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**JOINT STOCK COMPANY
KAZKOMMERTSBANK**

Consolidated Financial Statements and
Independent Auditors' Report
For the Year Ended 31 December 2017

Joint Stock Company Kazkommertsbank

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Joint Stock Company Kazkommertsbank

Statement of Management's Responsibilities For the Preparation and Approval of the Consolidated Financial Statements For the year ended 31 December 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company Kazkommertsbank ("the Bank") and its subsidiaries ("the Group") as at 31 December 2017, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining accounting records in compliance with legislation of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2017 were authorized for issue on 2 March 2018 by the Management Board of Joint Stock Company Kazkommertsbank.

On behalf of the Management Board:


Wokurka U.
Chief Executive Officer

2 March 2018
Almaty




Karzhaubekov A.Zh.
Chief Accountant

2 March 2018
Almaty



INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Kazkommertsbank

Qualified Opinion

We have audited the consolidated financial statements of JSC Kazkommertsbank ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Our audit opinion on the consolidated financial statements for the year ended 31 December 2016 was qualified as we were unable to obtain sufficient appropriate audit evidence to support the allowance for impairment losses in relation to certain borrowers as at 31 December 2016 and for the year then ended. As such, we have been also unable to determine whether the impairment losses recognised in the year ended 31 December 2017 should have been recorded in the consolidated statement of profit or loss for prior periods.

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

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, on 15 December 2017, the Board of Directors of JSC Halyk Bank has approved the merger of JSC Kazkommertsbank into Halyk Bank. The merger is expected to be finalised in the second half of 2018, subject to prior completion of all the necessary procedures, including obtaining regulatory approvals. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<i>Classification of individually significant loans to customers as unimpaired</i>	We obtained an understanding of the loan loss provision process, particularly over the capture, monitoring and reporting of loans to customers, including the loans classification, along with any manual inputs as part of the process.
The amount of allowance on individually significant loans is dependent on the accuracy of the classification of these loans as "impaired" or "unimpaired" in the provisioning system, which is subject to significant judgement and manual adjustments.	For a sample of loans classified as "unimpaired" we examined the existence of various impairment indicators required by IAS 39 " <i>Financial instruments: recognitions and measurement</i> ", such as delinquency of interest or principal, restructuring events and certain financial performance indicators, in order to evaluate whether the loans have been appropriately classified.
Due to the significance of the allowance for loans assessed on an individual basis and the degree of subjectivity involved in estimating expected cash flows, we have identified as a key audit matter the risk that impaired loans may be incorrectly classified as unimpaired and thus impact the provisioning level.	We found no material exceptions in these tests.
Refer to Note 3 for the summary of significant accounting policies and for critical accounting estimates and judgements.	
<i>Impairment of loans to customers operating in the construction sector and land loans</i>	We obtained an understanding of the loan loss provisioning process for loans in the construction sector and land loans.
The amount of allowance for impairment on construction and land loans is based on the future expected cash flows to be received on the completion of such projects and requires the application of judgement and use of subjective assumptions by management, in respect of timing and value of cash flows arising from pledged collaterals, which are inherently subjective, due to external economic factors.	On a sample basis, we have tested the appropriateness and consistency of assumptions applied in impairment models, reviewed the Bank's documentation on assessment of the borrowers creditworthiness, assessed management's forecast of expected cash flows and the valuation of collaterals provided by the borrowers by checking key assumptions with supporting documents, and re-performing the calculations of impairment losses.
Refer to Note 3 for the summary of significant accounting policies and for critical accounting estimates and judgements.	We found no material exceptions in these tests.

Other Information – Annual Report

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

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Roman Sattarov



Roman Sattarov
Qualified auditor of the
Republic of Kazakhstan
Qualification certificate
No.MF-0000149
dated 31 May 2013

MSI

Mark Smith
Engagement Partner
Chartered Accountant
Institute of Chartered Accountants of
Scotland
License № M21857
Glasgow, Scotland

Deloitte, LLP



Deloitte, LLP
State license on auditing in the
Republic of Kazakhstan
№ 0000015, type MFU-2, issued by the
Ministry of Finance of the
Republic of Kazakhstan
dated 13 September 2006

Nurlan Bekenov

Nurlan Bekenov
General Director
Deloitte, LLP

2 March 2018
Almaty, Kazakhstan

Joint Stock Company Kazkommertsbank

Consolidated Statement of Profit or Loss For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
Interest income	4, 34	327,107	434,384
Interest expense	4, 34	(240,105)	(231,011)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	4	87,002	203,373
Provision for impairment losses on interest bearing assets	5, 34	(507,401)	(68,859)
NET INTEREST (EXPENSE)/INCOME		(420,399)	134,514
Net gain on financial assets and liabilities at fair value through profit or loss	6	104,273	7,970
Loss on write-off of financial assets and liabilities at fair value through profit or loss		-	(16,810)
Net loss on foreign exchange and precious metals operations	7	(47,338)	(17,006)
Fee and commission income	8	54,165	49,025
Fee and commission expense	8	(25,637)	(20,658)
Net (loss)/gain on investments available-for-sale		(311)	381
Dividend income		1,800	869
Net income from sale of inventory		2,171	18,639
Loss from revaluation of other assets	9	(99,857)	(55,652)
Gain on revaluation on initial recognition of financial instruments	2, 25	169,767	-
Other income	10	17,712	17,897
NET NON-INTEREST INCOME/(EXPENSE)		176,745	(15,345)
OPERATING EXPENSES	11, 34	(65,914)	(84,050)
(LOSS)/PROFIT BEFORE OTHER OPERATING PROVISIONS		(309,568)	35,119
Provision for impairment losses on other transactions and insurance	5, 34	(36,386)	(10,023)
(Provision)/recovery of provision for guarantees and other contingencies	5, 34	(10,257)	781
(LOSS)/PROFIT BEFORE INCOME TAX		(356,211)	25,877
Income tax expense	12	(19,883)	(25,369)
NET (LOSS)/PROFIT		(376,094)	508
Attributable to:			
Common shareholders of the Parent		(376,095)	439
Preference shareholders of the Parent		-	68
Non-controlling interest		1	1
NET (LOSS)/PROFIT FOR THE YEAR		(376,094)	508
(LOSS)/EARNINGS PER SHARE			
<i>Basic and diluted (KZT)</i>	13	(251.30)	0.55

On behalf of the Management Board:


Wokurka U.
Chief Executive Officer

2 March 2018
Almaty


Karzhaubekov A. Zh.
Chief Accountant

2 March 2018
Almaty

The notes on pages 14-102 form an integral part of these consolidated financial statements.

Joint Stock Company Kazkommertsbank

Consolidated Statement of Other Comprehensive Income For the year ended 31 December 2017

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
NET (LOSS)/PROFIT	(376,094)	508
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss:		
Net (loss)/gain resulting on revaluation of property	(371)	8,314
Income tax	108	(1,569)
	(263)	6,745
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	820	325
Net gain resulting on revaluation of available-for-sale investments during the year	17,628	1,133
Difference between carrying amount and fair value of investments held to maturity at the reclassification date	(2,216)	-
Reclassification adjustment relating to available-for-sale investments disposed of during the year	311	(381)
Net loss on cash flows hedges	(78)	(429)
Income tax	(43)	46
	16,422	694
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	16,159	7,439
TOTAL COMPREHENSIVE (LOSS)/INCOME	(359,935)	7,947
Attributable to:		
Common shareholders of the Parent	(359,936)	6,877
Preference shareholders of the Parent	-	1,069
Non-controlling interest	1	1
TOTAL COMPREHENSIVE (LOSS)/ INCOME	(359,935)	7,947

On behalf of the Management Board:


Wokurka U.
Chief Executive Officer

2 March 2018
Almaty




Karzhaubekov A.Zh.
Chief Accountant

2 March 2018
Almaty



The notes on pages 14-102 form an integral part of these consolidated financial statements.

Joint Stock Company Kazkommertsbank

Consolidated Statement of Financial Position As at 31 December 2017

	Notes	31 December 2017 (KZT million)	31 December 2016 (KZT million)
ASSETS:			
Cash and balances with national (central) banks	14	133,114	151,908
Precious metals		3,089	3,255
Financial assets at fair value through profit or loss	15, 34	137,498	210,538
Loans and advances to banks and other financial institutions	16, 34	528,781	109,832
Loans to customers	17, 34	764,640	3,756,705
Investments available-for-sale	18, 34	1,704,451	19,724
Investments held to maturity	18, 19	-	222,434
Investment property	20	6,114	13,134
Property, equipment and intangible assets	22	47,236	48,302
Deferred income tax assets	12	558	17,538
Other assets	23	107,660	117,741
Assets classified as held for sale	21	141,237	194,640
TOTAL ASSETS		3,574,378	4,865,751
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks and other financial institutions	24, 34	58,474	491,505
Customer accounts	25, 34	2,482,552	2,915,438
Financial liabilities at fair value through profit or loss	15	493	64,275
Debt securities issued	26	455,272	586,961
Other borrowed funds	27	36,480	81,308
Provisions	5	78,465	62,571
Deferred income tax liabilities	12	111	153
Other liabilities	28	39,749	51,823
Subordinated debt	30	154,642	230,437
Total liabilities		3,306,238	4,484,471
EQUITY:			
Equity attributable to equity holders of the Parent:			
Share capital	31	484,988	234,589
Additional paid-in-capital		(6,405)	(6,405)
Property and equipment revaluation reserve		11,122	11,515
Other reserves		(221,571)	141,575
Total equity attributable to equity holders of the Parent		268,134	381,274
Non-controlling interest		6	6
Total equity		268,140	381,280
TOTAL LIABILITIES AND EQUITY		3,574,378	4,865,751

On behalf of the Management Board:


Wokurka U.
Chief Executive Officer

2 March 2018
Almaty


Karzhaubekov A. Zh.
Chief Accountant

2 March 2018
Almaty

The notes on pages 14-102 form an integral part of these consolidated financial statements.

Joint Stock Company Kazkommertsbank

Consolidated Statement of Changes in Equity For the year ended 31 December 2017

	Share capital (KZT million)	Treasury shares (KZT million)	Additional paid-in capital (KZT million)	Property and equipment revaluation reserve (KZT million)	Investments available-for-sale fair value deficit ¹ (KZT million)	Cumulative translation reserve ¹ (KZT million)	Hedging reserve ¹ (KZT million)	Retained earnings ¹ (KZT million)	Total equity attributable to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
31 December 2015	286,811	(52,291)	(6,405)	5,201	(2,284)	(4,242)	405	146,064	373,259	9	373,268
Net profit	-	-	-	-	-	-	-	507	507	1	508
Other comprehensive income/(loss)	-	-	-	6,768	712	302	(343)	-	7,439	-	7,439
Total comprehensive income/(loss)	-	-	-	6,768	712	302	(343)	507	7,946	1	7,947
Repurchase of treasury shares	-	(238)	-	-	-	-	-	-	(238)	-	(238)
Sale of treasury shares	-	307	-	-	-	-	-	-	307	-	307
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(454)	-	-	-	454	-	-	-
Repayment of dividends	-	-	-	-	-	-	-	-	-	(4)	(4)
31 December 2016	286,811	(52,222)	(6,405)	11,515	(1,572)	(3,940)	62	147,025	381,274	6	381,280

¹ The amounts included within the Investments available-for-sale fair value deficit, Cumulative translation reserve, Hedging reserve and Retained earnings, in the above table, are included within "Other reserves" in the consolidated statement of financial position.

Joint Stock Company Kazkommertsbank

Consolidated Statement of Changes in Equity (Continued) For the year ended 31 December 2017

	Share capital (KZT million)	Treasury shares (KZT million)	Additional paid-in capital (KZT million)	Property and equipment revaluation reserve (KZT million)	Investments available-for-sale fair value (Deficit)/ reserve ¹ (KZT million)	Cumulative translation reserve ¹ (KZT million)	Hedging reserve ¹ (KZT million)	Retained earnings ¹ (KZT million)	Total equity attributable to equity holders of the Parent (KZT million)	Non-controlling interest (KZT million)	Total equity (KZT million)
31 December 2016	286,811	(52,222)	(6,405)	11,515	(1,572)	(3,940)	62	147,025	381,274	6	381,280
Net loss	-	-	-	-	-	-	-	(376,095)	(376,095)	1	(376,094)
Other comprehensive (loss)/income	-	-	-	(263)	15,664	820	(62)	-	16,159	-	16,159
Total comprehensive (loss)/income	-	-	-	(263)	15,664	820	(62)	(376,095)	(359,936)	1	(359,935)
Repurchase of treasury shares	-	(333)	-	-	-	-	-	-	(333)	-	(333)
Sale of treasury shares	-	401	-	-	-	-	-	-	401	-	401
Release of property and equipment revaluation reserve due to depreciation and disposal of previously revalued assets	-	-	-	(130)	-	-	-	130	-	-	-
Loss from disposal of subsidiary (Note 1)	-	-	-	-	-	-	-	(3,603)	(3,603)	-	(3,603)
Dividend payment	-	-	-	-	-	-	-	-	-	(1)	(1)
Issue of share capital	250,331	-	-	-	-	-	-	-	250,331	-	250,331
31 December 2017	537,142	(52,154)	(6,405)	11,122	14,092	(3,120)	-	(232,543)	268,134	6	268,140

¹ The amounts included within the Investments available-for-sale fair value (deficit)/reserve, Cumulative translation reserve, Hedging reserve and Retained earnings, in the above table, are included within "Other reserves" in the consolidated statement of financial position.

On behalf of the Management Board:


Wokurka U.
Chief Executive Officer

2 March 2018
Almaty


Karzhaubekov A. Zh.
Chief Accountant

2 March 2018
Almaty

The notes on pages 14-102 form an integral part of these consolidated financial statements.

Joint Stock Company Kazkommertsbank

Consolidated Statement of Cash Flows For the year ended 31 December 2017

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received from financial assets at fair value through profit or loss	4,307	6,403
Interest received on loans and advances to banks and other financial institutions	12,160	18,942
Interest received from loans to customers	460,281	126,652
Interest received from investments available-for-sale	8,891	1,875
Interest received from investments held to maturity	6,369	13,465
Interest paid on loans and advances from banks and other financial institutions	(37,935)	(5,094)
Interest paid on customer accounts	(137,220)	(142,665)
Interest paid on debt securities issued	(43,739)	(53,692)
Interest paid on other borrowed funds	(1,037)	(3,005)
Interest paid on subordinated debt	(15,170)	(20,091)
Fee and commission received	54,098	49,814
Fee and commission paid	(22,802)	(20,531)
Proceeds from sale of inventory	2,171	18,639
Other income received	13,497	16,407
Operating expenses paid	(71,611)	(80,432)
Cash inflow/(outflow) from operating activities before changes in operating assets and liabilities	232,260	(73,313)
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Funds deposited with National Bank of the Republic of Kazakhstan	24,927	2,411
Funds deposited with Central Bank of Russian Federation	4,902	(2,728)
Funds deposited with National Bank of Tajikistan	(662)	110
Precious metals	190	652
Financial assets at fair value through profit or loss	169,210	135,252
Loans and advances to banks and other financial institutions	(4,512)	34,142
Loans to customers	2,102,008	(10,740)
Other assets	6,822	(38,074)
Increase/(decrease) in operating liabilities:		
Loans and advances from banks and other financial institutions	(431,126)	365,182
Customer accounts	(261,921)	(363,662)
Other liabilities	(25,558)	13,493
Cash inflow from operating activities before taxation	1,816,540	62,725
Income tax paid	(22,607)	(31,449)
Net cash inflow from operating activities	1,793,933	31,276

Joint Stock Company Kazkommertsbank

Consolidated Statement of Cash Flows (Continued) For the year ended 31 December 2017

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and intangible assets	(5,490)	(5,064)
Proceeds on sale of property and equipment	189	1,105
Proceeds on sale of assets classified as held for sale	9,683	26,606
Dividends received	1,659	869
Proceeds on sale of investments available-for-sale	8,293,267	56,934
Purchase of investments available-for-sale	(9,679,135)	(27,636)
Cash of disposed subsidiary (Note 1)	(2,159)	-
Purchase and capitalization of investment property	(848)	(3,943)
Proceeds from disposal of investment property	-	53
Proceeds on maturity of investments held to maturity	33,958	4,130
Purchase of investments held to maturity	(30,286)	(7,329)
Net cash (outflow)/inflow from investing activities	(1,379,162)	45,725
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of share capital	250,331	-
Purchase of treasury shares	(333)	(238)
Sale of repurchased treasury shares	401	307
Proceeds from debt securities issued (Note 26)	335	7,482
Repurchase and repayment of debt securities issued (Note 26)	(129,019)	(107,611)
Proceeds from other borrowed funds (Note 26)	3,350	3,528
Repayment of other borrowed funds (Note 26)	(50,004)	(26,677)
Repayment of subordinated debt (Note 26)	(75,223)	(51,374)
Dividends paid on preference shares (Note 26)	(1,661)	(1,701)
Net cash outflow from financing activities	(1,823)	(176,284)
Effect of foreign exchange changes on the balance of cash held in foreign currencies	12,169	3,573
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	425,117	(95,710)
CASH AND CASH EQUIVALENTS, beginning of period (Note 14)	172,716	268,426
CASH AND CASH EQUIVALENTS, end of period (Note 14)	597,833	172,716

During the years ended 31 December 2017 and 2016 there were non-cash transfers, which were excluded from the consolidated statements of cash flows and disclosed in Notes 20, 21 and 23.

During the year ended 31 December 2017, the Company made a reclassification from investments held-to-maturity assets to available-for-sale investments (Note 18). These non-cash transfers were excluded from the statement of cash flows.

On behalf of the Management Board:


Wokurka U.
Chief Executive Officer

2 March 2018
Almaty


Karzhaubekov A.Zh.
Chief Accountant

2 March 2018
Almaty

The notes on pages 14-102 form an integral part of these consolidated financial statements.

Joint Stock Company Kazkommertsbank

Notes to the Consolidated Financial Statements For the year ended 31 December 2017

1. Organisation

Joint Stock Company ("JSC") Kazkommertsbank ("the Bank", "Kazkommertsbank" or "KKB") is a Joint Stock Company and has operated in the Republic of Kazakhstan since 1990. The Bank's activities are regulated by the National Bank of the Republic of Kazakhstan ("the NBK") in accordance with the license № 1.2.16/222/32 dated 2 December 2014. The Bank's primary business consists of commercial banking activities, operations with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at 135Zh, Gagarin str., Almaty 050060, Republic of Kazakhstan.

As at 31 December 2017 and 2016, the Bank has 23 branches in the Republic of Kazakhstan.

Kazkommertsbank is a parent company of the banking group ("the Group") which consists of the following subsidiaries consolidated in the financial statements:

Name	Country of operation	Proportion or ownership interest/voting rights		Type of operation
		As at 31 December 2017	As at 31 December 2016	
JSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	Securities market transactions
Kazkommerts International B.V.	Kingdom of the Netherlands	100%	100%	Raising funds for the Bank on international capital markets
Kazkommerts Finance II B.V.	Kingdom of the Netherlands	100%	100%	Raising funds for the Bank on international capital markets
CJSC Kazkommertsbank Tajikistan	Republic of Tajikistan	100%	100%	Banking
JSC Commercial Bank Moskommertsbank	Russian Federation	100%	100%	Banking
LLP KUSA KKB-1	Republic of Kazakhstan	100%	100%	Management of stress assets
LLP KUSA KKB-2	Republic of Kazakhstan	100%	100%	Management of stress assets
LLP KUSA KKB-3	Republic of Kazakhstan	100%	100%	Management of stress assets
JSC Life Insurance Company Kazkommerts Life	Republic of Kazakhstan	100%	100%	Life insurance
JSC Insurance Company Kazkommerts-Policy	Republic of Kazakhstan	99.97%	99.97%	Insurance
JSC QPayments	Republic of Kazakhstan	100%	-	Payment card processing and other related services
LLP AlemCard	Republic of Kazakhstan	-	100%	Payment card processing and other related services
JSC BTA Securities	Republic of Kazakhstan	-	100%	Securities market transactions and management of assets
LLP Titan-Inkassatsiya	Republic of Kazakhstan	-	100%	Cash collection services

Joint Stock Company Kazkommertsbank

Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Changes in Group structure

JSC QPayments

On 6 January 2017, the Bank repossessed 100% shares of JSC QPayments (former - LLP Processing Company) according to the Forfeiting Agreement. As a result of the business combination, the Group recognized a gain from the purchase of subsidiary in the amount of KZT 32 million included in other income in the consolidated statement of profit or loss for the year ended 31 December 2017.

JSC Commercial Bank Moskommertsbank

On 27 April 2017, an agreement was concluded between the Bank and JSC Moskommertsbank (hereinafter – “MKB”), in accordance with which the subordinated debt of MKB to the Bank with a par value of USD 20,000 thousand was exchanged for common shares of MKB in the amount of 1,126,262 shares. On 5 May 2017, these shares were credited in full to the Bank’s account.

On 28 December 2017, the Board of Directors of the Bank decided on the reorganization of JSC CB Moskommertsbank by merging it with OJSC NBK Bank.

LLP KUSA KKB-1, LLP KUSA KKB-2, LLP KUSA KKB-3

On 23 December 2016, the Board of Directors of the Bank decided to increase the authorized capital of Kusa KKB-1 LLP by making an additional contribution in the form of real estate - a petroleum depot located in Petropavlovsk, Batyr Bayana street, 308, 308 “A”, in the amount of KZT 2,962 million, the actual increase in share capital took place in January 2017.

On 30 November 2017, the Board of Directors of the Bank decided to increase the share capital of LLP KUSA KKB-2 by making an additional contribution in the form of real estate - a building located at the address Al-Farabi 34, in the amount of KZT 3,954 million, the actual increase in share capital took place in December 2017.

