Shinhan Bank Kazakhstan JSC

IFRS Financial Statements
For the year ended 31 December 2017

and Independent Auditors' Report

Contents

Shinhan Bank Kazakhstan JSC

Statement of Management's Responsibility for the Preparation and Approval of the Financial Statements for the year ended 31 December 2017

The following statement, which should be read in conjunction with the statement of auditor's responsibilities included in their report below, is made with a view to distinguishing the respective responsibilities of the auditors in relation to the financial statements of Shinhan Bank Kazakhstan JSC (hereinafter the "Bank").

Management of the Bank is responsible for the preparation of the financial statements that present fairly in all material respects the financial position of the Bank as at 31 December 2017, its performance, cash flows and changes in equity for the year then ended, in accordance with the International Financial Reporting Standards (hereinafter "IFRS").

In preparing the financial statements, the management is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

Management is also responsible for:

- Designing, implementing and maintaining effective and reliable internal controls within the Group;
- Keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position and which enable them to ensure that its financial statements comply with the IFRS;
- Maintaining statutory accounting records in compliance with the legislation of the Republic of Kazakhstan;
- Taking all reasonably possible measures to ensure the safekeeping of the assets of the Bank;
- Detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2017 were approved for issue by management of Shinhan Bank Kazakhstan on 31 March 2018.

On behalf of the Management:

Chairman of the Board
Mr. Kim Hyoung Whan

Chief Accountant
Ms. G.S. Zhaxybayeva

6 April 2018
Almaty, Republic of Kazakhstan

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management of Shinhan Bank Kazakhstan JSC

Conclusion Based on the Audit Results

Opinion

We have audited the accompanying financial statements of Shinhan Bank Kazakhstan JSC (hereinafter the "Bank"), consisting of the statement of financial position as at 31 December 2017, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

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

Basis for Opinion

We have performed our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kazakhstan and 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 audit opinion.

Other Matters

The financial statements of Shinhan Bank Kazakhstan JSC as at and for year ended 31 December 2016 were audited by another auditor, whose report dated 31 March 2017 expressed an unqualified opinion on those financial statements.

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

When preparing the financial statements, management is responsible for the evaluation of a Bank's ability to continue as a going concern, and for disclosure, where appropriate, of information relevant to the going concern, as well as for preparation of the financial statements based on the assumption of going concern, except when management intends to liquidate the Bank, or discontinue its operations, or where has no other realistic alternatives, other than liquidation or discontinuation of operations.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. In addition, we perform the following:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or errors; design and perform audit procedures in response to the risks; 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 internal control of the Bank.

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

- Make a conclusion with respect to the appropriateness of application of ongoing concern assumption and based on the audit evidence obtained we make a conclusion whether there is substantial uncertainty due to certain events or conditions that can result in significant doubts about the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion about the financial statements. Our conclusions are based on the audit evidence obtained before the date of our audit opinion. However, future events or conditions can result in the loss of the Bank's ability to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

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

________________Irina Litvinchik

Auditor's Qualification Certificate No.0000223
Issued by the Qualification Commission
For Certification of Auditors in the Republic of Kazakhstan on 22.12.2014

BDO Kazakhstan LLP

State license No.150003448 dated 19 February 2015 for audit activities as issued by the Committee on Financial Monitoring of the Ministry of Finance of the Republic of Kazakhstan.

________________T.A. Omarov
Director, BDO Kazakhstan LLP

Almaty

6 April 2018

SHINHAN BANK KAZAKHSTAN JSC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017

KZT thousand	Note	For the year ended 31.12.2017	For the year ended 31.12.2016
Interest income	4	2,156,401	1,596,479
Interest expense	4	(587,550)	(208,061)
Net interest income	4	**1,568,851**	**1,388,418**
Fee and commission income	5	61,283	58,313
Fee and commission expense	6	(44,749)	(19,195)
Net fee and commission income		**16,534**	**39,118**
Net foreign exchange gain	7	133,607	104,932
Other operating income (expenses), net		(18,354)	(5,500)
Operating income		**1,700,638**	**1,526,968**
Establishment of provisions	15,18	(425,516)	-
Personnel expenses	8	(644,392)	(614,695)
Other general administrative expenses	9	(410,402)	(324,404)
Profit before income tax		**220,328**	**587,869**
Income tax expense	10	(35,046)	(107,888)
Profit for the year		**185,282**	**479,981**
Other comprehensive loss, net of income tax			
Items that have been reclassified or may subsequently be reclassified to profit or loss:			
Revaluation reserve of available-for-sale financial assets			
- net change in fair value		**94,146**	**(93,699)**
Other comprehensive loss for the year, net of income tax		**94,146**	**(93,699)**
Total comprehensive income for the year		**279,428**	**386,282**
Earnings per share			
Basic earnings per share (tenge)	23	**184.75**	**478.61**

On behalf of the Management:

