263	27,160	-	-	149,120,517
Assets held for sale	34,712,402	39,148,481	133,056	-	-	73,993,939
Other financial assets	1,027,529	141,531	30,753	3,868	11	1,203,692
Total assets	**824,469,191**	**476,859,897**	**17,065,576**	**1,710,255**	**1,262,745**	**1,321,367,664**
LIABILITIES						
Deposits and balances from banks and other financial institutions	5,954,821	3,107,512	32,662	118	-	9,095,113
Current accounts and deposits from customers:						
current accounts	330,350,293	70,576,966	14,479,571	1,034,509	1,161,635	417,602,974
term deposits	270,538,949	378,796,271	3,913,795	51,422	-	653,300,437
Other borrowed funds	104,686,396	-	-	-	-	104,686,396
Subordinated borrowings	60,862,888	32,231,893	-	-	-	93,094,781
Other financial liabilities	550,648	7,707	9,703	10	328	568,396
Total liabilities	**772,943,995**	**484,720,349**	**18,435,731**	**1,086,059**	**1,161,963**	**1,278,348,097**
The effect of derivatives held for risk management	-	666,580	-	(654,679)	-	11,901
Net position	**51,525,196**	**(7,193,872)**	**(1,370,155)**	**(30,483)**	**100,782**	**43,031,468**

29 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	USD KZT'000	EUR KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	31,794,393	207,528,618	21,406,591	1,193,885	612,919	262,536,406
Financial instruments at fair value through profit or loss	91,990	-	-	-	-	91,990
Available-for-sale financial assets	97,635	-	-	-	-	97,635
Held-to-maturity investments	15,471,825	-	-	-	-	15,471,825
Deposits and loans to banks	5,824,688	4,493,505	1,005,016	43,337	-	11,366,546
Loans to customers						
corporate	206,629,411	288,938,896	2,478,991	3,506	-	498,050,804
small and medium business	84,931,672	17,973,694	76,837	-	-	102,982,203
retail	85,132,903	44,196,203	18,760	-	-	129,347,866
Assets held for sale	36,860,968	33,564,981	959,643	-	-	71,385,592
Other financial assets	527,491	190,956	34,453	981	1,944,212	2,698,093
Total assets	**467,362,976**	**596,886,853**	**25,980,291**	**1,241,709**	**2,557,131**	**1,094,028,960**
LIABILITIES						
Deposits and balances from banks and other financial institutions	10,989,088	376,586	12,507	100	-	11,378,281
Current accounts and deposits from customers:						
current accounts	150,380,873	50,362,234	15,303,533	1,489,002	385,186	217,920,828
term deposits	131,449,166	457,763,735	10,397,614	26,784		599,637,299
Other borrowed funds	82,494,576	68,968,525	-	-	-	151,463,101
Subordinated borrowings	60,619,216	34,437,983	-	-	-	95,057,199
Other financial liabilities	623,648	6,602	7,284	7	454	637,995
Total liabilities	**436,556,567**	**611,915,665**	**25,720,938**	**1,515,893**	**385,640**	**1,076,094,703**
The effect of derivatives held for risk management	13,933,150	12,734,642	-	-	-	26,667,792
Net position	**44,739,559**	**(2,294,170)**	**259,353**	**(274,184)**	**2,171,491**	**44,602,049**

29 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 Bank 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	(1,438,774)	(458,834)
25% appreciation of EUR against KZT	(274,031)	51,871
25% appreciation of RUB against KZT	(6,097)	(54,837)
25% appreciation of other foreign currencies against KZT	20,156	434,298

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 Bank 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 Bank 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.

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 Bank 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.

29 Risk management, continued

(b) Market risk, continued

(iii) Value at Risk estimates, continued

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	(95,662)	(1,683,174)
	(95,662)	**(1,683,174)**

(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 Bank takes a long or short position in a financial instrument.

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

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank 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.