On 15 December 2017, the Board of Directors of the Bank decided to conclude an agreement between the Bank and LLP KUSA KKB-1 on the return of claims to LLP Global Building Contract for the amount of KZT 30,814 million.

LLP AlemCard

On 26 June 2017, the Board of Directors of the Bank decided to sell a 100% share in LLP AlemCard (hereinafter – “AlemCard”). On 1 July 2017, the Bank sold a 100% share in AlemCard in accordance with the purchase and sale agreement dated 28 June 2017 with JSC BTA Bank for KZT 21 million. As a result of the transaction, the Bank recognized a loss on sale in the amount of KZT 5 million.

LLP Titan-Inkassatsiya

On 7 November 2017, the Bank announced the liquidation of LLP Titan-Inkassatsiya.

Disposal of JSC Subsidiary of JSC BTA Bank BTA Securities

On 21 June 2017, the Board of Directors of the Bank decided to sell 100% of the shares of JSC Subsidiary of JSC BTA Bank BTA Securities (hereinafter – “BTAS”). On 28 June 2017, the Bank and Mr. Kenes Rakishev concluded the agreement on the purchase of BTAS common shares.

The Bank transferred control over BTAS to Mr. Kenes Rakishev on 30 June 2017 and excluded BTAS from its interim condensed consolidated financial information as at that date.

Joint Stock Company Kazkommertsbank

Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Disposed assets and liabilities of BTAS on the date of loss of control are presented as follows:

	30 June 2017 (unaudited) (KZT mln)
ASSETS:	
Cash and cash equivalents	2,159
Financial assets at fair value through profit or loss	2,468
Amounts due from banks and other financial institutions	2,913
Investments available-for-sale	5,042
Investments held to maturity	1,298
Property, equipment and intangible assets	3
Deferred income tax assets	6
Other assets	191
Total assets	14,080
LIABILITIES:	
Other liabilities	11
Financial liabilities at fair value through profit or loss	3,635
Total liabilities	3,646
Net assets disposed	10,434

Loss on disposal of subsidiary

	30 June 2017 (unaudited) (KZT mln)
Consideration receivable	6,836
Net assets disposed	(10,434)
Loss on disposal	(3,598)

The loss on disposal of BTAS was recognized directly in the Group's capital as a deal with the controlling shareholder as at the date of the conclusion of the deal.

The consideration receivable is represented by the accounts receivable. The payment for shares by Mr. Kenes Rakishev under the purchase and sale agreement will be made in three tranches from 1 July 2018 to 1 July 2020.

Other

On 3 July 2017, by resolution of the Board of Directors of the Bank, the new Management Board was elected, headed by the Chairman of the Management Board, Mr. Ulf Wokurka. The following new members of the new Management Board were appointed Mr. Ulan Baizhanov, Mrs. Larissa Zdanovich, Mr. Dauren Sartayev, Ms. Zhannat Satubaldina and Mr. Nurlan Zhagiparov.

On 19 July 2017, Standard & Poor's agency raised the long-term credit rating of the Bank to "B+" from "B-" and affirmed the Bank's short-term credit rating at "B". The Bank's rating on the national scale was also upgraded to "kzBBB-" from "kzB+". The outlook on the ratings is kept at the negative level. In turn, Moody's agency raised the credit rating of the Bank to "B1" from "Caa2", and the deposit one - from "Ba2" to "B3".

On 31 July 2017, Extraordinary General Meeting of Shareholders of the Bank has made a decision on early termination of the power of members of the Board of Directors of the Bank and election of a new composition of the Bank's governing body. The new composition of the Board of Directors of the Bank in the number of six people with a term of office for three years included: Mr. Arman Dunayev as Chairman of the Board of Directors, Mr. Ulf Wokurka, Ms. Aliya Karpykova, Ms. Saule Kishkimbayeva, Mr. Askar R. Yelemessov, Mr. Azamat Dzholdasbekov.

Joint Stock Company Kazkommertsbank

Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

On 31 August 2017, Fitch Ratings upgraded the long-term issuer default ratings (IDRs) of the Bank in foreign and local currency to "BB-" from "CCC"; Short-term IDR of the bank increased to "B" from "C"; the stability rating is upgraded to "b" from level "f"; the support rating has been raised to "3" from the "5" level. The outlook on the bank's long-term and short-term IDRs is Stable.

Shareholders

As at 31 December 2017 and 2016, the following shareholders owned the issued common shares of the Bank:

	31 December 2017		31 December 2016	
	Number of shares	Direct ownership, %*	Number of shares	Direct ownership, %*
JSC Halyk Bank of Kazakhstan	2,088,642,919	74.73	-	-
JSC ALMEX Holding Group	700,171,633	25.05	-	-
Mr. Kenes Rakishev **	-	-	344,777,652	43.26
JSC Qazaq Financial Group ("QFG") ***	-	-	223,922,790	28.10
JSC NWF Samruk-Kazyna	-	-	85,517,241	10.73
JSC Central-Asian Investment Company ("CAIC")****	-	-	70,074,945	8.79
Mr. Nurzhan Subkhanberdin	-	-	47,800,962	6.00
Other shareholders	6,252,935	0.22	24,893,955	3.12
Total*****	2,795,067,487	100.00	796,987,545	100.00

Notes:

* These percentage holdings were calculated based on the direct holding of each shareholder in the total number of common shares outstanding less treasury shares purchased by the Bank and its subsidiaries. JSC Kazkommerts Securities, subsidiary of the Bank, acts as a market-maker of the Bank's shares on the local stock exchange maker based on the requirements of the Kazakhstan Stock Exchange ("KASE").

** Taking into account the shares belonging indirectly through JSC Qazaq Financial Group at 31 December 2016 the number of shares was 568,700,442, share under control of Mr. Kenes Rakishev totals 71.36%.

*** Previously JSC Ainair Capital Holding.

**** As at 31 December 2016, taking into account common shares received in trust management from Mr. Nurzhan Subkhanberdin in the amount of 43,081,009 shares, the total number of common shares under the control of CAIC was 113,155,954 shares, the total share - 14.20%.

***** The specified figure is calculated for each reporting date from the total number of placed common shares of the Bank minus the shares purchased by the Bank and market maker of the Bank in accordance with the requirements of the KASE.

On 2 February 2016, the Bank announced the completion of the sale of 608,374,602,366 common shares of BTA, which is 99.4187% of the total number of common shares of BTA. These shares of BTA were sold to the following shareholders of the Bank: Mr. Kenes Rakishev - 299,211,380,223 shares (or 49.18% of the sold shares of BTA), Mr. Nurzhan Subkhanberdin - 299,211,380,223 shares (or 49.18% of the sold shares of BTA), minority shareholders of KKB - 9,951,841,920 shares (or 1.64% of the sold shares of BTA). After selling these shares of BTA, the Bank ceased to be a shareholder of BTA. These common shares of BTA were sold in accordance with and within the framework of the offer made to the Bank's shareholders at the selling price of 0.00001 KZT per common share.

On 20 April 2016, Mr. Kenes Rakishev has reached a preliminary agreement with Mr. Nurzhan Subkhanberdin and CAIC on the repurchase of their common shares of the Bank. Under this agreement, Mr. Kenes Rakishev acquired from CAIC, 115,486,789 common shares of the Bank, as a result of which the direct share of Mr. Kenes Rakishev in the Bank grew from 28.67% to 43.15%. Taking into account the shares belonging to him indirectly through JSC Qazaq Financial Group, the total shares under the control of Mr. Rakishev is 71.23%.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

On 10 June 2016, Mr. Kenes Rakishev completed the purchase of common shares from shareholders, announced on 6 May 2016 in accordance with paragraph 3 of Article 25 of the Law "On Joint Stock Companies". Following the results of filed applications and executed orders, minority shareholders purchased 648,120 common shares of the Bank at a price of KZT 211.4978 per share.

On 19 January 2017, there was an agreement on termination of Trust management of Kazkommerstbank's shares in the amount of 43,081,009 shares between Mr. Nurzhan Subkhanberdin and JSC Central-Asian Investment Company ("CAIC"), which amounted to 5.4% of the total number of common shares issued by JSC Kazkommerstbank.

On 2 June 2017, the Bank signed the Framework Agreement (hereinafter referred to as "the Agreement") with the Government of the Republic of Kazakhstan (represented by the Ministry of Finance of the Republic of Kazakhstan), the NBK, JSC National Welfare Fund Samruk-Kazyna (hereinafter – "Samruk Kazyna"), JSC Problem Loans Fund, JSC Halyk Bank of Kazakhstan (hereinafter – "Halyk Bank"), JSC BTA Bank (hereinafter – "BTA") and Mr. Kenes Rakishev (hereinafter – "the Parties").

On 15 June 2017, the Sale and Purchase Agreements for the shares of the Bank were signed by and between Mr. Kenes Rakishev and Halyk Bank and separately by and between Samruk-Kazyna and Halyk Bank.

On 23 June 2017, in accordance with the Framework Agreement, Mr. Kenes Rakishev purchased common shares of the Bank held by JSC Qazaq Financial Group, Mr. Nurzhan Subkhanberdin and CAIC. The above-mentioned transactions resulted into direct shareholding of Mr. Kenes Rakishev having increased from 43.23% to 86.09%. JSC Qazaq Financial Group, Mr. Nurzhan Subkhanberdin and CAIC ceased to be shareholders of the Bank.

On 30 June 2017, at the Extraordinary General Meeting of Shareholders of the Bank, it was decided to voluntarily delist the global depository receipts (hereinafter referred to as GDRs), the basic asset of which are common shares issued by the Bank on the London Stock Exchange ("LSE"). Listing was ceased from 28 August 2017.

On 1 July 2017, the Bank repaid its debt to Samruk-Kazyna in the amount of KZT 41,075 million under the BTA purchase and sale agreement dated 31 December 2014.

On 5 July 2017, the transactions were completed whereby Halyk Bank acquired common shares of the Bank held by Mr. Kenes Rakishev and JSC Sovereign Wealth Fund Samruk-Kazyna subject to the terms of the sale and purchase agreements signed on 15 June 2017. As a result of the above transactions, Halyk Bank holds 96.81% common shares in the Bank.

On 11 July 2017, the Board of Directors of the Bank decided to place 1,339,379,809 common shares of the Bank among the Bank's shareholders.

On 12 July 2017 Halyk Bank has executed its pre-emptive rights and acquired 1,296,698,676 common shares of Kazkommertsbank pro-rata to current ownership share of Halyk Bank of 96.81% in Kazkommertsbank for KZT 185,000 million.

As a result of the sale and purchase transactions in the framework of the mandatory tender offer for the purchase of common and preferred shares of the Bank, as well as for the GDRs, the underlying asset of which are common and preferred shares of the Bank announced on 10 July 2017, Halyk Bank purchased 13,687,609 common shares, 31,311 preferred shares, 3,081,552 GDRs, underlying asset of which are common shares issued, and 14,655,549 GDRs, the underlying asset of which are issued preferred shares of the Bank

On 6 October 2017, the Board of Directors of the Bank made a decision to place 700,716,450 common shares at a price of KZT 93.19 for one common share among shareholders of the bank by the pre-emptive right.

On 14 November 2017, the Bank announced that by the resolution of Board of Directors it was decided to place 700,171,633 common shares of the Bank that were not placed after the exercise of the right of preferential purchase by shareholders, among an unlimited number of investors.

Joint Stock Company Kazkommertsbank

Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

On 15 November 2017, the Bank had placed 700,171,633 common shares for KZT 65,249 million, which were purchased by JSC ALMEX Holding Group, after approval from NBK. As a result of the purchase and sale transaction, JSC ALMEX Holding Group share in KKB amounted to 25.05%.

On 15 December 2017, the Board of Directors of JSC Halyk Bank of Kazakhstan has approved a gradual integration of two banks by merging JSC Kazkommerstbank with Halyk Bank. The integration will begin as soon as it is approved by regulatory bodies and the service and technological readiness, including synchronising of the product proposition, banking procedures and processes, integration of IT systems and banking infrastructure, of both financial institutions is ensured.

As at 31 December 2017, Halyk bank owns 74.73% of the Bank's common shares in circulation and 23.73% of the Bank's preference shares in circulation.

These consolidated financial statements were authorized for issue by the Management Board of the Group on 2 March 2018.

2. Significant accounting policies

Going concern principle

During the year ended 31 December 2017, the Group incurred a net loss of KZT 376,094 million.

The loss of KZT 376,094 million is primarily due to impairment losses on interest bearing assets, valuation of assets held for sale and other assets, which include inventory in the form of foreclosed collateral. These losses are attributable to changes in management estimate as a result of management reconsidering the amount and timing of future cash flows arising from underlying assets and future investment plans in relation to ongoing and unfinished projects.

Further, Management believes that the Group will continue as a going concern for the foreseeable future, due to the following:

- as discussed in note 1, on 5 July 2017, the Group was acquired by Halyk Bank;
- as discussed in note 17, on 3 July 2017, BTA repaid the outstanding balance in the amount of KZT 2,400,000 million, resulting in the Bank having significant access to liquidity going forward;
- as discussed in note 15, on 3 July 2017, the Bank entered into a significant currency swap transaction with the NBK, providing additional support to the currency position of the Bank;
- as discussed in note 25, on 4 July 2017, the Bank changed the terms of its deposit arrangement with JSC Problem Loan Fund, resulting in a significant improvement in the Group's equity position;
- as discussed in note 1, on 12 July 2017, JSC Halyk Bank acquired additional ordinary shares in the amount of KZT 185,000 million, effectively recapitalizing the Bank.
- as discussed in note 1, a new experienced Management team from 4 July 2017 and Board of Directors from 31 July 2017 was appointed;
- as discussed in note 1, on 15 November 2017, the Bank had placed 700,171,633 common shares for KZT 65,249 million, which were purchased by JSC ALMEX Holding Group, after approval from NBK.

As a result of the measures described above, Management believes the Group will continue as a going concern for the foreseeable future.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Boards ("IASB").

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

Joint Stock Company Kazkommertsbank

Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

These consolidated financial statements are presented in millions of Kazakhstani tenge ("KZT"), unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and certain property and equipment which are carried at revalued cost less depreciation and impairment as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

Kazkommertsbank and its subsidiaries (except for subsidiaries in Russian Federation and Republic of Tajikistan) maintain their accounting records in accordance with IFRS. Subsidiaries in Russian Federation and Republic of Tajikistan maintain their accounting records in accordance with local GAAP and their financial statements are prepared from the local statutory accounting records and adjusted to conform with IFRS.

These consolidated financial statements have been prepared based on the accounting records of the Bank and its subsidiaries. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 38.

Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The functional currency of the Bank is Kazakhstani tenge. The presentation currency of the consolidated financial statements is Kazakhstani tenge.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Joint Stock Company Kazkommertsbank

Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interest

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interest are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, with some exceptions.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holders of the Parent. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent and to the non-controlling interests. Total comprehensive income is attributed to the equity holders of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Parent.

When the Bank loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the owners of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting.

Financial assets and financial liabilities are initially recognised at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. The accounting policies for subsequent remeasurement of these items are disclosed in the respective accounting policies set out below.

Joint Stock Company Kazkommertsbank

Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Derecognition of financial assets and liabilities

Financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

A financial liability is derecognised when the obligation is discharged, cancelled, or expires.

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

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

Cash and balances with national (central) banks

Cash and balances with national (central) banks include cash on hand and unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan, the Central Bank of the Russian Federation and the National Bank of Tajikistan with original maturities within three months.

Cash and cash equivalents

For the purposes of determining cash flows, cash and cash equivalents includes advances to banks with original maturities within three months, cash and balances with national (central) banks less the minimum reserve deposits required by the Central Bank of the Russian Federation, the National Bank of the Republic of Kazakhstan and the National Bank of Tajikistan.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates using the KZT/USD exchange rate effective on the date. Changes in the bid prices are recorded in net gain/(loss) on foreign exchange and precious metals operations.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities: (1) acquired principally for the purpose of selling them in the near future, (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking, or (3) which are designated by the Group at fair value through profit or loss upon initial recognition.

A financial asset or liability other than a financial asset or liability held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; (2) the financial asset or liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. Fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognised in the consolidated statement of profit or loss for the period and is included in Net gain/(loss) from financial assets and liabilities at fair value through profit or loss line item. Fair value is determined in the manner described in Note 36.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, futures, swaps and options on foreign currency, precious metals and securities to manage currency, interest rate and liquidity risks and for trading purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included within financial assets or financial liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in Net gain/(loss) from financial assets and liabilities at fair value through profit or loss in the consolidated statement of profit or loss.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the consolidated statement of profit or loss. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Loans and advances to banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks and other financial institutions. Loans and advances to banks and other financial institutions with a fixed maturity term are initially recorded at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction from impairment or uncollectibility.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Securities repurchase and reverse repurchase agreements and lending transactions

In the normal course of business the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets transferred under repos are retained in the consolidated financial statements and the consideration received under these agreements is recorded as a collateralized loan received within loans and advances from banks and other financial institutions.

Financial assets received under reverse repos are recorded in the consolidated financial statements as loans which are collateralized by securities and are classified within Loans and advances to banks and other financial institutions and loans to customers.

In the event that the financial assets received under reverse repos are sold to third parties, the results are recorded in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and resale of the underlying financial assets is accrued over the life of the agreement using the effective interest rate and recognised as interest income or expense in the consolidated statement of profit or loss.

The Group enters into repos and reverse repos agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Kazakhstan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

Loans to customers

Loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans to customers granted by the Group are initially recognised at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognised as a loss on initial recognition of the loan and included in the consolidated statement of profit or loss according to the nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances to banks and customers are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as a decrease of charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. A lease is classified as a finance lease if:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group as a lessor presents finance leases within Loans to customers and initially measures them in the amount equal to net investment in the lease. Subsequently, the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the finance lease.

Investments available-for-sale

Investments available-for-sale represents debt and equity investments that are intended to be held for an indefinite period of time. Investments in available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Investments available-for-sale are initially recorded at fair value and subsequently are measured at fair value, with such re-measurement recognised in other comprehensive income and accumulated within the Investments available-for-sale fair value reserve which is included in Other reserves category within equity, except for impairment losses, foreign exchange gains or losses, interest income accrued using the effective interest method and dividends on available-for-sale equity investments, which are recognised directly in the consolidated statement of profit or loss. When sold, the cumulative gain or loss previously accumulated in the Investments available-for-sale fair value reserve is reclassified to profit or loss. Fair value is determined in the manner described in Note 36.

Dividends on available-for-sale equity investments are recognised when the Group's right to receive the dividends is established and are included in dividend income in the consolidated statement of profit or loss.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has a positive intent and the ability to hold them to maturity. Such securities are carried at amortized cost, using the effective interest rate method, less any allowance for impairment. Amortized discounts or premiums are recognised in interest income over the period to maturity using the effective interest method.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Impairment of financial assets

Financial assets carried at amortized cost

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. Such impairment losses are not reversed unless in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as recoveries, in which case the previously recognised impairment loss is reversed by adjustment of an allowance account to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Investments available-for-sale

If an available-for-sale asset is impaired, the cumulative loss comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss, is reclassified from equity to the consolidated statement of profit or loss. Reversals of impairment losses in respect of equity securities classified as available-for-sale are not recognised in the consolidated statement of profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated within the Investments available-for-sale fair value reserve which is included in Other reserves line item within equity. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss.

For the financial assets recorded at cost the impairment represents the difference between the carrying value of the financial asset and present value of the estimated future cash flows discounted using the current market interest rate for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included in the consolidated statement of profit or loss using the provision account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Group can incur losses greater than recorded impairment.

Goodwill

Goodwill arising on the acquisition of a business is carried at cost as established at the date of acquisition of the business (see paragraph Business Combinations above) less accumulated impairment losses, if any.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, equipment and intangible assets

Property and equipment, except for buildings, other real estate and intangible assets are carried at historical cost less accumulated depreciation and amortization. Buildings and other real estate are carried at market value, market value is revised on an annual basis. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization of property, equipment and intangible assets are charged on the carrying value of property and equipment and are designed to write off assets over their useful economic lives. Depreciation and amortization are calculated on a straight-line basis at the following annual prescribed rates:

Buildings and other real estate	1-10%
Furniture and equipment	4-50%
Intangible assets	15-50%

Freehold land is not depreciated.

Leasehold improvements are amortized over 5 years. Expenses related to repairs and renewals are charged when incurred and included in operating expenses in the consolidated statement of profit or loss, unless they qualify for capitalization.

The carrying amounts of property, plant and equipment and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use, where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognised in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by an appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Depreciation on revalued buildings is charged to consolidated statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Market value of property is assessed using one of three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property based on available public information;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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For the year ended 31 December 2017

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. When the Group determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Assets classified as held for sale

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognised in the consolidated statement of profit or loss as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognised to the extent of the cumulative impairment loss that was previously recognised in relation to that specific asset.

Discontinued operation

Disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted as of the reporting date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit or taxable temporary difference from the initial recognition of goodwill.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Countries where the Group operates also have various other taxes other than income tax, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Loans and advances from banks and other financial institutions, customer accounts, debt securities issued, other borrowed funds and subordinated debt

Loans and advances from banks and other financial institutions, customer accounts, debt securities issued, other borrowed funds and subordinated debt are initially recognised at fair value less transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Provisions

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

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognised at fair value. Subsequently they are measured at the higher of (a) the amount recognised as a provision as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognised less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

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

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Share capital and share premium reserve

Share capital is recognised at historical cost. The amount of share capital may be changed through placement of treasury shares (increase in capital), as well as through repurchase of treasury shares (decrease in capital).

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on common shares are recognised in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" and disclosed accordingly.

Preference shares

Preferred shares that mandate the payment of dividends at a predetermined guaranteed amount shall be treated as compound financial instruments that contain a liability. On initial recognition, the fair value of the debt component is measured by discounting the expected future cash flows at the market rate for similar debt instruments and recognised in the statement of financial position as a liability, as well as in the additional paid-in capital. Subsequently, the debt component is measured according to the same principles as those used for subordinated debt, and equity component is measured according to the same principles as for share capital. Current period dividends relating to these shares are recognised as expenses in profit or loss.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the countries in which the Group operates certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged in the period in which the related salaries are earned. Upon retirement all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the state pension system of the countries in which the Group operates. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to the consolidated statement of profit or loss when the related transactions are completed. Interest income, received on assets assessed at fair value, is classified as interest income.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct and incremental costs, and recognised as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in the consolidated statement of profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in the profit or loss on expiry. Loan servicing fees are recognised as revenue as the services are provided. Loan syndication fees are recognised in the consolidated statement of profit or loss when the syndication has been completed. All other commissions are recognised when services are provided.

Underwriting income and expenses

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and insurance policy acquisition cost.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within Provisions in the accompanying consolidated statement of financial position.

Losses and loss adjustments are charged to the consolidated statement of profit or loss as incurred.

Commissions earned on ceded reinsurance contracts are recorded to the consolidated statement of profit or loss at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated statement of financial position within other assets, and are amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognised as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

Reserve for insurance losses and loss adjustment expenses is a summary of estimates of ultimate losses, and includes both claims reported but not settled ("RBNS") and claims incurred but not reported ("IBNR").

RBNS is created for significant reported claims not settled at the reporting date. Estimates are made on the basis of information received by the Group during its investigation of insured events. IBNR is estimated by the Group based on its previous history of claims/indemnification of claims using actuarial methods of calculation, which include loss triangulation for insurance classes for which there is statistical data. For the types of insurance that do not have statistical data, IBNR is calculated according to the NBK requirements as not less than 5% of the written premiums net of commission, for the last twelve months prior to reporting date.

Life insurance

The reserves for claims and claims incurred for annuity contracts are determined as the sum of the discounted value of the expected future benefits, annuities handling and contracts administration expenses, which are directly related to the contract, less the discounted value of the expected estimated premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The reserves are either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

The reinsurers' share in the provision for losses is calculated in accordance with the reinsurers' share under the reinsurance contracts.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the accompanying consolidated statements of financial position within other assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the Group to the reinsurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Rates of exchange

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

	31 December 2017	31 December 2016
KZT/1 US Dollar	332.33	333.29
KZT/1 Euro	398.23	352.42
KZT/1 Kyrgyz Som	4.83	4.8
KZT/1 Russian Rouble	5.77	5.43
KZT/1 Tajikistan Somoni	37.68	42.4

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity on the Group's statement of financial position include:

- 'Property and equipment revaluation reserve' which comprises revaluation reserve of land and buildings;
- 'Investments available-for-sale fair value reserve/(deficit)' which comprises changes in fair value of available-for-sale investments;
- 'Cumulative translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- 'Hedging reserve' which is used to record the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. Since late 2009, the hedge did not meet the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs;

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Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Fiduciary activities

The Group provides depository services to its customers, which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

The segments are identified on the basis used by the Group's chief operating decision maker (Management Board) to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The segments are managed primarily on the basis of their results, which excludes certain unallocated costs related to interest expense on debt securities issued and loans and advances to banks and other financial institutions and operating expenses other than salaries and other employee benefits. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported based on the domicile of the company within the Group.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the Group management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Allowance for impairment losses of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

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The Group uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses management's judgement to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The most significant judgement is applied in assessing impairment levels in real estate loans and construction financing. Current economic and market conditions make historical statistical loss levels less relevant in determining the inherent loss levels in the loan portfolio. Instead, management is required to use recent empirical evidence of impairment or employ analytical tools to estimate future economic value of collateral secured under loans or the expected cash generating ability of the borrowers' business. This area of judgement bears significant sensitivity to various risk factors, such as general economic growth, central government involvement, support of local authorities, trends in the housing and commercial real estate markets, and changes in the regulatory environment. The assumptions underlying this judgement are highly subjective.

The level of loan loss provisions for this loan category at the reporting date is supported by following factors:

- The economic value assessment of collateral under real estate loans. In some cases management used certain assumptions to determine the inherent value of collateral, such as land, based on highest and best use, current observable lease rates and sale prices for commercial and residential real estate. Moreover, the assessment sometimes depends on expectations that local municipal government will continue funding capital expenditure costs for infrastructure development in and around any given real estate project. In certain cases, the requirement for additional financing as well as investment is factored into determining the value.
- The Bank has formulated a work-out strategy for construction loans, which is currently being implemented, most significantly in Almaty and Astana. In many cases the approach taken by the Bank necessitates close partnership with local municipal authorities, construction subcontractors, suppliers of construction materials, and the availability of construction materials, specialized equipment and labour.
- Incomplete construction projects are more likely to result in past due construction loans. Therefore, the Bank encourages additional investments in incomplete construction projects, which in turn increase an opportunity to generate more cash flows for existing borrowers of the Bank that are involved in ancillary services to the construction sector, such as equipment leasing, construction materials, site management, labour outsourcing, transportation, security, and other services.

Fair value changes in the above factors and assumptions may result in significant adjustment to loan loss provisions and the carrying value of loans to customers. Management seeks to regularly update assumptions and the approach it has taken toward individual borrowers.

The allowances for impairment losses of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in these conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The impairment of a loan is identified within credit monitoring, which includes monitoring of payments of the customer and preparation of regular monitoring reports on the customer and his loans every 6 or 12 months, depending on the solvency of the customer. In addition, on a regular basis the credit managers monitor the quality of the loan, financial position and business of the customer, and observe the terms of the loan agreements. For the purpose of provisioning, an assessment of impairment losses for corporate loans is performed on an individual basis.

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If there is a default on payments of principal or accrued interest for 90 days or more, as well as in the case of an event which adversely affects the creditworthiness of the borrower, the Group classifies corporate loans as non-performing and, therefore, as impaired.

The Group classifies consumer (retail) loans and small business loans as non-performing or impaired if there is a delay in payment of the principal or accrued interest for 90 days or more. For the purposes of provisioning for impairment, assessment of such loans is performed on a pool basis, at the portfolio level.

According to the Group's credit portfolio management policy, if at least one loan of a customer is recognised as impaired based on the above mentioned criteria, the total debt of such a customer is considered impaired, i.e. other performing loans of such customer are also recognised as impaired.

All loans other than those included in the non-performing or impaired categories are assessed collectively. Homogeneous and/or collective loans are not assessed for impairment on an individual basis, because there is not enough objective information on such loans for assessment of their impairment.

The Group creates an allowance for impairment losses in order to cover credit losses, including losses where the asset is not specifically identified. At least monthly, the provision for impairment losses on interest bearing assets is reviewed by the Chairman of the Board, Deputy Chairman of the Board, in-charge of finance unit, Director of financial risks and portfolio analysis and the Chief Accountant. At least quarterly, the provision for impairment losses and overall credit quality is reviewed by the Board of Directors. The amount of provision is reviewed relative to the credit portfolio and current economic conditions. The amount of provision is determined by individual and portfolio-based approaches. As at 31 December 2017, Management deemed the provision for impairment losses to be appropriate and sufficient to absorb losses that are inherent to the Group's loan portfolio.

Goodwill impairment

The review of goodwill for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

- the future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance, and reflect management's expectations of future business prospects at the time of the assessment; and
- the rates used to discount future expected cash flows are based on the costs of capital assigned to individual CGUs and the rates can have a significant effect on their valuation. The cost of capital percentage is generally derived from a Capital Asset Pricing Model, which incorporates inputs reflecting a number of financial variables, which are subject to fluctuations in external market rates and economic conditions beyond control of the Group.

Impairment testing inherently involves a number of judgemental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

Valuation of financial instruments

As described in Note 36, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 36 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

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Recoverability of deferred tax assets

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax to be recovered.

Transactions with entities under common control

Transactions between entities under common control is performed with the use of the predecessor values method with the use of carrying values. The Group applies this principle consistently to all similar transactions. For acquisition of entities under common control the group combines financial statement from the date of the transaction and comparative information is not restated. The difference between consideration and the acquired assets and liabilities is recognised in retained earnings.

3. Application of new and revised IFRS

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements:

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

Amendments to IAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of debt instruments (Note 26) and certain other borrowed funds (Note 27). A reconciliation between the opening and closing balances of these items is provided in Note 26. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 26, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

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The application of these amendments has had no effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*¹;
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*¹;
- IFRS 17 *Insurance Contracts*³;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*¹;
- IFRIC 23 *Uncertainty Over Income Tax Treatments*²;
- Amendments to IAS 40 – *Transfers of Investment Property*¹;
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*¹;
- Annual Improvements to IFRSs 2014-2016 Cycle¹;
- Annual Improvements to IFRSs 2015-2017 Cycle².

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management of the Company has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

- Bills of exchange and loans carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
- Listed redeemable notes classified as available-for-sale investments carried at fair value: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the notes in the open market, and the notes' contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed redeemable notes will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed redeemable notes are derecognised or reclassified;
- Unlisted shares classified as available-for-sale investments carried at fair value: these shares qualify for designation as measured at FVTOCI under IFRS 9; however, the fair value gains or losses accumulated in the investment revaluation reserve will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

The impairment requirements for IFRS 9 will apply to financial assets carried at amortized cost, tradable redeemable bonds that will be accounted for as FVTOCI in accordance with IFRS 9 (see "Classification and Measurement" above), a receivable from financial lease, receivables under construction contracts and financial guarantee contracts.

The most significant impact on the Group's financial statements on implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model. The transitional impact of IFRS 9 will be recognised in the opening equity as at 1 January 2018. Management has estimated that on adoption of IFRS 9, the Bank will continue to exceed the minimum capital requirement ratios as prescribed the National Bank of Kazakhstan.

The actual impact of adopting IFRS 9 as at 1 January 2018 has not been finalised as the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank receives formal approval from the banking regulator in Kazakhstan and finalises its first financial statements that include the date of initial application.

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IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was published, which establishes a single integrated model of revenue recognition under contracts with customers. After entering into force, IFRS 15 will replace current revenue recognition standards, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Management of the Bank anticipates that the application of *IFRS 15* in the future may have a significant impact on the amounts and timing of revenue recognition. However, it is not possible to assess the impact of applying IFRS 15 before conducting a detailed analysis.

IFRS 17 Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*:

- IFRS 17 outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.
- The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty; it takes into account market interest rates and the impact of policyholders' options and guarantees.
- Profit from selling insurance policies is deferred in a separate liability component on day 1 and aggregated in groups of insurance contracts; it is then reported systematically through profit or loss over the period during which insurers provide cover after making adjustments from changes in assumptions relating to future coverage.
- Considering scope, some fixed fee service contracts meeting specified criteria will be able to be accounted under IFRS 15 *Revenue from Contracts with Customers* instead of applying the requirements in IFRS 17.

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The new standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted for entities that apply IFRS 9 and IFRS 15 at or before the date of initial application of IFRS 17. Entities should apply IFRS 17 retrospectively, unless impracticable, in which case the modified retrospective approach of the fair value approach is applied.

The management of the Group does not anticipate that the application of these amendments to IFRS 17 may have a significant effect on the consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

IFRIC is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The management of the Group does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach prescribed in IFRIC 22.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

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IFRIC is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

The management of the Group does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach to recognition of uncertain tax position, which is consistent with IFRIC 23.

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

The amendments provide entities meeting a criterion for engaging in predominantly insurance activities with the option to continue current IFRS accounting and to defer the application of IFRS 9 until the earlier of the application of the new insurance Standard or periods beginning on or after 1 January 2021 (the "sunset clause"). The assessment of predominance has to be made at the reporting entity level and at the annual reporting date immediately preceding 1 April 2016. Thereafter it should not be reassessed, unless there is a significant change in the entity's activities that would trigger a mandatory reassessment. An entity shall apply those amendments, which permit insurers that meet specified criteria to apply a temporary exemption from IFRS 9, for annual periods beginning on or after 1 January 2018.

Separately, the amendments provide all entities with contracts within the scope of IFRS 4 with an option to apply IFRS 9 in full but to make adjustments to profit or loss to remove the impact of IFRS 9, compared with IAS 39, for designated qualifying financial assets. This is referred to as the 'overlay approach' and is available on an asset-by-asset basis with specific requirements around designations and de-designations. An entity shall apply those amendments, which permit insurers to apply the overlay approach to designated financial assets, when it first applies IFRS 9.

The management does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements as the Group does not have any insurance contracts to which IFRS 4 applies.

Annual Improvements to IFRSs 2014-2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Group. The package also includes amendments to IFRS 12 which is mandatorily effective for the Group in the current year – see the details of application in section Amendments to IFRSs affecting amounts reported in the financial statements.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at fair value through profit or loss is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.

The management of the Group does not anticipate that the application of the amendments in the future will have any impact on the Group's consolidated financial statements as the Group is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Group does not have any associate or joint venture that is an investment entity.

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Annual Improvements to IFRSs 2015-2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All amendments are effective for annual periods beginning on or after 1 January 2019.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

4. Net interest income

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on collectively assessed impaired financial assets	9,823	12,302
- interest income on impaired financial assets that have been assessed individually for impairment	28,298	33,179
- interest income on financial assets that are not impaired including collective not impaired loans	205,939	362,163
Interest income on financial assets at fair value through profit or loss (financial assets held-for-trading)	9,729	22,737
Interest income on investments available-for-sale	73,318	4,003
Total interest income	327,107	434,384
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	216,405	374,130
Interest on loans and advances to banks and other financial institutions	12,204	17,169
Interest on investments held to maturity	8,879	16,345
Interest on other financial assets	6,572	-
Total interest income on financial assets recorded at amortized cost	244,060	407,644
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer accounts	(139,541)	(136,000)
Interest on debt securities issued	(45,281)	(61,412)
Interest on loans and advances from banks and other financial institutions	(36,226)	(5,232)
Interest on subordinated debt	(14,576)	(20,805)
Interest on other borrowed funds	(2,863)	(5,865)
Preference share dividends*	(1,618)	(1,697)
Total interest expense on financial liabilities recorded at amortized cost	(240,105)	(231,011)
Net interest income before provision for impairment losses on interest bearing assets	87,002	203,373

* Preference share dividends relate to obligatory dividends payable on debt component of preference shares (Note 31).

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For the year ended 31 December 2017

5. Allowance for impairment losses and other provisions

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans and advances to banks and other financial institutions (KZT million) (Note 16)	Loans to customers (KZT million) (Note 17)	Investments held to maturity (KZT million) (Note 19)	Total (KZT million)
31 December 2015	99	314,442	60	314,601
Additional provision recognised (Write-off of assets)/recovery of previously written off assets	4,979	63,865	15	68,859
Sale of loans	-	(60,491)	142	(60,349)
Gross up effect	-	(17,349)	-	(17,349)
Foreign exchange differences	-	272,950	-	272,950
	(16)	30	-	14
31 December 2016	5,062	573,447	217	578,726
(Recovery of provision)/additional provision	(25)	507,418	8	507,401
Write-off of assets	-	(214,291)	-	(214,291)
Reclassification to investments available-for-sale (Note 18)	-	-	(225)	(225)
Foreign exchange differences	(2)	9,450	-	9,448
31 December 2017	5,035	876,024	-	881,059

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Insurance provisions, gross	63,250	57,501
Reinsurance share in provision	(11,143)	(9,227)
	52,107	48,274

The movements in insurance provisions, allowances for impairment losses on other transactions were as follows:

	Insurance provisions, gross (KZT million)	Reinsurance assets (KZT million) (Note 23)	Other assets (KZT million) (Note 23)	Total (KZT million)
31 December 2015	51,435	(6,601)	6,345	51,179
Additional provision recognised	6,066	(2,626)	6,583	10,023
Write-off of assets	-	-	(2,033)	(2,033)
Foreign exchange differences	-	-	(27)	(27)
31 December 2016	57,501	(9,227)	10,868	59,142
Additional provision recognised	5,749	(1,916)	32,553	36,386
Write-off of assets	-	-	(2,447)	(2,447)
Foreign exchange differences	-	-	177	177
31 December 2017	63,250	(11,143)	41,151	93,258

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Insurance provisions, net of reinsurance, comprised:

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Annuity insurance	37,212	32,905
Life insurance	5,734	5,442
Civil liability for damage	2,311	2,437
Civil liability for owners of vehicles	1,908	1,535
Accidents	1,608	120
Medical insurance	1,269	1,112
Property	1,078	1,190
Vehicles	317	514
Other	670	3,019
	52,107	48,274

Other insurance provisions include provisions for insurance of private lawyers, auditors and audit organizations, air and marine transport and others.

The movements in provision for guarantees and other contingencies were as follows:

	Guarantees and other off- balance sheet commitments (Note 33)
31 December 2015	5,894
Recovery of provision	(781)
Foreign exchange differences	(43)
31 December 2016	5,070
Additional provision recognised	10,257
Foreign exchange differences	(112)
31 December 2017	15,215

6. Net gain on financial assets and liabilities at fair value through profit or loss

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
Net gain on operations with financial assets and liabilities held-for-trading comprise:		
Net gain/(loss) on operations with derivative financial instruments	87,159	(2,348)
Realized gain on trading operations	11,634	5,475
Unrealized gain on fair value adjustment of financial assets held for trading	5,480	4,843
Total net gain on financial assets and liabilities at fair value through profit or loss	104,273	7,970

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7. Net loss on foreign exchange and precious metals operations

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
Dealing, net	17,891	(4,710)
Translation differences, net	(65,229)	(12,296)
Total net loss on foreign exchange and precious metals operations	(47,338)	(17,006)

8. Fee and commission income and expense

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
Fee and commission income:		
Plastic cards operations	22,879	19,771
Cash operations	14,699	12,881
Settlements	12,259	12,545
Documentary operations	2,738	2,376
Encashment operations	803	851
Foreign exchange and securities operations	410	228
Other	377	373
Total fee and commission income	54,165	49,025
Fee and commission expense:		
Plastic cards services	(12,515)	(8,234)
Payments to the deposits and insurance payment guarantee fund	(10,250)	(9,835)
Correspondent bank services	(846)	(773)
Foreign exchange and securities operations	(438)	(609)
NBK computation center services	(451)	(372)
Documentary operations	(227)	(222)
Other	(910)	(613)
Total fee and commission expense	(25,637)	(20,658)

9. Loss from revaluation of other assets

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
Loss from change in value of assets held for sale	(58,651)	(55,502)
Loss from change in value of inventory	(39,897)	(230)
(Loss)/gain from change in value of investment property	(1,309)	80
Loss from revaluation of other assets	(99,857)	(55,652)

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For the year ended 31 December 2017

10. Other income

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
Income from insurance activity	9,177	9,843
Net gain/(loss) from sale of non-current assets held for sale	3,315	(621)
Rental income	1,648	736
Income from state duties and taxes written-off	542	1,102
Fines and penalties received	503	3,707
Processing	434	210
Compensation for utilities and maintenance costs	111	330
Net gain on sale of property and equipment	37	56
Income from acquisition of subsidiary	32	-
Income from repurchase of own debt securities and early redemption of other obligations	28	1,339
Income from recovery of impairment loss on property and equipment	-	199
Net loss on sale of investment property	-	(25)
Expenses from disposal of the subsidiaries	-	(77)
Other	1,885	1,098
	17,712	17,897

11. Operating expenses

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
Staff costs	36,087	49,406
Taxes, other than income tax	4,788	3,649
Depreciation and amortization	4,298	3,618
Legal/consulting services	3,755	3,430
Property and equipment maintenance	3,752	4,303
Operating leases	3,612	3,559
Advertising costs and telecommunications	2,994	3,225
Bank cards services	2,232	2,200
Fines, penalty	1,920	85
Security	1,866	1,703
Encashment	1,450	115
Business trip expenses	394	579
Expenses on repossessed assets	387	1,059
Vehicle maintenance	314	481
Collector services	199	534
Other expenses	5,520	6,104
Reversal of bonus fund	(7,654)	-
	65,914	84,050

12. Income tax

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from IFRS.

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The income tax expense for the years ended 31 December 2017 and 2016 is as follows:

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
Current income tax expense	1,403	45,469
Adjustments in respect of current income tax expense based on declarations for prior years	1,493	-
Adjustment in respect of deferred income tax expense based on the profit of prior years	-	3,480
Deferred income tax expense/(benefit)	16,987	(23,580)
Income tax expense	19,883	25,369

Corporate income tax rate in the Republic of Kazakhstan was 20% during 2017 and 2016.

Due to the fact that certain types of expenses are not taken into account for tax purposes, and due to the availability of non-taxable income, the Group has certain permanent tax differences.

Relationships between tax expenses and accounting profit for the years ended 31 December 2017 and 2016 are explained as follows:

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
(Loss)/profit before income tax	(356,211)	25,877
Tax at the statutory tax rate	(71,242)	5,175
Tax effect of permanent differences:		
- tax effect from different tax rates	50	26
- tax exempt income	(33,347)	(14,078)
- unrecognised deferred corporate income tax assets	50,262	-
- non-deductible expense	72,667	34,246
Adjustments in respect of current income tax expense based on declarations for prior years	1,493	-
Income tax expense	19,883	25,369

During 2017 and 2016, tax exempted income was represented by interest income and capital gains on state and other securities listed on KASE, dividend income and interest income on finance leases, and non-deductible expenses comprising non-deductible operating expenses and provisions on finance leases.