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

29 Risk management, continued

(c) Credit risk, continued

Apart from individual customer analysis, the credit portfolio is assessed by the Bank 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 separate 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	422,325,299	238,065,758
Financial instruments at fair value through profit or loss	91,503	26,759,782
Held-to-maturity investments	15,797,878	15,471,825
Deposits and loans to banks	11,872,789	11,366,546
Loans to customers		
corporate	502,338,395	498,050,804
small and medium business	100,124,646	102,982,203
retail	149,120,517	129,347,866
Assets held for sale	73,993,939	71,385,592
Other financial assets	1,203,692	2,698,093
Total maximum exposure	**1,276,868,658**	**1,096,128,469**

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 17.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 31.

As at 31 December 2016, the Bank 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).

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 Bank'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.

29 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

- The Bank 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		Gross amount of recognised financial asset/liability offset in the separate statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the separate statement of financial position		
Types of financial assets/liabilities	**Gross amount of recognised financial asset/liability**			**Financial instruments**	**Cash collateral received**	**Net amount**
Loans to customers	62,916,680	-	62,916,680		(42,490,882)	20,425,798
Amounts receivable under reverse repurchase agreements	6,002,135	-	6,002,135	(6,002,135)	-	-
Total financial assets	**68,918,815**	**-**	**68,918,815**	**(6,002,135)**	**(42,490,882)**	**20,425,798**
Current accounts and deposits from customers:	(42,490,882)	-	(42,490,882)	42,490,882	-	-
Total financial liabilities	**(42,490,882)**	**-**	**(42,490,882)**	**42,490,882**	**-**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

KZT'000		Gross amount of recognised financial asset/liability offset in the separate statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the separate statement of financial position		
Types of financial assets/liabilities	**Gross amount of recognised financial asset/liability**			**Financial instruments**	**Cash collateral received**	**Net amount**
Loans to customers	74,513,854	-	74,513,854	-	(39,748,314)	34,765,540
Amounts receivable under reverse repurchase agreements	8,016,713	-	8,016,713	(8,016,713)		-
Total financial assets	**82,530,567**	**-**	**82,530,567**	**(8,016,713)**	**(39,748,314)**	**34,765,540**
Current accounts and deposits from customers:	(39,748,314)	-	(39,748,314)	39,748,314	-	-
Total financial liabilities	**(39,748,314)**	**-**	**(39,748,314)**	**39,748,314**	**-**	**-**

29 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the separate statement of financial position that are disclosed in the above tables are measured in the separate statement of financial position at amortised cost. The amounts in the above tables that are offset in the separate statement of financial position are measured on the same basis.

(d) Liquidity risk

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

The Bank 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.

The liquidity management policy of the Bank 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 Bank 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.

29 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	467,454,283	-	-	-	467,454,283	466,738,571
Financial instruments at fair value through profit or loss	-	-	5,600	123,842	129,442	79,602
Available-for-sale financial assets	-	-	-	97,635	97,635	97,635
Held-to-maturity investments	-	182,000	7,557,015	10,012,980	17,751,995	15,797,878
Deposits and loans to banks	211,485	1,856,918	4,982,991	4,828,381	11,879,775	11,872,789
Loans to customers						
corporate	34,741,802	29,425,416	157,845,193	352,660,248	574,672,659	502,338,395
small and medium business	2,529,627	9,732,512	28,388,181	68,789,059	109,439,379	100,124,646
retail	4,622,587	9,287,379	38,086,672	164,018,515	216,015,153	149,120,517
Assets held for sale	-	-	73,993,939	-	73,993,939	73,993,939
Other financial assets	1,037,326	3,849	142,275	20,242	1,203,692	1,203,692
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	**510,609,011**	**50,488,074**	**311,001,866**	**600,550,902**	**1,472,649,853**	**1,321,379,565**
Non-derivative financial liabilities						
Deposits and balances from banks and other financial institutions	(810,017)	(428)	(2,850,744)	(5,433,924)	(9,095,113)	(9,095,113)
Current accounts and deposits from customers:						
current accounts	(417,602,974)	-	-	-	(417,602,974)	(417,602,974)
term deposits	(47,519,898)	(128,409,943)	(254,611,125)	(286,292,750)	(716,833,716)	(653,300,437)
Other borrowed funds	(555,623)	(2,836,362)	(29,377,569)	(118,498,788)	(151,268,342)	(104,686,396)
Subordinated borrowings	-	(3,088,740)	(6,421,640)	(142,938,238)	(152,448,618)	(93,094,781)
Other financial liabilities	(568,396)	-	-	-	(568,396)	(568,396)
Total liabilities	**(467,056,908)**	**(134,335,473)**	**(293,261,078)**	**(553,163,700)**	**(1,447,817,159)**	**(1,278,348,097)**
Net liquidity gap on recognised financial assets and liabilities	**43,552,103**	**(83,847,399)**	**17,740,788**	**47,387,202**	**24,832,694**	**43,031,468**
Credit related commitments	**172,398,372**	**-**	**-**	**-**	**172,398,372**	**172,398,372**