Deferred tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount that is determined for tax purposes. The temporary differences available for 31 December 2017 and 2016 are mainly related to various methods of accounting for income and expenses, as well as the accounting value of certain assets.

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Tax effect of temporary differences as at 31 December 2017 and 2016:

	1 January 2017 (million)	Change in deferred income tax recognised in the statement of profit or loss	Change in deferred income tax recognised in equity	Other	31 December 2017 (million)
Deferred income tax assets:					
Unrealised loss on trading securities and derivatives	14,957	(13,251)	(43)	-	1,663
Tax losses carried forward on trading securities and derivatives	3,586	(1,728)	-	-	1,858
Allowance for impairment losses on loans and advances to banks and customers	597	(514)	-	(9)	74
Bonuses accrued	3,522	(2,293)	-	-	1,229
Tax losses carried forward	-	93,360	-	-	93,360
Unrecognised tax asset	-	(49,727)	-	-	(49,727)
Total	22,662	25,847	(43)	(9)	48,457
Deferred income tax liabilities:					
Property, equipment, intangible assets and accrued depreciation	(4,639)	182	108	-	(4,349)
Customer accounts		(43,633)	-	-	(43,633)
Unrealized gain on revaluation of financial instruments, recognised on cash flow hedges	(18)	-	16	2	-
Unrealised gain on trading securities and derivatives	(153)	140	(16)	-	(29)
Other liabilities	(467)	477	-	(9)	1
Total	(5,277)	(42,834)	108	(7)	(48,010)
Net deferred income tax assets/(liabilities)	17,385	(16,987)	65	(16)	447

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	1 January 2016 (million)	Change in deferred income tax recognised in the statement of profit or loss	Change in deferred income tax recognised in equity	Other	31 December 2016 (million)
Deferred income tax assets:					
Unrealised loss on trading securities and derivatives	8,679	6,278	6	(6)	14,957
Tax losses carried forward on trading securities and derivatives	3,192	394	-	-	3,586
Allowance for impairment losses on loans and advances to banks and customers	13,926	(13,339)	-	10	597
Bonuses accrued	1,198	2,324	-	-	3,522
Tax losses carried forward	26	(29)	-	3	-
Property, equipment and intangible assets, accumulated depreciation	14	(14)	-	-	-
Other assets	131	(131)	-	-	-
Total	27,166	(4,517)	6	7	22,662
Deferred income tax liabilities:					
Property, equipment, intangible assets and accrued depreciation	(2,920)	(148)	(1,569)	(2)	(4,639)
Unrealized gain on revaluation of financial instruments, recognised on cash flow hedges	(104)	-	86	-	(18)
Unrealised gain on trading securities and derivatives	(24,651)	24,545	(46)	(1)	(153)
Provision on guarantees and letters of credit	373	(373)	-	-	-
Other liabilities	(1,060)	593	-	-	(467)
Total	(28,362)	24,617	(1,529)	(3)	(5,277)
Net deferred income tax (liabilities)/assets	(1,196)	20,100	(1,523)	4	17,385

The Group offset the deferred tax assets and liabilities in the consolidated statement of financial position when there was a right for netting. The amounts presented after the netting include:

	31 December 2017 (million)	31 December 2016 (million)
Deferred income tax assets	558	17,538
Deferred income tax liabilities	(111)	(153)
Net deferred income tax assets	447	17,385

13. (Loss)/earnings per share

Basic and diluted (loss)/earnings per share are calculated by dividing the net (loss)/profit for the year attributable to equity holders of the Parent by the weighted average number of participating shares outstanding during the year.

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As described in Note 31, dividend payments per common shares cannot exceed the dividends per share on preference shares for the same period. Therefore, net (loss)/profit for the period is allocated to the common shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings:

	Year ended 31 December 2017 (KZT million)	Year ended 31 December 2016 (KZT million)
Basic and diluted (loss)/earnings per share		
Net (loss)/profit for the year attributable to equity holders of the Parent	(376,095)	507
Less: additional dividends that would be paid on full distribution of profit to the preferred shareholders	-	(68)
Net (loss)/profit for the year attributable to common shareholders	(376,095)	439
Weighted average number of common shares for basic and diluted (loss)/earnings per share	1,496,600,714	796,935,211
(Loss)/earnings per share - basic and diluted (KZT)	(251.30)	0.55

The book value per share for each type of shares as at 31 December 2017 and 2016 is as follows:

Type of shares	31 December 2017			31 December 2016		
	Outstanding shares (KZT million)	Net asset value (KZT million)	Book value per share, KZT	Outstanding shares (KZT million)	Net asset value (KZT million)	Book value per share, KZT
Common shares	2,795,067,487	259,627	92.89	796,987,545	371,912	466.65
Preference shares	123,672,855	21,383	172.90	123,984,564	21,456	173.05
		281,010			393,368	

The number of outstanding common and preferred shares is calculated net of treasury shares.

According to amendments enacted to the KASE Listing Rules effective from 25 August 2010, listed companies are required to present book value per share (common and preferred) in their financial statements. In the table above, net asset value and book value per share is calculated in accordance with the methodology in the KASE Listing Rules.

14. Cash and balances with national (central) banks

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Cash on hand	87,995	101,771
Balances with national (central) banks	45,119	50,137
	133,114	151,908

Cash and cash equivalents for the purposes of the consolidated statement of cash flows are comprised of the following:

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Cash and balances with national (central) banks	133,114	151,908
Loans and advances to banks with original maturities less than 3 months	171,731	45,630
REPO with banks original maturity of less than 3 months	332,779	44,074
Less funds deposited with the National Bank of the Republic of Kazakhstan	(37,966)	(62,894)
Less funds deposited with the Central Bank of Russian Federation	(660)	(5,562)
Less funds deposited with the National Bank of Tajikistan	(1,165)	(440)
	597,833	172,716

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As of 31 December 2017 and 2016 there were no Cash and cash equivalents restricted in use.

15. Financial assets and liabilities at fair value through profit or loss

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Debt securities	85,397	160,164
Derivative financial instruments	39,588	19,275
Equity investments	12,513	31,099
Total financial assets at fair value through profit or loss	137,498	210,538

The financial assets at fair value through profit or loss relate entirely to financial assets held for trading.

	31 December 2017		31 December 2016	
	Nominal interest rate % (KZT million)	Amount	Nominal interest rate %	Nominal interest rate %
Debt securities:				
Bonds of the Ministry of Finance of the Republic of Kazakhstan	4.48-9.70	44,171	4.48-8.20	44,041
Bonds of Kazakhstani companies	6.00-13.00	18,169	7.50-14.90	4,017
Short-term notes of NBK	-	8,310	-	99,350
Bonds of Development Bank of Kazakhstan	6.00-11.00	5,075	6.00-6.50	2,411
Bonds of Kazakhstani banks	7.00-11.00	3,468	7.00-11.00	3,101
Bonds of Eurasian Development Bank	9.40-10.10	2,438	-	-
Municipal bonds of the Russian Federation	10.00	2,086	12.00	2,020
Eurobonds of Kazakhstani banks	7.34	1,100	7.25-9.13	2,483
Bonds of Russian companies	10.75	502	13.00	470
Eurobonds of Kazakhstani companies	6.95	78	4.63-6.95	986
Treasury bonds of USA	-	-	2.00-2.44	1,285
		85,397		160,164

	Notional value	31 December 2017 Fair value (KZT million)		Notional value	31 December 2016 Fair value (KZT million)	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments						
<i>Foreign exchange contracts</i>						
Swaps	1,027,551	39,586	(492)	781,274	19,275	(60,570)
Spots	1,352	2	(1)	723	-	(4)
<i>Interest rate contracts:</i>						
Swaps	-	-	-	2,772	-	(195)
Other: Forward on securities	-	-	-	11,124	-	(3,506)
		39,588	(493)		19,275	(64,275)

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Derivative financial instruments	493	64,275
Total financial liabilities at fair value through profit or loss	493	64,275

In February 2017, as part of the repayment of the Bank's Eurobonds, a cross-currency swap transaction in the amount of EUR 650 million was completed.

As at 31 December 2017, the financial liability on forward on sale of shares of Sekerbank TAS was disposed in connection with the sale of investments in BTAS, as disclosed in Note 1, (as at 31 December 2016, the fair value of the forward obligation was KZT 3,506 million).

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On 3 July 2017, the Bank repaid its obligations on swap operations with KASE in the amount of USD 2,841 million, which is equivalent to KZT 914,736 million.

As part of the transactions, disclosed in Note 15, the Bank entered into a currency swap with the NBK for the amount of KZT 1,000,000 million for a period of one year.

	31 December 2017 Amount (KZT million)	31 December 2016 Amount (KZT million)
Equity investments*:		
Shares of Kazakhstani companies	8,932	2,165
GDRs of Kazakhstani banks	1,386	5,059
GDRs of Kazakhstani companies	1,178	23,361
Shares of Kazakhstani banks	516	350
Shares of foreign companies	501	-
Shares of foreign banks	-	164
	12,513	31,099

* As at 31 December 2017, the Group's ownership interest in equity securities did not exceed 2.41% (31 December 2016: 2.16%).

As at 31 December 2017, there were no financial assets at fair value through profit or loss that were pledged as collateral under repurchase agreements. As at 31 December 2016, the fair value of financial assets at fair value through profit or loss pledged as a collateral under repurchase agreements amounted to KZT 89,399 million (Notes 24 and 32).

16. Loans and advances to banks and other financial institutions

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Recorded as loans and receivables:		
Loans under reverse repurchase agreements	332,779	44,074
Correspondent accounts with other banks	105,946	35,113
Loans and advances to banks	95,091	35,707
	533,816	114,894
Less: allowance for impairment losses	(5,035)	(5,062)
	528,781	109,832

Movements in allowances for impairment losses on loans and advances to banks and other financial institutions for the years ended 31 December 2017 and 2016 are disclosed in Note 5.

As at 31 December 2017 and 2016, the Group had no loans and advances to banks and other financial institutions, which individually exceeded 10% of the Group's equity.

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The fair value of collateral and carrying value of loans under reverse repurchase agreements as at 31 December 2017 and 2016 comprised:

	31 December 2017 (KZT million)		31 December 2016 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of the Ministry of Finance of the Republic of Kazakhstan	170,205	169,173	6,934	6,917
NBK notes	127,198	123,451	-	-
Bonds of the Ministry of Finance of the Russian Federation	25,813	24,665	4,164	2,949
Shares of Kazakhstani companies	15,592	11,123	-	-
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	4,568	4,367	1,002	1,001
Bonds of executive authorities and constituent entities of the Russian Federation	-	-	35,239	33,207
	343,376	332,779	47,339	44,074

The maturity of reverse repo agreements that were effective, as at 31 December 2017 will be in January 2018. (2016: January 2017).

As at 31 December 2017, reverse repo agreements were concluded through KASE and through JSC Bank National Clearing Centre. The Group believes that counterparties of these agreements are banks and other financial institutions.

As at 31 December 2017, the Group maintained deposits of KZT 6,245 million included in loans and advances to banks as collateral for credit cards operations (2016: 6,203 KZT million).

17. Loans to customers

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Recorded as loans and receivables:		
Originated loans	1,639,839	4,328,940
Net investments in finance lease	825	1,212
	1,640,664	4,330,152
Less: allowance for impairment losses	(876,024)	(573,447)
	764,640	3,756,705

Movement in allowances for impairment losses on loans to customers for the years ended 31 December 2017 and 2016 are disclosed in Note 5.

The Bank and BTA have signed an Agreement on opening of a credit line, under which the Bank has opened a credit line to BTA with a limit of KZT 630,000 million and USD 5,600 million with maturity on 30 June 2024 and an interest rate of 9% for loan denominated in KZT and 8% for loan denominated in USD. BTA shall make quarterly repayments of principal and interest in fixed amounts, stated in the Agreement, with the remaining debt to be repaid at maturity.

On 3 July 2017, BTA has repaid its loan to the Bank in the amount of KZT 2,400,000 million. According to the terms of Framework Agreement, the proceeds were immediately used for Repayment of its obligations to NBK in the amount of KZT 625,000 million, which were drawn in several tranches starting from December 2016 as a stabilization measure to support the Bank's current liquidity, and also, for investment of KZT 1,000,000 million into treasury bonds of the Ministry of Finance of the Republic of Kazakhstan.

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As at 31 December 2016, the carrying value of BTA loans under this credit line was included in the line "Investments and finance" in the classification of the loan portfolio by sector.

The following table presents loans at book value secured by type of collateral rather than at fair value of collateral:

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Analysis by type of collateral:		
Loans collateralized by guarantees of companies	202,587	18,508
Loans collateralized by real estate and land	190,387	556,543
Loans collateralized by inventory	75,620	149,851
Loans collateralized by guarantees of financial institutions	57,168	57,113
Loans collateralized by mixed types of collateral*	29,535	22,088
Loans collateralized by equipment	15,309	222,604
Loans collateralized by cash and guarantees of the Government of Kazakhstan	7,391	25,735
Loans collateralized by future cash flows	7,159	2,507,843
Loans with collateral under registration (real estate, land plots, shares, guarantees, other)	1,700	43,275
Loans collateralized by shares	736	13,844
Unsecured loans	177,048	139,301
	764,640	3,756,705

* Mixed types of collateral consist of various types of collateral, including real estate, guarantees and inventory. Loans are classified in the category of loans secured by mixed types of collateral, in the event that the division into categories mentioned above is practically not feasible.

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Analysis by sector:		
Individuals	301,425	302,311
Wholesale and retail trade	75,814	100,237
Housing construction	46,083	116,739
Commercial real estate construction	40,149	87,596
Food industry	38,073	45,163
Real estate	34,887	197,887
Industrial and other construction	33,533	65,626
Agriculture	31,205	109,783
Hospitality business	29,698	29,409
Energy	28,810	79,207
Mining and metallurgy	15,614	34,643
Transport and communication	14,943	13,503
Production of construction materials	9,094	8,654
Medicine	7,938	8,365
Investments and finance	7,686	2,491,067
Machinery construction	7,297	7,363
Production of other non-metal materials	1,940	1,444
Other	40,451	57,708
	764,640	3,756,705

During the years ended 31 December 2017 and 2016, the Group received non-financial assets by taking possession of collateral it held as security. As at 31 December 2017, such assets in the amount of 134,353 KZT (2016: 186,486 million KZT) are included in the assets classified as held for sale line of the consolidated statement of financial position. These assets are represented mostly by real estate the majority of which will be realized through auctions. Additionally, the balance of repossessed collateral, as at 31 December 2017 and 2016, includes construction in progress. As at 31 December 2017, such construction in progress in the amount of KZT 6,883 million (2016: KZT 8,154 million) are included in the assets classified as held for sale line of the consolidated statement of financial position.

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Loans to individuals comprise the following products:

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Consumer loans	204,457	173,140
Mortgage loans	95,568	126,480
Business loans	671	734
Car loans	494	1,062
Other	235	895
	301,425	302,311

As at 31 December 2017, Group had not granted loans to borrowers, which individually exceeded 10% of the Bank's equity. As at 31 December 2016, the Group granted loans to the borrowers, which individually exceeded 10% of the Bank's equity in the amount of KZT 2,613,569 million.

As at 31 December 2017, a significant part of the loans 90.19% (2016: 94.43%) of the total portfolio is granted to companies operating in the territory of the Republic of Kazakhstan, which represents a significant geographical concentration.

The components of net investment in finance lease as at 31 December 2017 and 2016 are as follows:

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Minimum lease payments	833	1,234
Less: unearned finance income	(8)	(22)
Net investment in finance lease	825	1,212
Not later than one year	682	963
From one year to five years	143	249
Net investment in finance lease	825	1,212

The value of future minimum lease payments receivable from the customer under a finance lease as at 31 December 2017 and 2016 comprised:

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Not later than one year	689	977
From one year to five years	144	257
Total value of future minimum lease payments	833	1,234
Less: unearned finance income	(8)	(22)
Present value of minimum lease payments receivable	825	1,212

18. Investments available-for-sale

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Debt securities	1,703,975	18,427
Equity securities	476	1,297
	1,704,451	19,724

On 4 July 2017, the Group reclassified all held-to-maturity securities into a portfolio of available-for-sale securities due to the fact that the Group no longer intends to hold securities in the portfolio held to maturity and to increase the overall liquidity of the portfolio. The carrying amount of the reclassified securities at the date of the reclassification was KZT 218,908 million (including the accrued interest of KZT 4,293 million).

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The loss resulting from the reclassification from investments held to maturity to investments available-for-sale amounted to KZT 2,216 million and was recognized in other comprehensive income. As at the date of reclassification, the fair value of the investments reclassified to available-for-sale investment securities amounted to KZT 216,858 million.

	31 December 2017		31 December 2016	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:				
Bonds of the Ministry of Finance of the Republic of Kazakhstan	3.85-9.50	1,082,017	4.50-8.10	1,347
NBK notes	-	273,374	-	-
Bonds of JSC NWF Samruk Kazyna	6.00-6.50	189,057	-	-
Bonds of international financial institutions, foreign banks and foreign financial institutions	0.00-1.88	64,956	-	-
Treasury bonds of the USA	0.75-1.00	33,204	-	-
Bonds of Kazakhstani companies	0.00-13.00	20,481	0.00-14.90	7,524
Bonds of Kazakhstani banks	7.00-11.00	17,123	7.00-14.00	5,331
Bonds of Eurasian Development Bank	9.40	8,308	-	-
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	3.88	6,464	-	-
Eurobonds of Kazakhstani companies	3.26-8.00	3,856	-	-
Bonds of Russian companies	8.00-9.80	2,820	8.00-10.00	4,004
Other government eurobonds of foreign countries	1.50	1,335	-	-
Bonds of Russian banks	10.15	621	-	-
Bonds of Development Bank of Kazakhstan	6.50	359	-	-
Eurobonds of Kazakhstani banks	-	-	7.25	221
		1,703,975		18,427

As at 31 December 2017, treasury bills of the Ministry of Finance of Kazakhstan include government securities, which were acquired on special terms by the Bank, which amounted to KZT 1,061,654 million. Special terms include the following: securities are restricted in use and the Bank does not have the right to sell the securities within two years without the consent of NBK, the Ministry of Finance of the Republic of Kazakhstan and the parent company. However, these securities can be used in repo transactions for liquidity management purposes.

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Equity securities:		
Shares of Kazakhstani companies	436	712
Shares of Kazakhstani banks	38	38
GDR of Kazakhstani banks	2	2
Shares of foreign companies	-	545
	476	1,297

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For the year ended 31 December 2017

19. Investments held to maturity

	31 December 2017		31 December 2016	
	Nominal interest rate %	Amount (KZT million)	Nominal interest rate %	Amount (KZT million)
Debt securities:				
Bonds of JSC NWF Samruk-Kazyna	-	-	6.00-6.50	185,275
Bonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	4.20-8.65	13,238
Bonds of Kazakhstani banks	-	-	6.25-15.00	12,318
Bonds of international financial institutions and foreign banks	-	-	-	7,260
Bonds of Kazakhstani companies	-	-	0.00-13.00	2,958
Eurobonds of Kazakhstani banks	-	-	7.25	681
Bonds of Development Bank of Kazakhstan	-	-	6.00-6.50	503
Eurobonds of Kazakhstani companies	-	-	7.75	201
				222,434

As at 31 December 2017, the impairment of some debt securities, held to maturity amounted to KZT nil (2016: KZT 217 million). Movements in those impairment for the years ended 31 December 2017 and 2016 are disclosed in Note 5.

As at 31 December 2016, the amortized cost of investments held to maturity pledged under repo agreements was KZT 172,628 million.

20. Investment property

Investment property is presented as follows:

	2017 (KZT million)	2016 (KZT million)
As at 1 January	13,134	8,709
Acquisitions	257	11
Increase due to capitalization of costs	1,262	3,932
Reclassified from assets classified as held for sale	476	366
Reclassified from property	2,095	142
Disposal	-	(53)
Reclassified to assets classified as held for sale	-	(11)
Reclassified to other assets	(9,838)	(108)
(Loss)/gain on property revaluation	(1,309)	80
Foreign exchange differences	37	66
As at 31 December	6,114	13,134

As at 31 December 2017 and 2016 there was no investment property pledged as collateral for liabilities.

Included into operating lease income is investment property rental income for the year ended 31 December 2017 amounted to KZT 98 million (2016: KZT 123 million).

Operating expenses arising from the investment property that generated rental income during the year ended 31 December 2017 amounted to KZT 23 million (2016: KZT 13 million). Operating expenses arising from the investment property that did not generate rental income during the year ended 31 December 2017 amounted to KZT 1 million (2016: KZT nil).

The fair value of the Group's investment property, as at 31 December 2017 and 2016 was determined by independent appraisers. The following methods were used for the estimation of its fair value: income approach, cost based method and comparative approach. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2017 and 2016 are as follows:

	Level 2 (KZT million)	Level 3 (KZT million)	Fair value as at 31 December 2017 (KZT million)
Investment property at fair value:			
Land	163	156	319
Real estate	704	5,091	5,795
Total	867	5,247	6,114

	Level 2 (KZT million)	Level 3 (KZT million)	Fair value as at 31 December 2016 (KZT million)
Investment property at fair value:			
Land	32	269	301
Real estate	298	12,535	12,833
Total	330	12,804	13,134

As at 31 December 2017, investment property under construction amounted to KZT 21 million (2016: KZT 10,005 million).

21. Assets classified as held for sale

During the year ended 31 December 2017, the Group received long-term assets by taking possession of collateral it held as security as assets held for sale at fair value, to repay principal and accrued interest on loans in the amount of KZT 38,257 million and KZT 9,491 million, respectively (2016: KZT 184,230 million and KZT 31,541 million, respectively). The assets have been subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management has committed to a plan to sell the assets and an active program to locate a buyer and complete the plan has been initiated. The types of assets recognised were land, buildings and constructions. The majority of these assets are located in Almaty and Astana. It was intended that the fair value of these assets would be recovered principally through a sale transaction within one year from the date of classification.