29 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	250,889,371	11,765,852	-	-	262,655,223	262,536,406
Financial instruments at fair value through profit or loss	-	-	5,600	153,955	159,555	91,990
Available-for-sale financial assets	97,635	-	-	-	97,635	97,635
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	429,410	11,366,546	11,366,546
Loans to customers						
corporate	19,852,246	41,734,383	94,586,122	415,722,960	571,895,711	498,050,804
small and medium business	2,204,965	4,767,868	13,493,285	99,907,493	120,373,611	102,982,203
retail	9,153,350	5,091,343	21,748,810	206,929,563	242,923,066	129,347,866
Assets held for sale	-	-	71,385,592	-	71,385,592	71,385,592
Other financial assets	621,578	1,947,604	102,713	26,198	2,698,093	2,698,093
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	**283,550,858**	**67,923,456**	**235,408,024**	**741,440,019**	**1,328,322,357**	**1,120,696,752**
Non-derivative financial liabilities						
Deposits and balances from banks and other financial institutions	(470,504)	(3,361,462)	(500,941)	(7,106,400)	(11,439,307)	(11,378,281)
Current accounts and deposits from customers:						
current accounts	(217,920,828)	-	-	-	(217,920,828)	(217,920,828)
term deposits	(42,424,869)	(39,049,970)	(261,291,135)	(317,480,577)	(660,246,551)	(599,637,299)
Other borrowed funds	(47,464)	(3,554,897)	(74,913,553)	(130,069,032)	(208,584,946)	(151,463,101)
Subordinated borrowings	-	(3,088,740)	(6,970,521)	(154,474,568)	(164,533,829)	(95,057,199)
Other financial liabilities	(637,995)	-	-	-	(637,995)	(637,995)
Total liabilities	**(261,501,660)**	**(49,055,069)**	**(343,676,150)**	**(609,130,577)**	**(1,263,363,456)**	**(1,076,094,703)**
Net liquidity gap on recognised financial assets and liabilities	**22,049,198**	**18,868,387**	**(108,268,126)**	**132,309,442**	**64,958,901**	**44,602,049**
Credit related commitments	**223,715,284**	**-**	**-**	**-**	**223,715,284**	**223,715,284**

29 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	466,738,571	-	-	-	-	-	-	466,738,571
Financial instruments at fair value through profit or loss	11,901	-	560	-	79,042	-	-	91,503
Available-for-sale financial assets	-	-	-	-	-	97,635	-	97,635
Held-to-maturity investments	-	133,467	6,896,431	8,767,980	-	-	-	15,797,878
Deposits and loans to banks	204,499	1,856,918	4,982,991	4,828,381	-	-	-	11,872,789
Loans to customers								
corporate	11,410,574	7,170,243	121,547,067	216,782,291	105,273,874	-	40,154,346	502,338,395
small and medium business	2,347,806	2,203,357	22,391,458	33,728,892	15,742,908	-	23,710,225	100,124,646
retail	193,498	2,011,333	9,985,269	50,003,713	74,930,916	-	11,995,788	149,120,517
Assets held for sale	-		73,993,939	-	-	-	-	73,993,939
Investment in subsidiary	-	-	-	-	-	4,170,888	-	4,170,888
Property, plant and equipment and intangible assets	-	-	-	-	-	14,969,563	-	14,969,563
Deferred tax asset	-	-	-	5,890,283	-	-	-	5,890,283
Other assets	2,485,124	123,367	2,172,471	11,588,890	101,277	-	-	16,471,129
Total assets	**483,391,973**	**13,498,685**	**241,970,186**	**331,590,430**	**196,128,017**	**19,238,086**	**75,860,359**	**1,361,677,736**
Deposits and balances from banks and other financial institutions	(810,017)	(428)	(2,850,744)	(5,432,319)	(1,605)	-	-	(9,095,113)
Current accounts and deposits from customers:								
current accounts	(417,602,974)	-	-	-	-	-	-	(417,602,974)
term deposits	(47,451,238)	(126,606,679)	(235,800,019)	(175,964,481)	(67,478,020)	-	-	(653,300,437)
Other borrowed funds	(508,159)	(2,223,625)	(23,821,833)	(1,927,778)	(76,205,001)	-	-	(104,686,396)
Subordinated borrowings	-	(2,402,353)	(387,257)	(31,845,859)	(58,459,312)	-	-	(93,094,781)
Other liabilities	(2,348,174)	(82,354)	(525,107)	(680,037)	(13,396)	-	-	(3,649,068)
Total liabilities	**(468,720,562)**	**(131,315,439)**	**(263,384,960)**	**(215,850,474)**	**(202,157,334)**	**-**	**-**	**(1,281,428,769)**
Net position	**14,671,411**	**(117,816,754)**	**(21,414,774)**	**115,739,956**	**(6,029,317)**	**19,238,086**	**75,860,359**	**80,248,967**

29 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	250,885,785	11,650,621	-	-	-	-	-	262,536,406
Financial instruments at fair value through profit or loss	443,950	-	26,224,418	-	91,414	-	-	26,759,782
Available-for-sale financial assets	-	-	-	-	-	97,635	-	97,635
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	-	-	-	11,366,546
Loans to customers								
corporate	20,569,958	20,085,183	79,973,765	227,572,389	94,466,466	-	55,383,043	498,050,804
small and medium business	4,492,893	1,904,586	11,460,355	44,251,407	21,319,048	-	19,553,914	102,982,203
retail	120,822	438,298	10,627,498	47,947,046	58,393,663	-	11,820,539	129,347,866
Assets held for sale	-	-	71,385,592	-	-	-	-	71,385,592
Investment in subsidiary	-	-	-	-	-	2,539,621		2,539,621
Property, plant and equipment and intangible assets	-	-	-	-	-	16,600,297	-	16,600,297
Deferred tax asset	-	-	-	2,668,579	-	-	-	2,668,579
Other assets	1,714,093	1,952,646	122,058	9,145,335	7,502	1,127,869	-	14,069,503
Total assets	**278,515,264**	**38,599,207**	**208,100,069**	**347,261,108**	**174,278,093**	**20,365,422**	**86,757,496**	**1,153,876,659**
Deposits and balances from banks and other financial institutions	(466,269)	(3,304,671)	(500,941)	(7,106,400)	-	-	-	(11,378,281)
Current accounts and deposits from customers:								
current accounts	(217,920,828)	-	-	-	-	-	-	(217,920,828)
term deposits	(42,396,166)	(38,761,619)	(240,531,509)	(224,747,816)	(53,200,189)	-	-	(599,637,299)
Other borrowed funds	(45,091)	(2,935,097)	(69,022,337)	(3,789,822)	(75,670,754)	-	-	(151,463,101)
Subordinated borrowings	-	(2,402,353)	(481,681)	(34,001,000)	(58,172,165)	-	-	(95,057,199)
Other liabilities	(2,271,857)	(117,056)	(124,355)	(157,795)	(2,574)	-	-	(2,673,637)
Total liabilities	**(263,100,211)**	**(47,520,796)**	**(310,660,823)**	**(269,802,833)**	**(187,045,682)**	**-**	**-**	**(1,078,130,345)**
Net position	**15,415,053**	**(8,921,589)**	**(102,560,754)**	**77,458,275**	**(12,767,589)**	**20,365,422**	**86,757,496**	**75,746,314**

29 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 47,451,238 thousand (31 December 2015: KZT 42,396,166 thousand);
- from 1 to 3 months: KZT 126,606,679 thousand (31 December 2015: KZT 38,761,619 thousand);
- from 3 to 12 months: KZT 235,800,019 thousand (31 December 2015: KZT 240,531,509 thousand);
- from 1 to 5 years: KZT 175,964,481 thousand (31 December 2015: KZT 224,747,816 thousand);
- more than 5 years: KZT 67,478,020 thousand (31 December 2015: KZT 53,200,189 thousand).