Assets classified as held for sale are as follows:

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Non-current assets held for sale:		
Land plots	109,485	155,024
Real estate	23,464	27,550
Construction in progress*	6,883	8,154
Other assets	1,405	3,912
Total assets classified as held for sale	141,237	194,640

*Construction in progress is accounted for at historical cost less impairment.

The fair value of the Group's non-current assets held for sale, as at 31 December 2017 and 2016 was determined by independent appraisers. The following methods were used for the estimation of its fair value: income approach, cost based method and comparative approach. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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Details of the Group's non-current assets held for sale and information about the fair value hierarchy as at 31 December 2017 and 2016 are as follows:

	Level 3 31 December 2017 (KZT million)	Level 3 31 December 2016 (KZT million)
Non-current assets held for sale at fair value:		
Land	109,485	155,024
Real estate	23,464	27,550
Other assets	1,405	3,912
Total	134,354	186,486

The impact on the statement of profit or loss from non-current assets held for sale is disclosed in Note 9. The non-current assets held for sale are included in the retail banking and corporate banking segments in Note 35.

During the year ended 31 December 2017, the Group made non-cash transfers from assets classified as held for sale to investment property in the amount of KZT 476 million. During the year ended 31 December 2016, the Group made non-cash transfers from assets classified as held for sale to investment property in the amount of KZT 366 million.

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For the year ended 31 December 2017

22. Property, equipment and intangible assets

	Buildings and other real estate (KZT million)	Furniture and equipment (KZT million)	Intangible assets (KZT million)	Construction in progress (KZT million)	Other (KZT million)	Total (KZT million)
At primary/revalued cost:						
31 December 2015	26,956	26,962	6,297	128	473	60,816
Additions	29	3,843	936	105	151	5,064
Revaluation, including impairment	8,485	-	-	-	-	8,485
Disposals	(1,028)	(1,705)	(121)	(1)	-	(2,855)
Foreign exchange differences	68	80	(13)	-	54	189
Transfer from long-term assets held for sale	218	-	-	-	-	218
Transfer to investment property	-	-	-	(142)	-	(142)
31 December 2016	34,728	29,180	7,099	90	678	71,775
Additions	3,301	1,772	367	-	51	5,491
Revaluation, including impairment	(506)	-	-	-	-	(506)
Disposals	(48)	(8,980)	(49)	-	-	(9,077)
Disposals from discontinued operations	-	(584)	(336)	-	-	(920)
Transferred	-	75	(75)	(91)	91	-
Additions as a result of business combination	-	3	-	-	-	3
Foreign exchange differences	2	20	(7)	-	22	37
Transfer from long-term assets held for sale	635	-	-	-	-	635
Transfer to investment property	(2,110)	-	-	-	-	(2,110)
Transfer to other assets	-	(310)	1	1	-	(308)
31 December 2017	36,002	21,176	7,000	-	842	65,020
Accumulated depreciation:						
31 December 2015	230	17,684	3,443	-	201	21,558
Charge for the year	363	2,534	650	-	71	3,618
Write off at disposal	(228)	(1,527)	(51)	-	-	(1,806)
Foreign exchange differences	3	83	(4)	-	21	103
31 December 2016	368	18,774	4,038	-	293	23,473
Charge for the year	360	2,703	1,133	-	102	4,298
Write off at disposal	(48)	(8,777)	(45)	-	-	(8,870)
Disposals from discontinued operations	-	(569)	(336)	-	-	(905)
Transferred	-	21	(21)	-	-	-
Additions as a result of business combination	-	2	-	-	-	2
Transfer to investment property	(15)	-	-	-	-	(15)
Foreign exchange differences	-	30	(2)	-	11	39
Transfer to other assets	-	(238)	-	-	-	(238)
31 December 2017	665	11,946	4,767	-	406	17,784
Net book value:						
31 December 2017	35,337	9,230	2,233	-	436	47,236
31 December 2016	34,360	10,406	3,061	90	385	48,302

As at 31 December 2017, property, equipment and intangible assets of the Group included fully depreciated assets at initial cost amounting to KZT 7,611 million (2016: KZT 11,769 million), of which KZT 3,723 million pertain to the Bank (2016: KZT 9,961 million).

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Buildings and other real estate are revalued on a regular cyclical basis, with the last valuation being conducted on 29 December 2017 (2016: 25 December 2016). The valuation was conducted by an independent appraisal company and for determining of the final value on these dates, the observable prices in an active market for the properties were used. These prices are obtained through publications and current market data, and are adjusted based on characteristics of the valued property.

As at 31 December 2017 and 2016, the fair value measurements of the Group's buildings were categorized into Level 3, in the amount of KZT 36,002 million (31 December 2016: Level 3 - KZT 34,728 million). There were no transfers between Levels 1, 2 and 3 during the year.

If the buildings were accounted for at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value, as at 31 December 2017, would be KZT 19,934 million (2016: KZT 19,524 million).

Intangible assets include software, patents and licenses.

23. Other assets

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Other financial assets:		
Receivables on sale in installments	44,620	2,905
Receivables on other transactions	23,260	18,633
Accounts receivable from insurance activity	5,710	6,384
Accrued commission	2,263	1,938
Payments for acquired property	2,128	-
Commissions receivable	705	964
	78,686	30,824
Less: allowance for impairment losses	(41,019)	(10,866)
Total other financial assets	37,667	19,958
Other non-financial assets:		
Inventory	42,016	81,911
Income tax assets	13,384	707
Reinsurance share in insurance reserves (Note 5)	11,143	9,227
Tax settlements, other than income tax	2,190	4,402
Prepaid expenses	1,392	1,538
	70,125	97,785
Less: allowance for impairment losses	(132)	(2)
Total other non-financial assets	69,993	97,783
	107,660	117,741

Movement in allowances for impairment losses for the years ended 31 December 2017 and 2016 are disclosed in Note 5.

24. Loans and advances from banks and other financial institutions

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Recorded at amortized cost:		
Loans from banks and other financial institutions	20,057	38,810
Correspondent accounts of other banks	22,889	19,679
Deposits with banks	14,442	-
Correspondent accounts of organizations that serve certain types of banking operations	1,086	511
Loans under repurchase agreements	-	230,630
Loans from NBK	-	201,875
	58,474	491,505

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As at 31 December 2017, there were no loans under repurchase agreements included in loans and advances from banks and other financial institutions (2016: KZT 230,630 million).

As at 31 December 2017, loans from banks and other financial institutions included long-term loans from JSC Development Bank of Kazakhstan for a total amount of KZT 16,054 million, issued for a period of 5 to 20 years (2016: KZT 17,239). According to the financing terms, within one and a half years from the date of attraction, the Bank undertakes to send the received funds for lending to the subjects of large business, implementing projects in priority and non-priority sectors.

In December 2016, the Bank received a short-term loan from the National Bank of the Republic of Kazakhstan for a total amount of KZT 400,813 million with maturity in March 2017.

On 26 December 2016, the Bank made partial early repayment of the above debt in the principal amount of KZT 200,000 million. During the reporting period, the total amount of tranches received under the special purpose loan from NBK at a rate equal to the level of the lower boundary of the interest rate corridor for monetary policy operations of the Republic of Kazakhstan at the time of issue of each tranche under the loan was KZT 570,000 million, the volume of repaid tranches was KZT 770,813 million. The Bank's obligations to the NBK were repaid in full on 3 July 2017.

On 4 July 2017, the Bank made a repayment of its obligations under the repurchase agreement on securities in the amount of KZT 202,729 million.

The fair value of collateral held and carrying value of loans under repurchase agreements as at 31 December 2017 and 2016 are presented as follows:

	31 December 2017 (KZT million)		31 December 2016 (KZT million)	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Bonds of JSC NWF Samruk-Kazyna	-	-	163,269	133,120
NBK Notes	-	-	50,259	50,018
Bonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	46,850	47,492
	-	-	260,378	230,630

The maturity of repurchase agreements that were effective, as at 31 December 2016, was in January 2017.

25. Customer accounts

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Recorded at amortized cost:		
Time deposits	1,836,449	2,239,540
Demand deposits	643,037	672,654
Accounts in precious metals	3,066	3,244
	2,482,552	2,915,438

In the second quarter of 2016, the Bank has signed a deposit agreement with JSC Unified Accumulative Pension Fund for the purpose of involvement of the funds for KZT 20,900 million, with an annual nominal interest rate of 16.5% for 42 months within the framework of the state program of business support and business development "Business Road Map 2020", defined by the State Program of Industrial and Innovative Development of the Republic of Kazakhstan for 2015-2019, approved by the Decree of the President of the Republic of Kazakhstan. Payment of the deposit is made at the end of the term, interest payment - once every six months.

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On 4 July 2017, the Bank and JSC Problem Loans Fund signed an additional agreement to the Bank Deposit Agreement dated 23 June 2015. Under the terms of the addendum, the deposit term was extended until 1 July 2037, and the nominal rate was reduced from 5.5% to 0.1%. As a result of these changes, the Bank discontinued the recognition of the old financial liability and recognized a new financial liability for the JSC Problem Loans Fund deposit at its fair value.

As at 31 December 2017, a portion of customer accounts held as guarantees on issued letters of credit and other transactions related to contingent liabilities amounted to KZT 14,485 million (2016: KZT 52,186 million).

As at 31 December 2017, the total amount of funds placed under state programs in the form of deposits from JSC NWF Samruk-Kazyna, JSC National Managing Company Baiterek,

JSC Problem Loans Fund and JSC Unified Accumulative Pension Fund excluding accrued interest was KZT 319,288 million (2016: KZT 405,397 million). The funds were received for the following purposes:

- refinancing mortgage loans;
- completion of construction projects in Almaty and Astana;
- financing the improvement of loan portfolio quality;
- the state program of business support and development "Business Road Map 2020".

As at 31 December 2017, customer accounts of KZT 824,581 million or 33.22% (2016: KZT 1,367,026 million or 46.89%), were due to 10 customers, which represents a significant concentration. The management of the Group believes that in the event of withdrawal of funds, the Group would be given sufficient notice as to realize its liquid assets to enable repayment.

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Analysis by sector:		
Individuals	1,441,872	1,440,081
Government related entities	324,633	464,326
Services	125,112	89,160
Chemical and petrochemical industry	123,720	282,343
Wholesale and retail trade	84,224	81,712
Agriculture	74,855	23,014
Mining and metallurgy	73,663	83,914
Construction	70,992	142,724
Education	40,655	32,383
Transport and communication	32,137	50,782
Investments and finance	28,481	152,346
Distribution of electricity, gas and water	8,341	13,935
Public organizations and unions	7,067	6,875
Other	46,800	51,843
	2,482,552	2,915,438

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26. Debt securities issued

	Currency	Maturity date	Annual coupon rate %	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Eurobonds:					
Issued in May 2011, at the price 99.353%	USD	May 2018	8.50	99,405	98,378
Issued in February 2007 at the price of 99.277%	EUR	February 2017	6.88	-	130,954
				99,405	229,332
(Less)/including:					
Discount on Eurobonds issued				(105)	(390)
Accrued interest on Eurobonds issued				1,150	9,059
Total issued Eurobonds				100,450	238,001
Debt securities previously issued by JSC BTA Bank at the price 100.00%					
	USD	December 2022	5.50	192,250	184,147
Debt securities issued by JSC Kazkommertsbank at the price 99.95%					
	KZT	January 2022	8.75	101,399	101,382
Debt securities issued by JSC Kazkommertsbank at the price 99.97%					
	KZT	November 2019	8.40	60,517	60,513
Issued promissory notes of JSC CB Moskommertsbank					
	USD, RUR	October 2019	5.51-12.00	656	515
Issued bonds of Moscow Stars B.V. at the price of 99.00%					
	USD	October 2020	6.48	-	2,403
				455,272	586,961

As at 31 December 2017, the nominal value of bonds previously issued by JSC BTA Bank is KZT 246,546 million, with a discount of KZT 54,296 million (2016: KZT 247,180 million and KZT 63,033 million, respectively).

During 2017, the Group repurchased debt securities issued in the total amount of KZT 6,737 million (2016: KZT 9,091 million) with maturity dates in 2022.

During 2017, the Group sold debt securities issued in the total amount of KZT 11,550 million (2016: KZT 7,482 million) with maturity dates in 2022.

On 13 February 2017, the Bank has repaid debt securities issued in February 2007 for the original amount of EUR 750 million. Debt securities issued were repaid in full on the date of its maturity from the Bank's own funds.

On 15 November 2017, Moscow Stars B.V. made a full redemption of class B bonds.

On 16 November 2017, it was announced that the class B Eurobonds, with a floating rate secured by a mortgage in the amount of USD 16,200,000, had been delisted on the Irish Stock Exchange.

On 15 November 2017, Issuer Moscow Stars B.V. made a full redemption of class C bonds. On 16 November 2017, it was announced that the class C Eurobonds, with a fixed rate secured by a mortgage in the amount of USD 4,484,220, was delisted on the Irish Stock Exchange. The holder of class C bonds was JSC CB Moskommertsbank.

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Reconciliation of liabilities arising from financing activities

The table below shows the changes in liabilities arising from financial activities, including changes due to cash flows, and changes that are not related to cash flows. Liabilities arising from financial activities are those liabilities whose cash flows from the consolidated statement of cash flows were or future cash flows would be classified as cash flows from financing activities.

	31 December 2016 (KZT million)	Cash flows from financing activities (i) (KZT million)	Non-cash changes		31 December 2017 (KZT million)
			Disposal of subsidiary (KZT million)	Other changes (ii) (KZT million)	
Debt securities issued	586,961	(128,684)	-	(3,005)	455,272
Other borrowed funds	81,308	(46,654)	-	1,826	36,480
Subordinated debt	230,437	(75,223)	5,025	(5,597)	154,642
Dividends payable on preferred shares	3	(1,661)	-	1,661	3
	898,709	(252,222)	5,025	(5,115)	646,397

- (i) Cash flows from debt securities issued, other borrowed funds and subordinated loans represent the net amount of proceeds and repayments on financial liabilities in the consolidated statement of cash flows.
- (ii) Other changes include interest expense and interest payments, as well as exchange differences.

27. Other borrowed funds

	Currency	Maturity	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Loans from JSC Entrepreneurship Development Fund Damu	KZT	March 2035	36,480	42,037
Loans from JSC NWF Samruk-Kazyna	KZT	July 2017	-	39,271
			36,480	81,308

On 1 July 2017, the Bank repaid its debt to Samruk-Kazyna in the amount of KZT 41,075 million under the BTA purchase and sale agreement dated 31 December 2014.

As at 31 December 2017, loans from JSC Entrepreneurship Development Fund Damu ("Damu") included a loan in the amount of KZT 36,286 million at interest rate from 2.0% to 4.5% maturing in 2035 (as at 31 December 2016 in the amount of KZT 35,528 million at interest rate from 2.0% to 4.5%, with maturity in 2035), with possibility of early repayment. Loans in the total amount of KZT 3,528 million were received in accordance with the Program of Regional Financing of Small and Medium-Sized Entrepreneurs at the interest rate for the ultimate borrower in the amount of 7.0% to 8.5% per annum, with a credit period of no more than 7 years.

The Group is obligated to comply with covenants in relation to other borrowed funds disclosed above. These covenants include stipulated ratios and various other financial performance ratios. The Group has not breached any of these covenants as at 31 December 2017 and 2016.

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28. Other liabilities

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Other financial liabilities:		
Settlements on other transactions	13,234	9,054
Payables to employees	6,391	18,705
Accounts payable to insurance and re-insurers	4,511	5,629
Accrued payable to deposits and insurance payment guarantee funds	2,655	13
Accrued expenses	1,042	1,735
Accrued commission expense	177	73
Dividends payable	3	3
	28,013	35,212
Other non-financial liabilities		
Advances received	9,832	5,531
Taxes, other than income tax	1,839	3,775
Income tax payable	65	7,305
	39,749	51,823

29. Insurance assets and liabilities

Insurance assets comprised the following:

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Unearned reinsurance premium, reinsurance share	6,364	2,498
Reinsurance amounts	4,779	6,729
	11,143	9,227
Premiums receivable	4,376	4,529
Other receivables from insurance (reinsurance)	35	90
Insurance assets	15,554	13,846

Insurance liabilities comprised the following:

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Reserves for insurance claims	51,959	49,676
Gross unearned insurance premium reserve	11,291	7,825
	63,250	57,501
Payables to reinsurers and agents	4,511	5,629
Insurance liabilities	67,761	63,130

Insurance risk

Insurance risk management is carried out according to internal insurance policies and rules. The insurance activity is concentrated in the territory of the Republic of Kazakhstan, with the exception of work with some reinsurers. Exposure to risks is reduced through diversification of a large portfolio of insurance contracts and geographic regions of Kazakhstan, as well as the use of reinsurance contracts.

Risks related to compensation management (insurance claims risk)

The management of the risk that reimbursements can be settled or paid in an inappropriate way is made using a number of controls of IT systems and controls at the level of the organization of the relevant business processes, restrictions and decision limits. This, along with detailed policies and procedures, ensures that all reimbursements will be settled on time, properly and in the correct form.

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Reinsurance risk

Reinsurance is a way to manage insurance risk. However, this does not eliminate the company from liability as the main insurer. Even if the reinsurer does not fulfill its obligations to effect payments, the Group nevertheless has to settle the claims of the insured. The Group assesses the solvency of all reinsurers and intermediaries by reviewing the credit ratings assigned to them by rating agencies and other information that is publicly available. The history of recent payments made by a reinsurer is also used to formulate a strategy for acquiring reinsurance.

Reserving risk

There is a risk that reserves are assessed incorrectly and there are not enough funds to pay or handle claims as they fall due. To estimate insurance and reinsurance liabilities, the Group uses actuarial methods and assumptions set by NBK.

Credit risk in respect to insurance

Credit risk - the risk of loss arising from the failure of the counterparty to pay the amounts due in full and on time. The determination of the level of credit risk is carried out by limiting the amount of risk per customer or groups of customers, as well as by geographical segments. Such risks are monitored on a regular basis.

30. Subordinated debt

	Currency	Maturity date	Interest rate %	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Subordinated bonds	KZT	2018 - 2025	8.00-9.50	115,478	126,002
Perpetual bonds	USD	-	7.59	24,061	18,848
Debt component of preference shares	USD	-	-	15,103	15,147
Subordinated debt	USD	2017	5.95	-	70,440
				154,642	230,437

On 2 June 2016, the Bank partially repurchased subordinated Eurobonds issued in July 2006 with an initial placement amount of USD 200 million.

On 27 July 2016, the Bank repurchased subordinated bonds issued in July 2006 with an initial placement amount of USD 200 million. Repayment of subordinated bonds was made entirely from the Bank's own funds.

On 13 June 2017, the Bank repurchased subordinated Eurobonds issued in June 2007 with an initial placement of USD 250 million. The repayment was made from the Bank's own funds.

On 11 September 2017, the Bank repurchased subordinated bonds issued in September 2007 with an initial placement of KZT 10,000 million. The repayment was made from the Bank's own funds.

In the event of bankruptcy or liquidation of the Bank repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

31. Share capital

As at 31 December 2017, authorized share capital consisted of 24,000 million common shares and 175 million preference shares.

As at 31 December 2016, authorized share capital consisted of 1,100 million common shares and 175 million preference shares.

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As at 31 December 2017, the Group's share capital comprised the following:

	Authorized share capital (Number of shares)	Authorized but not issued share capital (Number of shares)	Repurchased share capital (Number of shares)	Issued share capital (Number of shares)
Common shares	24,000,000,000	(21,095,225,638)	(109,706,875)	2,795,067,487
Preference shares	175,000,000	(50,000,000)	(1,327,145)	123,672,855
	24,175,000,000	(21,145,225,638)	(111,034,020)	2,918,740,342

As at 31 December 2016, the Group's share capital comprised the following:

	Authorized share capital (Number of shares)	Authorized but not issued share capital (Number of shares)	Repurchased share capital (Number of shares)	Issued share capital (Number of shares)
Common shares	1,100,000,000	(192,863,203)	(110,149,252)	796,987,545
Preference shares	175,000,000	(50,000,000)	(1,015,436)	123,984,564
	1,275,000,000	(242,863,203)	(111,164,688)	920,972,109

The preference shares carry no voting rights, unless preference dividends are not paid, but rank ahead of the common shares in the event of liquidation of the Bank. The annual dividend is determined by the preference shares issuance rules in the amount of USD 0.04 per share. According to legislation on Joint Stock Companies of the Republic of Kazakhstan, additional dividend payments on the preference shares cannot be less than the dividends paid on common shares. These shares are cumulative and not redeemable.

During 2017, dividends declared on preference shares amounted to KZT 1,618 million (2016: KZT 1,697 million). In 2017 and 2016 dividends on common shares of the Bank have not been declared.

The table below provides a reconciliation of the number of shares outstanding as at 31 December 2017 and 2016:

	Preference shares (Number of shares)	Common shares (Number of shares)	Preference shares (KZT million)	Common shares (KZT million)
31 December 2015	123,160,124	796,936,282	12,682	221,838
Sale of previously repurchased treasury shares	824,440	51,263	32	37
31 December 2016	123,984,564	796,987,545	12,714	221,875
Share issue	-	1,997,637,565	-	250,331
Sale of previously repurchased treasury shares	(311,709)	442,377	(29)	97
31 December 2017	123,672,855	2,795,067,487	12,685	472,303

The Group's profit distributable among shareholders is limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by Kazakhstan regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

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32. Transferred financial assets

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2017 and 2016 are disclosed below:

Securities lending and repurchase agreements

The Group has a plan to borrow and lend securities and to sell securities under agreements to repurchase (repos) and to purchase securities under agreements to resell (reverse repos). The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets.