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank'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 Bank's operations.

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

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

30 Capital management

The NBRK sets and monitors capital requirements for the Bank as a whole.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. As at 31 December 2015, 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 Bank 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.

30 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	359,002	359,002
Disclosed reserves	(87,604,758)	(91,784,262)
Total tier 1 capital	**80,632,714**	**76,453,210**
Tier 2 capital		
Hybrid capital instruments	31,845,859	34,001,000
Asset revaluation reserve	(383,747)	(706,896)
Subordinated debt (unamortised portion)	40,316,357	38,226,605
Equity investments stated at cost	(97,635)	(97,635)
Total tier 2 capital	**71,680,834**	**71,423,074**
Total equity	**152,313,548**	**147,876,284**
Risk-weighted assets		
Banking book	981,484,549	1,051,441,775
Trading book	11,771,531	8,284,260
Total risk-weighted assets	**993,256,080**	**1,059,726,035**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**15.33**	**13.95**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**8.12**	**7.21**

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

31 Commitments

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

The Bank 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 Bank 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.

The contractual amounts of commitments as at 31 December 2015 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	102,684,995	172,322,369
Guarantees	66,995,999	46,894,191
Letters of credit	2,717,378	4,498,724
	172,398,372	**223,715,284**
Less provisions	(574,762)	(555,810)
Less cash collateral	(2,450,740)	(1,844,769)
	169,372,870	**221,314,705**

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 Bank.

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 years ended 31 December 2016 and 2015 are as follows:

	2016 KZT'000	**2015 KZT'000**
Balance at the beginning of the year	555,810	596,356
Net reversal for the year	16,801	(58,301)
Effect of foreign currency translation	2,151	17,755
Balance at the end of the year	**574,762**	**555,810**

32 Operating leases

Leases as lessee

As at 31 December 2016 and 2015, the Bank has no operating lease liabilities which may not be cancelled unilaterally.

The Bank leases a number of premises under operating leases.

During the year ended 31 December 2016 KZT 1,172,271 thousand is recognised as an expense in profit or loss in respect of operating leases (31 December 2015: KZT 1,150,158 thousand).

33 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 Bank 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 Bank 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 Bank 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 the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the 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 Bank 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 Bank and are not recognised in the separate statement of financial position.

34 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 Bank is Mr. Galimzhan Yessenov.

The Bank's parent KNG Finance LLP produces publicly available financial statements.

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

Total remuneration included in personnel expenses for the years 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.

34 Related party transactions, continued

(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 are as follows:

	2016 KZT'000	Average interest rate, %	2015 KZT'000	Average interest rate, %
Separate 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 for the years 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, subsidiaries and other related parties

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

34 Related party transactions, continued

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

The outstanding balances and the related average interest rates as at 31 December 2015 and 2014 and related profit or loss amounts of transactions for the years ended 31 December 2016 and 2015 with other related parties are as follows:

	31 December 2016						
	Parent company		Subsidiaries of the Bank		Other subsidiaries of the Parent Company		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Statement of financial position							
ASSETS							
Cash and cash equivalents	-	-	7,980	-	-	-	7,980
- in other currency							
Loans to customers							
- In KZT	-	-	-	-	-	-	-
Investment in subsidiary							
- in KZT	-	-	4,170,888	-	-	-	4,170,888
Dividends receivable	-	-	-	-	-	-	-
Other assets	-	-	466	-	-	-	466
LIABILITIES							
Deposits and balances from banks							
- in KZT	-	-	140,220	-	-	-	140,220
- in USD	-	-	486,209	-	-	-	486,209
- in other currency	-	-	31,251	-	-	-	31,251
Current accounts and deposits from customers:							
- in KZT	25,585	-	4,809	-	174,372	5.76	204,766
- in USD	53,058	0.44	17,691		132,314	-	203,063
- in other currency	201	-	-	-	710	-	911
Other liabilities	-	-	52,945	-	-	-	52,945
Statement of comprehensive income							
Interest income	-	-	36,061	-	93,157	-	129,218
Interest expense	(51,218)	-	-	-	(32,738)	-	(83,956)
Fee and commission income	1,897		117,779	-	271,698	-	391,374
Dividend income	-	-	1,621,802	-	-	-	1,621,802
Other operating income	-	-	31,103	-	-	-	31,103
Other general administrative expenses	(130,800)	-	(535,237)	-	(54,551)	-	(720,588)

34 Related party transactions, continued

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

	31 December 2015						
	Parent company		Subsidiaries of the Bank		Other subsidiaries of the Parent Company		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
Statement of financial position							
ASSETS							
Cash and cash equivalents							
- in other currency	-	-	2,494	-	-	-	2,494
Loans to customers							
- In KZT	-	-	-	-	2,041,636	12.0	2,041,636
Investment in subsidiary							
- in KZT	-	-	2,539,621	-	-	-	2,539,621
Dividends receivable	-	-	1,944,205	-	-	-	1,944,205
Other assets	-	-	150	-	53,422	-	53,572
LIABILITIES							
Deposits and balances from banks							
- in KZT	-	-	16,417	-	-	-	16,417
- in USD	-	-	344,656	-	-	-	344,656
- in other currency	-	-	11,018	-	-	-	11,018
Current accounts and deposits from customers:							
- in KZT	4,058	-	939	-	205,432	0.12	210,429
- in USD	4,747,366	1.96	17,750	-	46,065	1.0	4,811,181
- in other currency	211	-	-	-	5,150	-	5,361
Other liabilities	-	-	30,633	-	142	-	30,775
Statement of comprehensive income							
Interest income	-	-	125,082	-	173,468	-	298,550
Interest expense	(128,089)	-	-	-	(280)	-	(128,369)
Fee and commission income	1,367	-	65,781	-	646,397	-	713,545
Dividend income	-	-	1,272,730	-	-	-	1,272,730
Other operating income	-	-	17,424	-	-	-	17,424
Other general administrative expenses	-	-	(375,703)	-	(72,237)	-	(447,940)

35 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 and receivables	Other at amortised cost	Total carrying amount	Fair value
Cash equivalents	-	-	422,325,299	-	422,325,299	422,325,299
Financial instruments at fair value through profit or loss	91,503	-	-	-	91,503	91,503
Held-to-maturity investments	-	15,797,878	-	-	15,797,878	14,942,126
Deposits and loans to banks	-	-	11,872,789	-	11,872,789	11,872,789
Loans to customers						
corporate	-	-	502,338,395	-	502,338,395	499,467,886
small and medium business	-	-	100,124,646	-	100,124,646	96,394,006
retail	-	-	149,120,517	-	149,120,517	148,470,184
Assets held for sale	-	-	73,993,939	-	73,993,939	74,443,800
Other financial assets	-	-	1,203,692	-	1,203,692	1,203,692
	91,503	**15,797,878**	**1,260,979,277**	**-**	**1,276,868,658**	**1,269,211,285**
Deposits and balances from banks and other financial institutions	-	-	-	9,095,113	9,095,113	9,095,113
Current accounts and deposits from customers:						
current accounts	-	-	-	417,602,974	417,602,974	417,602,974
term deposits	-	-	-	653,300,437	653,300,437	658,251,629
Other borrowed funds	-	-	-	104,686,396	104,686,396	102,859,916
Subordinated borrowings	-	-	-	93,094,781	93,094,781	82,379,973
Other financial liabilities	-	-	-	568,396	568,396	568,396
	-	-	-	**1,278,348,097**	**1,278,348,097**	**1,270,758,001**