The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

Similarly, the Group may sell or re-pledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Group, which instead record a separate asset for any possible cash collateral provided.

	Financial assets at fair value through profit or loss (KZT million) (Note 15)	Investments held to maturity (KZT million) (Note 19)
As at 31 December 2017:		
Carrying amount of assets	-	-
Carrying amount of associated liabilities (loans under repurchase agreements)	-	-
As at 31 December 2016:		
Carrying amount of assets	89,399	172,628
Carrying amount of associated liabilities (loans under repurchase agreements)	89,523	141,107

33. Commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and credit commitments, in the event of non-performance or in the event of impairment by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

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As at 31 December 2017 and 2016, the nominal or contract amounts were:

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Contingent liabilities and commitments:		
Guarantees issued and similar commitments	88,248	137,628
Commitments on loans and unused credit lines (irrevocable)	42,260	25,849
Letters of credit and other transaction related to contingent obligations	9,341	48,084
Commitments on loans sold to JSC Kazakhstan Mortgage Company with recourse	11	16
Total contingent liabilities and commitments	139,860	211,577
Less: collateral in cash*	(14,485)	(58,523)
Less: provision for contingent liabilities and commitments (Note 5)	(15,215)	(5,070)
Total contingent liabilities and commitments, net of provisions and cash collateral	110,160	147,984

*Of these, KZT 14,485 million were taken into account as customer accounts, and as other borrowed funds KZT nil million (2016: KZT 52,186 million and KZT 6,337 million, respectively).

The decision to issue loans to customers within open credit lines is made by the Group at each request of a customer for the borrowed funds and depends on the financial position of the borrower, credit history and other factors. As at 31 December 2017, the amount of contingent liabilities on such revocable unused credit lines equals to KZT 120,958 million (2016: KZT 196,574 million). The decision to issue further funds is not obligatory since the Group is entitled to suspend or stop providing the borrower with a credit line or deny the borrower the credit for any reason including in case the borrower violates the obligations before the Group; insufficiency of the collateral when revaluing the collateral due to a decrease in its pledge value or change of prices in the market; or as a result of provision of the credit line (provision of credit) the Group will violate any of the prudential norms established by the regulatory authorities for the second-tier banks; without warning the borrower.

Capital commitments

As at 31 December 2017, capital commitments amounted to KZT 9 million (2016: KZT 202 million).

Operating lease commitments

As at 31 December 2017 and 2016, there were no material operating lease commitments outstanding.

Fiduciary activities

In the normal course of its business the Group enters into agreements with limited rights on decision making with clients for the management of assets in accordance with specific criteria established by them. The Group is liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. As at 31 December 2017, these amounts represent balances of clients' funds under management of Group, including assets, which are under responsible custody in the amount of KZT 73,717 million (2016: KZT 88,301 million) respectively.

Legal proceedings and claims

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reliably measured. No provision has been made in these consolidated financial statements for any of the contingent liabilities mentioned below.

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Taxation

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all probable tax amounts due. Income tax related provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. Management of the Group is monitoring developments in the current environment and taking measures it considers necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on the future operations and financial position of the Group is at this stage difficult to determine.

34. Transactions with related parties

Related parties or transactions with related parties are assessed in accordance with IAS 24.

In considering each possible related party relationship, special attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

Details of transactions between the Group and other related parties are disclosed below:

	31 December 2017 (KZT million) Total category as per Related party financial state- balances ments caption		31 December 2016 (KZT million) Total category as per Related party financial state- balances ments caption	
Financial assets at fair value through profit or loss	1,498	137,498	-	210,538
- parent company	1,498		-	
Loans and advances to banks and other financial institutions	12,693	528,781	7,019	109,832
- parent company	12,693		-	
- other related parties	-		7,019	
Loans to customers, before allowance	1,442	1,640,664	2,542,237	4,330,152
- entities with a joint control	1,400		-	
- key management personnel of the Bank or its parent	42		1,625	
- BTA Bank	-		2,465,831	
- other related parties	-		74,781	
Allowance for impairment losses on loans to customers	(1)	(876,024)	(14,960)	(573,447)
- key management personnel of the Bank or its parent	(1)		(67)	
- BTA Bank	-		(13,851)	
- other related parties	-		(1,042)	
Other assets, before allowance	-	148,811	1,263	128,609
- BTA Bank	-		85	
- other related parties	-		1,178	
Allowance for other assets	-	(41,151)	(1,263)	(10,868)
- BTA Bank	-		(85)	
- other related parties	-		(1,178)	
Loans and advances from banks and other financial institutions	22,672	58,474	873	491,505
- parent company	22,672		-	
- other related parties	-		873	
Customer accounts	2,314	2,482,552	9,167	2,915,438
- entities with a joint control	280		-	
- key management personnel of the Bank or its parent	353		828	
- BTA Bank	-		5,230	
- other related parties	1,681		3,109	
Commitments on loans and unused credit lines (irrevocable)	28	42,260	410	25,849
- key management personnel of the Bank	28		410	
Guarantees issued and similar commitments	5	88,248	6,815	137,628
- BTA Bank	-		6,811	
- other related parties	5		4	
Allowance for guarantees issued and similar commitments	-	(15,215)	(83)	(5,070)
- BTA Bank	-		(83)	

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Included in the consolidated statement of profit or loss for the years ended 31 December 2017 and 2016 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2017 (KZT million)		Year ended 31 December 2016 (KZT million)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	120,721	327,107	238,735	434,384
- parent company	21			
- entities with a joint control	88		-	
- key management personnel of the Bank or its parent	66		71	
- BTA Bank	107,799		219,254	
- other related parties	12,747		19,410	
Interest expense	(98)	(240,105)	(73)	(231,011)
- parent company	(17)		-	
- entities with a joint control	(3)		-	
- key management personnel of the Bank or its parent	(30)		(70)	
- other related parties	(48)		(3)	
Operating expenses	6,186	(65,914)	(8,121)	(84,050)
- Short-term compensation to key management of the Bank or its parent	(1,468)	(36,087)	(8,121)	(49,406)
- reversal of bonus fund of key management of the Bank or its parent	7,654			
(Provision)/recovery of provisions for impairment losses on interest bearing assets, other transactions, guarantees and other contingencies	(78,474)	(554,044)	18,513	(78,101)
- entities with a joint control	48		-	
- key management personnel of the Bank or its parent	40		(67)	
- BTA Bank	(67,895)		14,217	
- other related parties	(10,667)		4,363	

Key management personnel compensation for the years ended 31 December 2017 and 2016 is represented by salary and bonuses.

As at 31 December 2017 and 2016, the Group does not pledge any assets in connection with guarantees issued to Management.

35. Segment reporting

Operating segments

The Group is managed and reported on the basis of four main operating segments. The Group's segments are strategic business units that offer different products and services which are managed separately.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, documentary credits.
- Investment banking – representing financial instruments trading, structured financing, and merger and acquisitions advice, foreign currency and derivative products.
- Other – representing insurance operations and other activities.

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Retail banking offers a range of personal banking, savings and mortgage products and services. Corporate banking offers business banking services principally to small and mid-sized companies and commercial loans to larger corporate and commercial customers. Investment banking consists of assets and liabilities required to support the liquidity and funding requirements of the Group, Asset and Liability Management activities.

Transactions between the business segments are performed on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Internal charges and transfer pricing adjustments, if any, have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, except tax assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

More specific information on the revenues from external customers for each product and service, or each group of similar products and services is not available and the cost to develop it is high. Hence the Group presents operating segments on the basis of four main segments.

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Segment information about these businesses is presented below.

	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	As at and for the year ended 31 December 2017 (KZT million)
External interest income	43,223	180,305	101,963	1,616	-	-	327,107
Internal interest income	114,608	65,629	121,027	-	-	(301,264)	-
External interest expenses	(76,445)	(41,122)	(122,536)	(2)	-	-	(240,105)
Internal interest expenses	(51,939)	(212,173)	(37,154)	-	-	301,266	-
Net interest income/(expense) before provision for impairment losses on interest bearing assets	29,447	(7,361)	63,300	1,614	-	2	87,002
Provision for impairment losses on interest bearing assets	(26,582)	(480,811)	(8)	-	-	-	(507,401)
NET INTEREST INCOME/(EXPENSE)	2,865	(488,172)	63,292	1,614	-	2	(420,399)
Net gain on financial assets and liabilities at fair value though profit or loss	-	-	104,273	-	-	-	104,273
Net (loss)/gain on foreign exchange and precious metals operations	(8,474)	(113)	(38,756)	5	-	-	(47,338)
Fee and commission income	37,189	16,097	879	-	-	-	54,165
Fee and commission expense	(21,430)	(2,796)	(682)	(729)	-	-	(25,637)
Net (loss)/gain on investments available-for-sale	-	-	(971)	660	-	-	(311)
Dividend income	-	-	1,800	-	-	-	1,800
Income from sale of inventory	-	2,171	-	-	-	-	2,171
Loss on revaluation of other assets	-	(99,388)	(469)	-	-	-	(99,857)
Gain from initial recognition of financial instruments	-	169,767	-	-	-	-	169,767
Other income/(expense)	58,776	(1,105)	(49,984)	10,025	-	-	17,712
NET NON-INTEREST INCOME	66,061	84,633	16,090	9,961	-	-	176,745
OPERATING EXPENSES	(33,244)	(20,275)	(4,018)	(8,377)	-	-	(65,914)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	35,682	(423,814)	75,364	3,198	-	2	(309,568)
Provision for impairment losses on other transactions	-	(31,332)	(1,147)	(3,907)	-	-	(36,386)
Provision for guarantees and other contingencies	-	(10,216)	(41)	-	-	-	(10,257)
PROFIT/(LOSS) BEFORE INCOME TAX	35,682	(465,362)	74,176	(709)	-	2	(356,211)
Segment assets	410,986	621,882	2,522,617	100,094	14,157	(95,358)	3,574,378
Segment liabilities	1,450,201	1,127,347	804,113	72,695	1,621	(149,739)	3,306,238

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	Retail banking (KZT million)	Corporate banking (KZT million)	Investment banking (KZT million)	Other (KZT million)	Unallocated (KZT million)	Eliminations (KZT million)	As at and for the year ended 31 December 2016 (KZT million)
External interest income	51,559	322,570	59,429	826	-	-	434,384
Internal interest income	102,462	50,837	300,346	-	-	(453,645)	-
External interest expenses	(63,357)	(46,265)	(120,918)	-	-	(471)	(231,011)
Internal interest expenses	(27,183)	(247,837)	(178,624)	-	-	453,644	-
Net interest income before recovery of provision/(provision) for impairment losses on interest bearing assets	63,481	79,305	60,233	826	-	(472)	203,373
Recovery of provision/(provision) for impairment losses on interest bearing assets	32,525	(96,356)	(5,023)	(5)	-	-	(68,859)
NET INTEREST INCOME/(EXPENSE)	96,006	(17,051)	55,210	821	-	(472)	134,514
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	7,970	-	-	-	7,970
Loss on write off of financial assets and liabilities at fair value through profit or loss	-	-	(16,810)	-	-	-	(16,810)
Net (loss)/gain on foreign exchange and precious metals operations	(21)	(11)	(16,975)	1	-	-	(17,006)
Fee and commission income	33,188	15,577	260	-	-	-	49,025
Fee and commission expense	(16,809)	(487)	(2,734)	(628)	-	-	(20,658)
Net (loss)/gain on investments available-for-sale	-	-	(561)	942	-	-	381
Dividend income	-	33	836	-	-	-	869
Income from sale of inventory	-	18,639	-	-	-	-	18,639
Loss on revaluation of other assets	(2,392)	(53,110)	(150)	-	-	-	(55,652)
Other income/(expense)	17,590	(13,697)	3,171	10,833	-	-	17,897
NET NON-INTEREST INCOME/(EXPENSE)	31,556	(33,056)	(24,993)	11,148	-	-	(15,345)
OPERATING EXPENSES	(37,762)	(35,025)	(2,678)	(8,585)	-	-	(84,050)
PROFIT/(LOSS) BEFORE OTHER OPERATING PROVISIONS	89,800	(85,132)	27,539	3,384	-	(472)	35,119
Provision for impairment losses on other transactions	-	(6,649)	(3)	(3,370)	-	(1)	(10,023)
Recovery of provision/(provision) for guarantees and other contingencies	-	783	-	-	-	(2)	781
PROFIT/(LOSS) BEFORE INCOME TAX	89,800	(90,998)	27,536	14	-	(475)	25,877
Segment assets	371,395	3,752,052	809,502	93,484	2,805	(163,487)	4,865,751
Segment liabilities	1,451,418	1,605,890	1,529,275	65,192	9,992	(177,296)	4,484,471

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For the year ended 31 December 2017, operating expenses included depreciation and amortization: in segment "Retail banking" amounted to KZT 1,397 million (2016: KZT 1,327 million), in segment "Corporate banking" amounted to KZT 2,710 million (2016: KZT 2,153 million), in segment "Investment banking" amounted to KZT 20 million (2016: KZT 18 million), in segment "Other" amounted to KZT 171 million (2016: KZT 120 million).

Geographical segments

Segment information for the main geographical segments of the Group is set out below for the years ended 31 December 2017 and 2016. The financial results disclosed below has been allocated based on domicile of the company within the Group.

			For the year ended 31 December 2017 Total (KZT million)
	Kazakhstan (KZT million)	CIS (KZT million)	
Interest income and commission income	371,939	9,333	381,272
Long-term assets	226,708	9,841	236,549
			For the year ended 31 December 2016 Total (KZT million)
	Kazakhstan (KZT million)	CIS (KZT million)	
Interest income and commission income	469,425	13,984	483,409
Long-term assets	328,775	9,133	337,908

Long-term assets are represented by fixed assets and intangible assets, investment property, assets for sale.

36. Fair value of financial instruments

IFRS defines fair value as 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.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis.

The Group classifies its financial instruments using a fair value hierarchy that reflects the significance of the inputs used in measuring the fair value of those instruments. The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2017 (KZT million)	31 December 2016 (KZT million)				
1) Derivative financial assets (Note 15)	12	13,959	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
2) Derivative financial assets (Note 15)	39,576	5,316	Level 3	Future cash flows in USD discounted using LIBOR rate obtained from available sources. Future cash flows in KZT discounted using internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to zero at initial recognition.	KZT implied rate	N/A. Internal rate of return in KZT is determined at initial recognition of instrument and subsequently not recalculated.
3) Non-derivative financial assets at fair value through profit or loss (Note 15):						
Debt securities	85,397	160,164	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity investments	12,513	31,099	Level 1	Quoted bid prices in an active market.	N/A	N/A
4) Investments available-for-sale (Note 18):						
Debt securities	642,321	18,427	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity investments	474	1,279	Level 1	Quoted bid prices in an active market.	N/A	N/A
Debt securities	1,061,654	-	Level 2	Quoted bid prices in a non-active market	N/A	N/A
Equity investments	2	-	Level 2	The market price of a common share, adjusted for the KZT/USD exchange rate and the number of shares in the depositary receipt	N/A	N/A
					Fair value adjustment based on an individual approach due to the complex structure of the merger and restructuring of banks.	The increase in the equity of the merged bank increases the value of shares.
Debt securities	-	18	Level 3	The book value of shares based on the forecasted capital of the merged bank (materials of the restructuring plan and association of banks)		
5) Derivative financial liabilities (Note 15)	1	59,890	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
6) Derivative financial liabilities (Note 15)	492	4,385	Level 3	Future cash flows are estimated based on forward exchange rates (observable at the date of revaluation) discounted at the risk-free interest rate on Zero coupon rate, the resulting value is discounted using the CDS counterparty's rate with a positive value or CDS of the Bank with a negative value.	KZT implied rate	The greater KZT implied rate - the smaller fair value.

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As at 31 December 2017, the Group transferred certain financial assets that are accounted for as available-for-sale equity investments from Level 3 to Levels 1 and 2. The transfer was made in connection with the appearance of market quotations for shares previously included in Level 3. Depository receipts, the underlying the assets of which are the indicated shares were transferred to level 2, due to the use for their valuation of the market price of a common share, adjusted for the KZT rate against the US dollar and the number of shares in the depository receipt.

The reconciliation from the beginning balances to the ending balances in Level 3 of fair value hierarchy for financial assets measured at fair value on recurring basis for the years ended 31 December 2017 and 2016 was presented as follows:

	Derivative financial assets (KZT million)	Equity instruments available-for- sale (KZT million)	Derivative financial liabilities (KZT million)
31 December 2015	195,766	31	5,453
Additions	4,952	-	-
Total gains or (losses)			
- to profit or loss	25,206	-	25,334
-to other comprehensive income	-	(13)	-
Redemption	(220,608)	-	(26,402)
31 December 2016	5,316	18	4,385
Prepayment of interest	394	-	-
Total gains or (losses)			
- to profit or loss	37,250	-	1,529
-to other comprehensive income	-	6	-
Redemption	(3,002)	-	(5,422)
Refund of prepayment due to partial repayment	(382)	-	-
Reclassification to level 2	-	(2)	-
Reclassification to level 1	-	(22)	-
31 December 2017	39,576	-	492

As at 31 December 2017 and 2016, the Group used quoted market prices from independent information sources for all of its financial assets at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on market data and unobservable data, and certain debt securities, which are valued using valuation models not based on observable market data.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not measured at fair value:

Loans and advances to and from banks and other financial institutions and other borrowed funds – for assets and liabilities maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over three months, the fair value in relation to repurchase and reverse repurchase agreements was estimated as the fair value of collateral pledged and received. For all other loans and advances and other borrowed funds the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates and making adjustments for credit risk of the Group or counterparty.

Loans to customers – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using market rates as at the respective year-end and does not consider future expected losses or disposal of loans to customers to a third parties.

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Debt securities issued – market values have been used, where available, to determine the fair value of debt securities traded on an active market.

Subordinated debt – market values have been used, where available, to determine the fair value of subordinated bonds issued and perpetual debt.

The fair value of financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position compared with the corresponding carrying value in the consolidated financial statements of the Group are presented below:

	31 December 2017		31 December 2016	
	Carrying amount	Fair value (KZT million)	Carrying amount	Fair value (KZT million)
Financial assets:				
Loans to customers	764,640	769,080	3,756,705	3,747,919
Investments held to maturity	-	-	222,434	219,946
Financial liabilities:				
Customer accounts	2,482,552	2,480,304	2,915,438	2,919,247
Debt securities issued	455,272	510,354	586,961	580,396
Other borrowed funds	36,480	8,802	81,308	54,990
Subordinated debt	154,642	152,711	230,437	219,955

	31 December 2017			
	Level 1 (KZT million)	Level 2 (KZT million)	Level 3 (KZT million)	Total (KZT million)
Financial assets:				
Loans to customers	-	-	769,080	769,080
Financial liabilities:				
Customer accounts	-	2,480,304	-	2,480,304
Debt securities issued	510,354	-	-	510,354
Other borrowed funds	-	8,802	-	8,802
Subordinated debt	152,711	-	-	152,711

	31 December 2016			
	Level 1 (KZT million)	Level 2 (KZT million)	Level 3 (KZT million)	Total (KZT million)
Financial assets:				
Loans to customers	-	-	3,747,919	3,747,919
Investments held to maturity	219,946	-	-	219,946
Financial liabilities:				
Customer accounts	-	2,919,247	-	2,919,247
Debt securities issued	580,396	-	-	580,396
Other borrowed funds	-	54,990	-	54,990
Subordinated debt	219,955	-	-	219,955

Financial assets and liabilities at fair value through profit or loss and investments available-for-sale are carried at fair value in the consolidated statement of financial position. The carrying amounts of cash and balances with national (central) banks, other financial assets and other financial liabilities, loans and advances to banks and other financial institutions and loans and advances from banks and financial institutions approximates fair value due to the short-term nature and concluding of such financial instruments contracts on market terms.

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37. Capital risk management

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total and tier 1 capital to risk weighted assets.

Capital adequacy requirements are set by the NBK and controlled using the principles, methods and factors identified by the Basel III starting from 2015.

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Regulatory capital:		
Share capital (common shares)	472,314	221,983
Additional paid-in capital	(6,405)	(6,405)
Other reserves	(194,761)	244,079
Deductions from share capital	(1,653)	(18,524)
Total share capital	269,495	441,133
Termless financial instruments, net of investments in the Bank's own termless instruments directly and indirectly	19,040	18,657
Paid preferred shares, net of repurchased preferred shares of the Bank	10,223	12,779
Total additional capital	29,263	31,436
Total qualifying tier 1 capital	298,758	472,569
Subordinated debt, net of repurchased subordinated debt of the Bank	106,866	147,936
Total qualifying tier 2 capital	106,866	147,936
Deductions from share capital	(2,729)	-
Total capital	402,895	620,505
Risk weighted assets	1,498,606	4,720,509
Share capital adequacy ratio	18.0%	9.3%
Ratio of tier 1 capital adequacy	19.9%	10.0%
Capital adequacy ratio	26.9%	13.1%

During the years ended 31 December 2017 and 2016, the Bank complied with all set capital requirements.

The Bank manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes subordinated and perpetual debt, and equity comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board of the Bank reviews its capital structure on quarterly basis. Based on the recommendations of the Management Board by making decisions on the Board of Directors or shareholders meeting, the Bank balances its overall capital structure through new share issues, issues of new debt or the redemption of existing debt, and the payment of dividends.

In 2017 the Bank's overall capital risk management policy remains unchanged in comparison with 2016.

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38. Risk management policies

Management of risks is fundamental to the Group's business. The risk management functions include:

- Risk identification: The risks, which the Group is exposed to in its daily activities, are identified by the risk management system.
- Measuring risks: The Group measures the risks using various quantitative and qualitative methodologies, which include risk based profitability analysis, calculation of possible loss amounts, and utilization of specialized models. Measurement models and associated assumptions are periodically reviewed to ensure that the tools represent the risks adequately and reasonably.
- Risk monitoring: Group's policies and procedures determine the processes for mitigating and minimizing the risks and establish limits on various types of operations. Such limits are reviewed on a periodic basis set forth in internal documents of the Group.
- Risk reporting: Risk reporting is performed on a line of business and on a consolidated basis. This information is periodically presented to the management.

The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Interest rate risk;
- Liquidity risk;
- Market risk;
- Currency risk;
- Operational risk.

Credit risk

The Group is exposed to credit risk which is the risk that counterparty to a financial instrument will fail to fulfill its obligation to the Group. This covers actual payment defaults as well as losses in value resulting from a decrease in credit quality of the counterparty.

Risk management and monitoring is performed within set procedures and limits by the Credit Committees and the management of the Group. Risk management coordination is performed by the risk management specialist or Credit Risk Department. Daily risk management is performed by the Head of the Credit Departments or Credit Divisions of branches and subsidiaries.

The Management Board of the Bank:

- develops a Credit Policy;
- monitors the compliance of the Bank and its employees with the Credit Policy, as well as monitoring and analysis of the quality of the loan portfolio of the bank;
- based on monitoring results (at least once a quarter), it creates a report on the compliance of the Bank and its employees with the Credit Policy, as well as the quality of the loan portfolio, and sends it to the Committee for Strategic Planning and Risk Review of the Board of Directors for consideration and issuance of recommendations to the Board of Directors of the Bank.

To measure credit risk, the Group employs several methodologies for estimating the likelihood of borrower or counterparty default. Methodologies differ depending on types of assets (e.g. consumer loans versus corporate term loans), risk measurement parameters (e.g. delinquency status and credit bureau reports versus corporate risk rating), and risk management and collection procedures (e.g. consumer lending collection center versus centrally managed workout groups).

The Group determines the level of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. The exposure to any individual borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committees.

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Off-balance sheet credit commitments represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk of off-balance sheet financial instruments is defined as the probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on off-balance sheet instruments, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. The actual amount of this loss is likely to be less than the total unused commitments since the commitments are contingent upon customers maintaining certain credit standards. The Group applies the same credit policy to contingent liabilities as it does to the on-balance sheet financial instruments.

Structure of credit committees

The Group has developed policies and guidelines that are designed to preserve the independence and integrity of the approval and decision making of extending credit and are aimed at accurate assessment of credit risk and its proper and timely monitoring. The policy frameworks (separate for retail lending and corporate lending) establish credit approval authorities, risk-rating methodologies, credit review parameters and guidelines for management of distressed loans.

The Group has centralized decision making in the Bank's Head Office over the past several years. In particular, authorities of branches and regional directorates on approval of small entrepreneurship and retail loans have been transferred to Decision Making Centers ("DMCs") in the Head office. Furthermore, most of the branch and regional directorate authorities on corporate loan approvals have also been transferred to the Head Office of the Bank.

The Group currently has the following credit committees:

Head Office Committees:

- Board of Directors. All loans exceeding 10% of the Bank's total assets as well as all transactions with related parties have to be approved by the Board of Directors.
- Management Board.
- Commercial Directorate (hereinafter - CD). The goal of the CD activity is coordination and control over the implementation by the Bank's subdivisions of a unified policy in the field of lending, organization of the credit process, minimization of credit risk, and increasing the efficiency of using the Bank's resources. The main objectives of the CD are: making decisions on the provision of any type of financing in accordance with the Bank's Credit Policy; making decisions on loan applications of the Bank's divisions; Initiation and consideration of issues related to improving the credit process in the Bank, improving procedures for the financial analysis of borrowers, interaction of units when reviewing applications and subsequent monitoring of borrowers; management of the process of recovery and recovery of problem loans, determined on the basis of the volume, completeness, quality of the loan project and the timeliness of the implementation of debt repayment measures, including on the basis of the proposals of the Project Office.
- Credit Committee of the Head Office. This committee is authorized to review corporate loans up to an amount equivalent to 5 million USD. The Committee also considers credit applications of individuals and loans to small and medium-sized businesses that exceed the limits and authorities established for the DMC.
- Retail Credit Committee. This committee is authorized to consider issues on retail business, equivalent to KZT 200 million. The Committee also considers credit applications of individuals that exceed the limits and authorities established for the DMC.
- The Problem Loans Committee of the Head Office is entitled to make decisions on problem loans of the Corporate Business, Retail Business and Small and Medium Business of the Head Office, Branches, Subsidiary Banks to the Borrowers or their group within Regulation of the Committee and decision of the higher authorized bodies of the Bank. Decisions on problem loans of Corporate Business and Subsidiary Banks are accepted by the Committee within the limits established by a separate decision of the Bank's Management Board.
- Branch Committees. Each of the Group's branches has a credit committee. The branches have limited authorities to grant loans.

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Corporate loans

While considering loan applications of corporate borrowers, the related Credit Committees take into account the analysis and conclusions of Credit Risk Department, Collateral Valuation, Legal and Security Departments.

- **Credit Risk Department.** The analytic group within the Head Office, which provides advice on commercial loans based on their assessment of the borrower's business and/or the project, to which the loan relates. Their assessment takes into account a number of industry and borrower specific factors, future cash flows of the potential borrower and anticipated risk-adjusted returns for the Group. For the purpose of the analysis, risk managers utilize the rating model described below. Furthermore, the Department of Risk Management is involved in the Group's loan portfolio monitoring and in the development of procedures and guidelines with respect to the Group's lending.
- **Collateral Valuation Department.** The Group requires collateral for almost all of its loans. According to legislation of the Republic of Kazakhstan, collateral valuation should be performed by independent collateral valuation companies ("IVCs"). The collateral Valuation Department reviews appraisal reports issued by IVCs and carries out certification and monitoring of IVCs.
- **Legal Department.** The Group obtains legal advice from the Legal Department regarding proposed loans and receives confirmation as to the valid corporate existence of the potential borrower and its authority to enter into loan transactions and collateral agreements.
- **Security Department.** The Security Department provides information on assets, credit history and reputation of potential borrowers. A central credit bureau has recently been established in Kazakhstan and this should improve the quality of information on the credit history of potential borrowers.

Retail, small and medium entrepreneurship loans

Loans to retail, small and medium entrepreneurship loans are subject to a standardized approval procedure. The Group has established two divisions in Credit Risk Department – the Decision Making Centers. One DMC processes consumer loan applications, while the second unit makes decisions on small and medium entrepreneurship loans. In order to approve or decline an application, the DMCs analyze payment ability and creditworthiness of a potential borrower on the basis of standard terms, criteria and procedures set forth by the Group.

The DMC on retail is authorized to approve applications within the delegated authority and up to the equivalent of KZT 30 million per one borrower. The DMC on small entrepreneurship has authorities to approve applications within the delegated authority and up to the equivalent of USD 500,000. Applications with larger exposures and/or exceeding delegated authority are referred to one of the relevant credit committees in the Head Office. The DMCs conduct analysis of the applications exceeding their limits and/or delegated authority, and the relevant credit committee takes their conclusions into account in decision making.

Allowance for credit losses

The Group establishes an allowance for impairment losses on loans and off-balance liabilities where there is objective evidence that a financial asset is impaired. In order to assess the quality of an asset and to classify it for provisioning purposes, the Bank takes into account a number of criteria, including financial performance of the borrower, terms of the loan, collateral value and debt service of the borrower. In relation to loans, classified in collective portfolio, portfolio approach is applied and the quality of debt service is considered.

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Maximum exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks of certain financial assets and general market economy risks.

The following tables present the maximum exposure to credit risk of loans to customers, loans to banks and other financial institutions and commitments. For other financial assets, not presented in the tables, the maximum exposure is equal to its carrying value of those assets prior to any offset or collateral. For financial guarantees and other commitments the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. The information in relation to financial guarantees and other contingent liabilities is disclosed in Note 33.

					31 December 2017
	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged (KZT million)	Net exposure after offset and collateral (KZT million)
Loans and advances to banks and other financial institutions	528,781	-	528,781	-	528,781
Loans to customers	764,640	(3,266)	761,374	(485,294)	276,080
Contingent liabilities and other credit commitments	139,860	(14,485)	125,375	(44,754)	80,621
					31 December 2016
	Maximum exposure (KZT million)	Offset (KZT million)	Net exposure after offset (KZT million)	Collateral pledged (KZT million)	Net exposure after offset and collateral (KZT million)
Loans and advances to banks and other financial institutions	109,832	-	109,832	(44,074)	65,758
Loans to customers	3,756,705	(6,920)	3,749,785	(1,304,618)	2,445,167
Contingent liabilities and other credit commitments	211,577	(58,523)	153,054	(53,084)	99,970

The collateral pledged amount on loans to banks and other financial institutions is determined on the basis of fair value of collateral and capped by outstanding amount of loan.

The collateral pledged amount for loans to customers is represented by its fair value adjusted for costs to sell, including financial costs and adjusted for the period required to sell collateral and capped by outstanding amount of loan. Fair value of collateral is reviewed on a semi-annual basis.

As at 31 December 2017, loans and advances to banks and other financial institutions also include loans under reverse repurchase agreements in the amount of KZT 332,779 million (2016: KZT 44,074 million).

As at 31 December 2017 and 2016, there were no loans to customers under reverse repurchase agreements.

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Credit ratings

Financial assets are graded according to the current credit rating of international rating agencies. The highest possible rating is AAA. Investment grade of the financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as a speculative grade.

The following table details the credit ratings of financial assets held by the Group:

							31 December 2017 Total (KZT million)
	AAA	AA	A	BBB	<BBB	Not rated	
Cash equivalents ¹	-	-	-	26,582	10,790	7,747	45,119
Financial assets at fair value through profit or loss ²	-	1	-	50,866	18,243	55,875	124,985
Loans and advances to banks and other financial institutions	-	440	123,932	125,589	59,752	219,068	528,781
Loans to customers	-	-	-	-	-	764,640	764,640
Investments available-for-sale ³	58,008	34,539	-	282,912	220,248	1,108,268	1,703,975
Investments held to maturity	-	-	-	-	-	-	-
Other financial assets	-	-	3,312	-	267	34,088	37,667
							31 December 2016 Total (KZT million)
	AAA	AA	A	BBB	<BBB	Not rated	
Cash equivalents ¹	-	-	-	48,124	-	2,013	50,137
Financial assets at fair value through profit or loss ²	-	1,285	-	153,139	10,891	14,124	179,439
Loans and advances to banks and other financial institutions	-	6,562	24,647	54,976	15,565	8,082	109,832
Loans to customers	-	-	-	-	10,233	3,746,472	3,756,705
Investments available-for-sale ³	-	-	-	3,567	6,813	8,047	18,427
Investments held to maturity	-	-	-	199,016	15,097	8,321	222,434
Other financial assets	-	-	-	-	201	19,757	19,958

¹Amount represents unrestricted balances on correspondent and time deposit accounts with national (central) banks, which are considered as cash equivalents.

²Financial assets at fair value through profit or loss are presented excluding equity investments.

³Investments available-for-sale are presented excluding equity investments.

Since not all counterparties of the Group have credit ratings from international rating agencies, the Group has developed its own methodologies allowing it to assign internal credit ratings. Such methodologies include a rating model for large corporate borrowers and scoring models for retail banking clients and small and medium enterprises. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan.

Loans to customers are classified by the responsible departments on the basis of internal assessment and other analytical procedures. Taking into account past experience, in December 2010 there was an improvement of the assessment methodology of probability of default of the loans based on a deeper analysis of the financial position of the borrower and future cash flows. As a result of this improvement, added to this analysis were qualitative and quantitative factors of the borrowers, such as operational efficiency, liquidity, capital adequacy ratios, cash flows and debt servicing ratios, quality of the management, risk of the industry, presence of facts of misapplication of funds and the customers' credit history.

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The Group uses the rating model for the classification of non-impaired loans to corporate borrowers.

The collectively assessed loan portfolio includes both partly retail portfolio and partly SME portfolio. Collectively assessed loans: loans to customers with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults and other factors). Collective assessment is performed on loans that were determined not to be individually significant and on individually significant loans that did not exhibit credit losses based on the individual assessment.

The Group uses the classification of unimpaired loans to customers as follows:

Ratings BBB and BBB-: acceptable or relatively acceptable quality of loan. The borrower has adequate resources to discharge its financial liabilities, relatively stable financial position, however, potential weaknesses are possible.

Ratings BB+, BB and BB-: quality of loan ranges from "sufficient" to "relatively sufficient". Unfavourable economic conditions or worsening business conditions may have an effect on the ability of the borrower to discharge its financial liabilities in the medium term.

Ratings B+, B and B-: quality of loan ranges from "relatively weak" to "very weak". The ability of the borrower to discharge its financial liabilities ranges from "will probably worsen in case of unfavorable conditions" to "financial indicators and structural deficiencies worsened to such a low level that they signify that restructuring of business and/or finance may be needed".

Rating C: substandard quality of loan and evident susceptibility to default. Financial indicators and structural deficiencies worsened to such a low level that they signify that restructuring of business and/or finance may be needed.

	31 December 2017 (KZT million)	31 December 2016 (KZT million)
Collectively assessed not impaired loans		
BBB-, BBB	420,977	2,868,317
BB+, BB, BB-	36,746	167,245
B+, B, B-	21,649	107,685
C	7,908	99,617
	1,204	12,085
Not impaired loans to customers	488,484	3,254,949

Impairment of financial assets

The following table details the carrying value of assets that are impaired and not impaired:

	Unimpaired financial assets, including collective unimpaired loans (KZT million)		Financial assets, assessed individually for impairment purposes (KZT million)		Collectively impaired financial assets (KZT million)		31 December 2017 (KZT million) Total
	Asset amount	Provision amount	Asset amount	Provision amount	Asset amount	Provision amount	
Loans and advances to banks and other financial institutions	528,781	-	5,035	5,035	-	-	528,781
Loans to customers	506,134	17,650	919,823	696,984	214,707	161,390	764,640
Investments available-for-sale	1,704,451	-	3,226	3,226	-	-	1,704,451
Other financial assets	20,749	5	57,937	41,014	-	-	37,667

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	Unimpaired financial assets, including collective unimpaired loans (KZT million)		Financial assets, assessed individually for impairment purposes (KZT million)		Collectively impaired financial assets (KZT million)		31 December 2016 (KZT million)
	Asset amount	Provision amount	Asset amount	Provision amount	Asset amount	Provision amount	
Loans and advances to banks and other financial institutions	65,807	49	49,087	5,013	-	-	109,832
Loans to customers	3,338,858	83,909	780,087	346,763	211,207	142,775	3,756,705
Investments available-for-sale	19,724	-	3,776	3,776	-	-	19,724
Investments held to maturity	222,434	-	217	217	-	-	222,434
Other financial assets	20,080	122	10,744	10,744	-	-	19,958

Geographical concentration

The relevant Credit Committee exercise control over the risk in the legislation and regulatory arena and assess its influence on the Group's activity. The Group sets country limits for all countries with ratings below A- according to the Standard and Poor's classification.

The management of the Group considers the main segment to be the Republic of Kazakhstan.

The geographical concentration of financial assets and financial liabilities is set out in tables below:

	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Non-OECD countries (KZT million)	31 December 2017 Total (KZT million)
FINANCIAL ASSETS AND PRECIOUS METALS:					
Cash and balances with national (central) banks	111,716	21,398	-	-	133,114
Precious metals	-	-	3,089	-	3,089
Financial assets at fair value through profit or loss	133,625	3,371	502	-	137,498
Loans and advances to banks and other financial institutions	341,392	44,269	143,114	6	528,781
Loans to customers	689,596	53,219	21,465	360	764,640
Investments available-for-sale	1,593,119	18,785	92,547	-	1,704,451
Other financial assets	33,358	2,890	1,417	2	37,667
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	2,902,806	143,932	262,134	368	3,309,240
FINANCIAL LIABILITIES:					
Loans and advances from banks and other financial institutions	53,054	2,151	592	2,677	58,474
Customer accounts	2,362,422	79,127	24,207	16,796	2,482,552
Financial liabilities at fair value through profit or loss	492	1	-	-	493
Debt securities issued	159,843	391	295,038	-	455,272
Other borrowed funds	36,480	-	-	-	36,480
Other financial liabilities	25,203	797	1,917	96	28,013
Subordinated debt	130,232	-	24,410	-	154,642
TOTAL FINANCIAL LIABILITIES	2,767,726	82,467	346,164	19,569	3,215,926
NET POSITION	135,080	61,465	(84,030)	(19,201)	

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	Kazakhstan (KZT million)	CIS (KZT million)	OECD countries (KZT million)	Non-OECD countries (KZT million)	31 December 2016 Total (KZT million)
FINANCIAL ASSETS AND PRECIOUS METALS:					
Cash and balances with national (central) banks	139,934	11,974	-	-	151,908
Precious metals	-	-	3,255	-	3,255
Financial assets at fair value through profit or loss	192,662	583	17,293	-	210,538
Loans and advances to banks and other financial institutions	20,731	49,074	38,808	1,219	109,832
Loans to customers	3,547,372	188,599	20,593	141	3,756,705
Investments available-for-sale	15,175	4,004	545	-	19,724
Investments held to maturity	215,150	7,284	-	-	222,434
Other financial assets	18,093	1,839	25	1	19,958
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	4,149,117	263,357	80,519	1,361	4,494,354
FINANCIAL LIABILITIES:					
Loans and advances from banks and other financial institutions	483,330	3,600	4,261	314	491,505
Customer accounts	2,797,073	74,855	26,838	16,672	2,915,438
Financial liabilities at fair value through profit or loss	7,925	1	56,349	-	64,275
Debt securities issued	161,878	515	424,568	-	586,961
Other borrowed funds	81,308	-	-	-	81,308
Other financial liabilities	33,793	576	843	-	35,212
Subordinated debt	141,092	-	89,345	-	230,437
TOTAL FINANCIAL LIABILITIES	3,706,399	79,547	602,204	16,986	4,405,136
NET POSITION	442,718	183,810	(521,685)	(15,625)	

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Main credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Asset and liability management risks

Effective assets and liabilities management is fundamental to the Group, which allows the Group to offer competitive products in the market while maintaining the risk and profitability balance on the level creating additional value for shareholders.

The following are defined by the bank as key areas within asset and liability management:

- Liquidity risk management;
- Market risks management:
 - Market risks management in trading portfolio;
 - General currency risk management;
 - Structural interest risk management;
- Capital management.

The Group's Assets and Liabilities Management Committee ("the ALMC") is responsible for managing risks the bank is exposed to while managing assets and liabilities.

The ALMC is responsible for making strategic and operational decisions with respect to managing asset and liabilities with the purpose of:

- Maintaining and further increasing net income while keeping risk exposure at an acceptable level; and
- Ensuring continuity of the Group operations.

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

In order to fulfill the objectives set above, short meetings of the ALMC take place not less than once a month. Operational asset and liability management questions including trading portfolio performance and liquidity management are considered at the weekly meetings. At the monthly meetings the ALMC discusses more strategic questions including balance sheet structure management. Various reports are presented to the ALMC's attention including, but not limited to, trading portfolio reports, open currency positions, liquidity gaps, cash flows, stress tests, and other.

Liquidity risk

Liquidity risk is the risk that the Group will not have enough funding at reasonable price to meet all cash outflows (on- and off-balance sheet).

To manage the Group's short-term liquidity risk, Treasury performs daily monitoring and cash flow forecasting. The management of the long-term liquidity risk is carried out by the ALMC by analysing long-term liquidity positions and making decisions to manage a significant negative position by various methods.

The Group maintains the compliance to regulatory requirements, including term liquidity ratios and foreign exchange liquidity. The Group considers these requirements to be strict, and, as such, this measure guarantees maintaining appropriate liquidity level.

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The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2017 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss	2,698	2,189	52,740	44,379	20,888	-	122,894
Loans and advances to banks and other financial institutions	501,971	4,406	4,742	15,361	1,959	-	528,439
Loans to customers	5,453	23,581	130,804	174,335	118,952	-	453,125
Debt securities included in investments available-for-sale	285,098	18,575	73,839	496,079	778,386	-	1,651,977
Total interest bearing assets	795,220	48,751	262,125	730,154	920,185	-	2,756,435
Cash and balances with national (central) banks	133,114	-	-	-	-	-	133,114
Precious metals	3,089	-	-	-	-	-	3,089
Equity securities in the financial assets at fair value through profit or loss	-	-	-	-	-	12,513	12,513
Equity securities in the investments available-for-sale	-	-	-	-	-	476	476
Accrued interest income on interest-bearing assets	201,296	5,749	63,654	38,983	56,264	-	365,946
Other financial assets	9,534	2,152	3,200	19,331	3,450	-	37,667
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	1,142,253	56,652	328,979	788,468	979,899	12,989	3,309,240
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	28,294	-	250	14,676	15,192	-	58,412
Customer accounts	225,898	173,329	779,297	356,994	279,759	-	1,814,277
Debt securities issued	304	-	99,300	345,974	-	-	445,578
Other borrowed funds	220	-	310	3,698	32,059	-	36,287
Subordinated debt	-	-	10,034	3,458	114,733	24,145	152,370
Total interest bearing liabilities	254,716	172,329	889,191	724,800	441,743	24,145	2,506,924
Financial liabilities at fair value through profit or loss	1	-	492	-	-	-	493
Customer accounts	657,366	-	-	-	-	-	657,366
Accrued interest expense on interest-bearing liabilities	11,582	1,203	5,890	1,207	3,248	-	23,130
Other financial liabilities	20,169	1,890	1,069	1,250	3,635	-	28,013
TOTAL FINANCIAL LIABILITIES	943,834	175,422	896,642	727,257	448,626	24,145	3,215,926
Liquidity gap	198,419	(118,770)	(567,663)	61,211	531,273	-	-
Interest sensitivity gap	540,504	(123,578)	(627,066)	5,354	478,442	-	-
Cumulative interest sensitivity gap	540,504	416,926	(210,140)	(204,786)	273,656	-	-
Cumulative interest sensitivity gap as a percentage of total financial assets and precious metals	16.33%	12.60%	(6.35%)	(6.19%)	8.27%	-	-
Contingent liabilities and credit commitments	8,621	6,276	39,054	42,086	1,563	42,260	-

Based on the results of the calculations, the report recorded a cumulative negative GAP for the year in the amount of KZT 210,140 million or 6.35% of the total financial assets. The main reasons for the occurrence of the negative GAP are the following:

- commitments are recorded on contractual terms and do not take into account prolongations in the future;
- assets are accounted for by the date of the last repayment and do not take into account cash flows from the repayment schedule during the life.