35 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 and receivables	Other at amortised cost	Total carrying amount	Fair value
Cash equivalents	-	-	238,065,758	-	238,065,758	238,065,758
Financial instruments at fair value through profit or loss	26,759,782	-	-	-	26,759,782	26,759,782
Held-to-maturity investments	-	15,471,825	-	-	15,471,825	15,471,825
Deposits and loans to banks	-	-	11,366,546	-	11,366,546	11,366,546
Loans to customers						
corporate	-	-	498,050,804	-	498,050,804	493,967,717
small and medium business	-	-	102,982,203	-	102,982,203	101,400,985
retail	-	-	129,347,866	-	129,347,866	130,452,195
Assets held for sale	-	-	71,385,592	-	71,385,592	71,776,640
Other financial assets	-	-	2,698,093	-	2,698,093	2,698,093
	26,759,782	**15,471,825**	**1,053,896,862**	**-**	**1,096,128,469**	**1,091,959,541**
Deposits and balances from banks and other financial institutions	-	-	-	11,378,281	11,378,281	11,378,281
Current accounts and deposits from customers:						
current accounts	-	-	-	217,920,828	217,920,828	217,920,828
term deposits	-	-	-	599,637,299	599,637,299	606,220,111
Other borrowed funds	-	-	-	151,463,101	151,463,101	154,176,575
Subordinated borrowings	-	-	-	95,057,199	95,057,199	91,230,547
Other financial liabilities	-	-	-	637,995	637,995	637,995
	-	**-**	**-**	**1,076,094,703**	**1,076,094,703**	**1,081,564,337**

35 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 Bank 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 Bank 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 Bank 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.

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

(b) Fair value hierarchy

The Bank 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
	91,503	-	**91,503**

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
	535,940	**26,223,842**	**26,759,782**

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

(b) Fair value hierarchy, continued

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 Bank 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.
Due to existence of such option, the Bank 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. In accordance with the terms of this swap the Bank provided KZT 27,312,000 thousand in exchange for USD 150,000,000. As at 31 December 2015 the fair value of the swap was KZT 26,223,842 thousand. The currency swap was closed on 4 August 2016.

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 Bank 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).

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 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**

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

(b) Fair value hierarchy, continued

Although the Bank 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)**

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 Bank'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	422,325,299	-	422,325,299	422,325,299
Held-to-maturity investments	14,942,126	-	14,942,126	15,797,878
Deposits and loans to banks	11,872,789	-	11,872,789	11,872,789
Loans to customers				
Corporate business	499,467,886	-	499,467,886	502,338,395
small and medium business	96,394,006	-	96,394,006	100,124,646
Retail business	-	148,470,184	148,470,184	149,120,517
Assets held for sale	-	74,443,800	74,443,800	73,993,939
Liabilities				
Deposits and balances from banks and other financial institutions	9,095,113	-	9,095,113	9,095,113
Current accounts and deposits from customers:		-		
current accounts	417,602,974	-	417,602,974	417,602,974
term deposits	658,251,629	-	658,251,629	653,300,437
Other borrowed funds	102,859,916	-	102,859,916	104,686,396
Subordinated borrowings	82,379,973	-	82,379,973	93,094,781

35 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	238,065,758	-	238,065,758	238,065,758
Held-to-maturity investments	15,471,825	-	15,471,825	15,471,825
Deposits and loans to banks	11,366,546	-	11,366,546	11,366,546
Loans to customers				
Corporate business	493,967,717	-	493,967,717	498,050,804
small and medium business	101,400,985	-	101,400,985	102,982,203
Retail business	-	130,452,195	130,452,195	129,347,866
Assets held for sale	-	71,776,640	71,776,640	71,385,592
Liabilities				
Deposits and balances from banks and other financial institutions	11,378,281	-	11,378,281	11,378,281
Current accounts and deposits from customers:				
current accounts	217,920,828	-	217,920,828	217,920,828
term deposits	606,220,111	-	606,220,111	599,637,299
Other borrowed funds	154,176,575	-	154,176,575	151,463,101
Subordinated borrowings	91,230,547	-	91,230,547	95,057,199