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Based on previous experience, the Management of the Group believes that it is unlikely that all customer accounts will require repayments at maturity. Historically, most of these deposits are extended.

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2016 Total (KZT million)
FINANCIAL ASSETS:							
Debt securities and derivatives in the financial assets at fair value through profit or loss							
Loans and advances to banks and other financial institutions	9,204	14,603	85,152	42,484	12,098	-	163,541
Loans to customers	89,374	376	735	14,477	3,605	1,165	109,732
Debt securities included in investments available-for-sale	46,622	62,900	126,991	330,918	2,570,134	95	3,137,660
Investments held to maturity	189	718	2,368	12,909	641	-	16,825
Total interest bearing assets	5,189	2,811	1,626	200,110	8,505	-	218,241
Cash and balances with national (central) banks	150,578	81,408	216,872	600,898	2,594,983	1,260	3,645,999
Precious metals	146,345	-	-	1	5,562	-	151,908
Equity securities in the financial assets at fair value through profit or loss	3,255	-	-	-	-	-	3,255
Equity securities in the investments available-for-sale	-	-	-	-	-	31,099	31,099
Accrued interest income on interest-bearing assets	-	-	-	-	-	1,297	1,297
Other financial assets	43,026	348,576	43,348	19,750	186,117	21	640,838
TOTAL FINANCIAL ASSETS AND PRECIOUS METALS	348,311	433,563	264,706	624,450	2,788,630	34,694	4,494,354
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	250,693	200,813	21,000	1,240	15,989	-	489,735
Customer accounts	218,202	169,904	656,186	608,594	521,468	-	2,174,354
Debt securities issued	368	131,047	-	160,280	277,656	-	569,351
Other borrowed funds	-	-	39,268	6,955	34,911	-	81,134
Subordinated debt	-	-	80,214	14,040	94,325	39,362	227,941
Total interest bearing liabilities	469,263	501,764	796,668	791,109	944,349	39,362	3,542,515
Financial liabilities at fair value through profit or loss	359	55,830	-	4,385	195	3,506	64,275
Customer accounts	725,445	-	-	-	-	-	725,445
Accrued interest expense on interest-bearing liabilities	13,154	12,714	11,749	72	-	-	37,689
Other financial liabilities	12,490	2,604	17,730	1,932	-	456	35,212
TOTAL FINANCIAL LIABILITIES	1,220,711	572,912	826,147	797,498	944,544	43,324	4,405,136
Liquidity gap	(872,400)	(139,349)	(561,441)	(173,048)	1,844,086	-	-
Interest sensitivity gap	(318,685)	(420,356)	(579,796)	(190,211)	1,650,634	-	-
Cumulative interest sensitivity gap	(318,685)	(739,041)	(1,318,837)	(1,509,048)	141,586	-	-
Cumulative interest sensitivity gap as a percentage of total financial assets and precious metals	(7.1%)	(16.4%)	(29.3%)	(33.6%)	3.2%	-	-
Contingent liabilities and credit commitments	9,106	11,447	43,341	120,708	1,126	25,849	-

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 December 2017

A further analysis of the liquidity is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated statement of financial position as the presentation below includes analysis of future payments of financial liabilities and contingent financial liabilities in the context of residual contractual payments (including interest payments). To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curves at the end of the reporting period.

	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2017 Total (KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	28,294	-	250	14,676	15,192	-	58,412
Customer accounts	225,898	172,329	779,297	356,994	279,759	-	1,814,277
Debt securities issued	304	-	99,300	345,974	-	-	445,578
Other borrowed funds	220	-	310	3,698	32,059	-	36,287
Subordinated debt	-	-	10,034	3,458	114,733	24,145	152,370
Total interest bearing financial liabilities	254,716	172,329	889,191	724,800	441,743	24,145	2,506,924
Financial liabilities at fair value through profit or loss	1	-	492	-	-	-	493
Customer accounts	657,366	-	-	-	-	-	657,366
Accrued interest expense on interest-bearing liabilities	20,338	13,329	68,401	209,180	121,392	-	432,640
Other financial liabilities	20,169	1,890	1,069	1,250	3,635	-	28,013
TOTAL FINANCIAL LIABILITIES	952,590	187,548	959,153	935,230	566,770	24,145	3,625,436
Contingent liabilities and other credit commitments	8,621	6,276	39,054	42,086	1,563	42,260	139,860
Derivative financial assets	-	-	1,038,143	12,384	-	-	1,050,527
Derivative financial liabilities	-	-	1,000,842	11,187	-	-	1,012,029

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	Up to 1 month (KZT million)	1 month to 3 months (KZT million)	3 months to 1 year (KZT million)	1 year to 5 years (KZT million)	Over 5 years (KZT million)	Maturity undefined (KZT million)	31 December 2016 Total (KZT million)
FINANCIAL LIABILITIES:							
Loans and advances from banks and other financial institutions	250,693	200,813	21,000	1,240	15,989	-	489,735
Customer accounts	218,202	169,904	656,186	608,594	521,468	-	2,174,354
Debt securities issued	368	131,047	-	160,280	277,656	-	569,351
Other borrowed funds	-	-	39,268	6,955	34,911	-	81,134
Subordinated debt	-	-	80,214	14,040	94,325	39,362	227,941
Total interest bearing financial liabilities	469,263	501,764	796,668	791,109	944,349	39,362	3,542,515
Financial liabilities at fair value through profit or loss	359	55,830	-	4,385	195	3,506	64,275
Customer accounts	725,445	-	-	-	-	-	725,445
Accrued interest expense on interest-bearing liabilities	31,938	34,815	96,716	291,237	206,811	-	661,517
Other financial liabilities	12,490	2,604	17,730	1,932	-	456	35,212
TOTAL FINANCIAL LIABILITIES	1,239,495	595,013	911,114	1,088,663	1,151,355	43,324	5,028,964
Contingent liabilities and other credit commitments	9,106	11,447	43,341	120,708	1,126	25,849	211,577
Derivative financial assets	-	230,060	412	2,476	-	-	232,948
Derivative financial liabilities	-	283,377	979	1,748	-	-	286,104

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Market risk

Market risks in the Group are understood as the risks of occurrence of losses and expenses for all balance sheet and off-balance sheet positions as a result of unfavorable changes in market factors such as interest rates, exchange rates, the value of financial instruments and commodities, volatility of these factors.

The Department of Financial Risks and Portfolio Analysis measures exposure to market risks, which is submitted to the Group's ALMC.

The Group distinguishes the following types of market risks:

- Interest rate risk;
- Price risk;
- Commodity risk;
- Currency risk.

The Group in the analysis of the overall currency risk additionally allocates currency risk in the trading portfolio.

In determining and managing interest risk, the Group applies an approach that involves distinguishing between the interest rate risk in the trading portfolio and the structural interest rate risk due to different effects on the Group's capital and on the Group's profit and loss. These types of risk are measured and managed separately. Interest rate risk in the trading portfolio is considered by the Group as one of the types of general market risk.

General Market Risk

Total market risk is the risk of losses and expenses on the trading portfolio and revaluation of the open currency position as a result of a general change in market factors.

In this procedure, VaR for the market risk is calculated based on the risk factors (currency risk, price and interest risks) arising from debt instruments, equity instruments and currency positions. The Group calculates the VaR indicator both taking into account all risk factors simultaneously, and for each risk factor separately. This allows the Group to analyze the amount of risk for each risk factor and make further decisions to reduce the impact of each individual risk.

The VaR calculation is based on the following parameters:

- the reporting period - 252 working days;
- Confidence interval - 99%;
- The method used is the method of historical modeling.

Price risk

Price risk is the risk of losses and expenses arising from changes in the value of financial instruments, their volatility, the correlation between the indices and the value of financial instruments, as well as changes in the conditions (policies) for payment of dividends / emoluments of issuers.

In order to limit the price risk, the Group sets limits on the maximum loss (stop-loss) for each individual security of the trading portfolio, in order to minimize potential losses.

The assessment of price risk is carried out on the basis of the VaR method described above, which discloses information about what losses the Group may incur.

The Group considers the price risk as at 31 December 2017 and 2016 to be immaterial, in consequence of which there is no need to disclose quantitative information.

For the purposes of internal reporting, in addition to the above analysis of VaR, the Group also conducts sensitivity analysis for currency risk and interest rate risk. This sensitivity analysis is presented in these separate financial statements.

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Currency risk

Currency risk is defined as the risk of taking losses from open currency positions and financial instruments in foreign currencies as a result of changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on its open currency positions and trading portfolio.

The ALMC controls currency risk by managing its open currency positions on the basis of macroeconomic analysis and exchange rate forecasts, which give the Group an opportunity to minimize losses from significant currency fluctuations. Similar to liquidity risk management, the Treasury Department manages open currency positions of the Group using data received by the Regulatory Reporting Division on a daily basis.

The NBK sets strict limits on open currency positions. This measure also limits the currency risk. In addition, the Treasury Department uses various hedging strategies including cross currency swaps in order to mitigate currency risks.

As at 31 December 2017, the Group's exposure to foreign exchange risk is presented in the table below:

	KZT (KZT million)	USD (KZT million)	EUR (KZT million)	RUR (KZT million)	Other (KZT million)	31 December 2017 Total (KZT million)
FINANCIAL ASSETS:						
Cash and balances with national (central) banks	76,770	24,504	12,709	13,125	6,006	133,114
Precious metals	-	-	-	-	3,089	3,089
Financial assets at fair value through profit or loss	128,438	6,352	-	2,599	109	137,498
Loans and advances to banks and other financial institutions	333,147	129,396	27,919	31,974	6,345	528,781
Loans to customers	628,810	102,594	25,321	7,810	105	764,640
Investments available-for-sale	1,590,833	99,558	3,670	3,441	6,949	1,704,451
Other financial assets	34,149	696	704	2,110	8	37,667
TOTAL FINANCIAL ASSETS	2,792,147	363,100	70,323	61,059	22,611	3,309,240
FINANCIAL LIABILITIES:						
Loans and advances from banks and other financial institutions	33,722	8,814	607	14,694	637	58,474
Customer accounts	1,298,862	1,036,402	84,183	41,001	22,104	2,482,552
Financial liabilities at fair value through profit or loss	493	-	-	-	-	493
Debt securities issued	178,674	276,245	-	353	-	455,272
Other borrowed funds	36,480	-	-	-	-	36,480
Other financial liabilities	23,088	3,786	297	579	263	28,013
Subordinated debt	115,477	39,165	-	-	-	154,642
TOTAL FINANCIAL LIABILITIES	1,686,796	1,364,412	85,087	56,627	23,004	3,215,926
NET POSITION	1,105,351	(1,001,312)	(14,764)	4,432	(393)	
DERIVATIVE FINANCIAL INSTRUMENTS						
With gross calculations:						
- currency swaps	(1,010,872)	1,036,675	15,497	(514)	-	40,786
- spot	(185)	(1,057)	186	609	449	2
NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	(1,011,057)	1,035,618	15,683	95	449	40,788
NET POSITION	94,294	34,306	919	4,527	56	

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As at 31 December 2016, the Group's exposure to foreign exchange risk is presented in the table below:

	KZT	USD	EUR	RUR	Other	31 December 2016 Total (KZT million)
	(KZT million)	(KZT million)	(KZT million)	(KZT million)	(KZT million)	
FINANCIAL ASSETS:						
Cash and balances with national (central) banks	113,882	24,658	2,784	7,621	2,963	151,908
Precious metals	-	-	-	-	3,255	3,255
Financial assets at fair value through profit or loss	156,455	35,749	13,937	2,490	1,907	210,538
Loans and advances to banks and other financial institutions	20,343	63,876	6,876	13,771	4,966	109,832
Loans to customers	1,293,842	2,441,762	7,688	12,907	506	3,756,705
Investments available-for-sale	14,952	223	-	4,004	545	19,724
Investments held to maturity	213,790	1,360	-	-	7,284	222,434
Other financial assets	16,622	1,939	141	1,222	34	19,958
TOTAL FINANCIAL ASSETS	1,829,886	2,569,567	31,426	42,015	21,460	4,494,354
FINANCIAL LIABILITIES:						
Loans and advances from banks and other financial institutions	473,458	14,740	1,571	220	1,516	491,505
Customer accounts	1,374,450	1,388,921	96,680	35,959	19,428	2,915,438
Financial liabilities at fair value through profit or loss	61,061	3,025	-	189	-	64,275
Debt securities issued	161,894	286,101	138,819	147	-	586,961
Other borrowed funds	81,308	-	-	-	-	81,308
Other financial liabilities	32,550	1,929	207	450	76	35,212
Subordinated debt	126,002	104,435	-	-	-	230,437
TOTAL FINANCIAL LIABILITIES	2,310,723	1,799,151	237,277	36,965	21,020	4,405,136
NET POSITION	(480,837)	770,416	(205,851)	5,050	440	
DERIVATIVE FINANCIAL INSTRUMENTS						
With gross calculations:						
- currency swaps	416,602	(676,696)	205,461	165	2445	(52,023)
- spot	(15)	21	-	326	(336)	(4)
NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	416,587	(676,675)	205,461	491	2,109	(52,027)
NET POSITION	(64,250)	93,741	(390)	5,541	2,549	

Currency risk sensitivity analysis

The Group estimates the possible effect of a 20% fluctuation in foreign currency rates on the consolidated statement of profit or loss and consolidated equity based on the sensitivity analysis of the internally prepared open currency position report, which includes derivative financial instruments.

The analysis is based on the calculation of the impact of possible fluctuations in USD, Euro and Russian Rouble currency rates on the consolidated statements of profit or loss and consolidated equity. This is due to the fact that, as at 31 December 2017, these were the main currencies in which the Group had open positions. A 20% fluctuation is determined as a "reasonably possible change in the risk variable" by the management of the Group. All other parameters were assumed to be constant. Negative and positive amounts in the table reflect the potential probable effect on the consolidated statement of profit or loss and consolidated equity of such fluctuations.

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	USD/KZT		EUR/KZT		31 December 2017 (KZT million) RUR/KZT	
	+20%	-20%	+20%	-20%	+20%	-20%
Impact on profit or loss before tax	6,861	(6,861)	184	(184)	905	(905)
Impact on equity	(5)	5	15	(15)	17	(17)

	USD/KZT		EUR/KZT		31 December 2016 (KZT million) RUR/KZT	
	+20%	-20%	+20%	-20%	+20%	-20%
Impact on profit or loss before tax	28,759	(28,759)	249	(249)	1,108	(1,108)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key risk factor while all other things held constant. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger impacts should not be extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary depending on any actual market movements, since the Group's financial risk management strategy aims to manage the exposure to market fluctuations. In instances where there are significant or unexpected changes in market conditions, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the risk factors may be different from those shown above.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with a fair degree of certainty; and the assumption that all interest rates move in an identical fashion.

Structural interest rate risk

Structural interest rate risk is a risk of possible decline in interest income generated on balance and off-balance sheet positions accounted at amortized cost as a result of changes in market interest rates. Thus managing structural interest rate risk implies managing the exposure of the Group's net interest income and hence capital to market interest rate changes with the purpose of limiting and controlling possible income reductions or losses and ensuring optimal and stable interest income inflow.

To manage structural interest rate risk the ALMC monitors and analyzes re-pricing gap and earnings at risk as well as interest rate margins. This helps the Group to mitigate exposure to the structural interest rate risk and maintain positive interest rate margins. The Department of financial risks and portfolio analysis monitors financial activity of the Group, regularly assessing its exposure to changes in interest rates and income impact of the changes.

Currently most of the loans extended by the Group are at fixed rate agreements. At the same time the loan agreements allow the Group to change the interest rate, thus allowing the Group to decrease interest rate risks.

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The following table presents an analysis of interest rate risk. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2017			31 December 2016		
	% in KZT	% in USD	% in other currencies	% in KZT	% in USD	% in other currencies
ASSETS:						
Financial assets at fair value through profit or loss	6.09	3.44	9.73	2.07	1.19	6.86
Loans and advances to banks and other financial institutions	8.70	0.81	2.05	9.62	1.54	3.12
Loans to customers	9.88	6.73	8.05	12.04	8.44	8.99
Investments available-for-sale and held to maturity	7.18	0.75	3.03	6.35	6.99	0.03
LIABILITIES:						
Loans and advances from banks and other financial institutions	2.13	-	7.70	11.50	-	-
Customer accounts	6.88	1.66	2.69	7.06	2.13	2.97
Debt securities issued	8.61	6.52	12.11	8.61	6.54	6.88
Other borrowed funds	2.28	-	-	1.64	-	-
Subordinated debt	9.35	8.92	-	9.61	6.89	-

The Group uses derivative financial instruments to mitigate the interest rate risk and control the interest rate margin by different types of products. Management monitors the interest rate margin of the Group and believes that the Group is not exposed to significant risk of change in interest rates and related cash flow interest rate risk.

Interest rate risk sensitivity analysis

The Risk Management Department periodically estimates the Group's sensitivity to changes in market interest rates and their influence on the Group's profitability. If necessary, the Risk Management Department suggests decreasing the relevant risk levels to the ALMC of the Group.

In calculating and analyzing sensitivity of net profit of the Group to structural interest rate risk, the Group applies the earnings at risk ratio (EaR). EaR is based on interest rate gap and measures the potential fluctuations in earnings over a given time interval under normal market conditions and based on the following assumptions:

- the period when possible losses are incurred, is one year. One year is viewed as a period, within which the Group may raise new funding or restructure its assets and liabilities with a purpose of returning and keeping its risks level within its risk appetite;
- EaR is calculated based on the assumption that each interest rate gap will be reassessed at a new interest rate.

As at the reporting date, in calculating EaR, as reasonably possible, the Group applied the range of interest rate fluctuations in 200 bp across the yield curve.

The following table presents the sensitivity of the Group's consolidated statement of profit or loss to the above changes to interest rates, in which all other parameters are assumed to be constant:

	31 December 2017 (KZT million)
Earnings at risk (EaR)	
Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	3,318
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	(3,318)

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	31 December 2016 (KZT million)
Earnings at risk (EaR)	
Earnings at risk (EaR) as a result of parallel shift in the yield curve	
Earnings at risk (EaR) as a result of upward movement in rates by 200 bp per 1 year	(17,946)
Earnings at risk (EaR) as a result of downward movement in rates by 200 bp per 1 year	17,946

At the reporting date, the Group's equity is not sensitive to interest rate fluctuations, since the interest rate swaps hedging relationship became ineffective in 2009 and, accordingly, changes in fair value of these instruments are recognised in the consolidated statement of profit or loss.

Operational Risk

The Bank is exposed to operational risk - the risk of losses as a result of deficiencies or errors in the implementation of internal processes committed by employees, the operation of information systems and technologies, as well as external events.

The Operational Risk Management Policy of JSC Kazkommertsbank, reflecting the requirements for managing operational risks and ways of neutralizing, limiting and / or minimizing them, was developed for effective operation of the Bank in order to ensure the stability of the Bank's activities.

To identify, measure, monitor and control operational risk, the Bank uses the following tools for identifying and measuring operational risks that correspond to the best global practices:

- Database on operational risks (Corporate Loss Database);
- Risk Self Assessment;
- Scenario analysis;
- Key Risk Indicators;
- Map of operational risks (Heat Map Monitors);
- Evaluation of innovations and/or changes in the processes/systems of the Bank (Operational Risk Assessment Process);
- The results of audit reports on inspections of bank units, service investigations and other sources/reports of the bank to identify operational risks, which are an additional source of information in the process of managing the operational risk of the bank; and
- Collection and analysis of external data on losses, by searching for events in open sources on Internet resources about incidents of losses in other organizations.

Operational risk management tools allow the Bank to identify the types of activities most at risk of operational risk, to assess and monitor the Bank's losses caused by operational risks, and to establish appropriate controls and develop preventive measures to minimize such risk.

Information on the management of the Bank's operational risk is provided for consideration by the Bank's Authorized Body (the Management Board, the Strategic Planning and Risk Review Committee/Audit Committee and the Board of Directors) at a set frequency. When organizing the operational risk management system, the Board of Directors of the bank, UCO, the Board of the bank analyzes the external operating environment in which the bank operates, reviews the strategy, assesses the size and complexity of the bank's operations and develops internal documents covering the components of the operational risk management system.

39. Subsequent events

On 9 February 2018, the Bank had made an early repayment of the perpetual subordinated Eurobonds issued in November 2005, with an initial placement amount of USD 100 million. The repayment was made from the Bank's own funds.