Chairman of the Board
Mr. Kim Hyoung Whan

6 April 2018
Almaty, Republic of Kazakhstan

Chief Accountant
Ms. G.Sh. Zhaxybayeva

STATEMENT OF FINANCIAL POSITION as of 31 December 2017

KZT thousand	Note	31.12.2017	31.12.2016
ASSETS			
Cash and cash equivalents	11	13,317,576	5,778,342
Due from banks	12	320	666,900
Available-for-sale financial assets	13	1,134,941	1,299,299
Loans to banks	14	-	675,193
Loans to customers:			
- Loans to large corporations	15	2,210,981	4,942,902
- Loans to small and medium size companies	15	6,499,147	4,596,527
- Loans to retail customers	15	2,552,141	2,441,855
Held-to-maturity investments	16	3,720,500	1,916,066
Property, equipment and intangible assets	17	241,678	256,067
Corporate income tax		73,012	39,699
Other assets	18	152,970	179,259
Total assets		**29,903,266**	**22,792,109**
LIABILITIES			
Due to banks	19	249,717	2,045,714
Due to customers			
- Due to corporate customers	20	9,319,094	6,497,770
- Due to retail customers	20	2,584,283	1,677,407
Loans from international financial organisations	21	4,794,954	-
Deferred tax liabilities	10	34,777	49,903
Other liabilities	22	211,471	91,773
Total liabilities		**17,194,296**	**10,362,567**
EQUITY			
Share capital	23	10,028,720	10,028,720
Additionally paid-in capital	23	144,196	144,196
Capital reserve		279,516	279,516
Revaluation reserve of available-for-sale financial assets		(215,420)	(309,566)
Retained earnings		2,471,958	2,286,676
Total equity		**12,708,970**	**12,429,542**
Total liabilities and equity		**29,903,266**	**22,792,109**

KZT thousand	**For the year ended 31.12.2017**	**For the year ended 31.12.2016**
Cash flows from operating activities		
Interest income received	2,164,598	1,554,567
Interest income paid	(575,354)	(193,158)
Fee and commission received	60,058	57,953
Fee and commission paid	(39,889)	(19,177)
Net foreign exchange gains	116,320	103,220
Other operating income (expenses)	(14,308)	(4,789)
Personnel expense payments	(588,343)	(595,006)
Other general administrative expense payments	(248,083)	(361,171)
Establishment of provisions	(425,516)	-
(Increase)/decrease in operating assets		
Due from banks	665,520	(663,905)
Loans to banks	660,140	2,281,583
Loans to customers	803,322	(866,040)
Increase/(decrease) in operating liabilities		
Due to banks	(1,806,245)	407,378
Due to customers	3,643,175	3,810,453
Net cash flows received from/(used in) operating activities before income tax	**4,415,395**	**5,511,908**
Income tax paid	(85,717)	(118,563)
Net cash flows received from/(used in) operating activities	**4,329,678**	**5,393,345**
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(38,032)	(191,398)
Purchase of available-for-sale financial assets	(1,590,700)	-
Net cash flows used in investing activities	**(1,628,732)**	**(191,398)**
Cash flows from financing activities		
Loan application fee	-	(76,752)
Loan proceeds	4,796,350	-
Net cash flows received from/(used in) financing activities	**4,796,350**	**(76,752)**
Net change in cash and cash equivalents	**7,497,296**	**5,125,195**
Effect of changes in exchange rate on cash and cash equivalents	41,938	(397,461)
Cash and cash equivalents at the year-beginning	5,778,342	1,050,608
Cash and cash equivalents at the year-end	**13,317,576**	**5,778,342**

KZT thousand	Share capital	Additionally paid-in capital	Capital reserve	Revaluation reserve of available-for-sale financial assets	Retained earnings	Total equity
At 1 January 2016	10,028,720	144,196	279,516	(215,867)	1,806,695	12,043,260
Profit for the year	-	-	-	-	479,981	479,981
Comprehensive loss for the year						
Items that have been reclassified or may subsequently be reclassified to profit or loss:						
Net change in the fair value of available-for-sale financial assets	-	-	-	(93,699)	-	(93,699)
Total other comprehensive loss	-	-	-	(93,699)	-	(93,699)
Total other comprehensive income for the year	**-**	**-**	**-**	**(93,699)**	**479,981**	**386,282**
At 1 January 2017	**10,028,720**	**144,196**	**279,516**	**(309,566)**	**2,286,676**	**12,429,542**
Profit for the year	-	-	-	-	185,282	185,282
Comprehensive loss for the year						
Items that have been reclassified or may subsequently be reclassified to profit or loss:						
Net change in the fair value of available-for-sale financial assets	-	-	-	94,146	-	94,146
Total other comprehensive income	-	-	-	94,146	-	94,146
Total other comprehensive income for the year	-	-	-	94,146	185,282	279,428
At 31 December 2017	**10,028,720**	**144,196**	**279,516**	**(215,420)**	**2,471,958**	**12,708,970**

1. BACKGROUND

(a) Organisation and Operations

The Bank was established in the Republic of Kazakhstan as a Joint Stock Company in 2008. The principal activities of the Bank are attracting customers' deposits and maintaining current accounts, loans and guarantees to customers, settlement and cash services, transactions with securities and foreign exchange. The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK").

The legal status of the Bank was established by the State Registration in the Ministry of Justice of the Republic of Kazakhstan (Legal Entity State Registration Certificate No. 5037-1900-A0 (ИУ)). The Bank is authorised to carry out banking operations by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (banking license No.1.1.258 dated 28 November 2008).

In January 2015, following entry into force of the Law of the Republic of Kazakhstan On Introducing Amendments and Addenda to Certain Legislative Acts of the Republic of Kazakhstan on the Issues of Permit System, the name of the banking operation "on organisation of foreign exchange transactions" was changed "on organisation of foreign exchange transactions including organisation of exchange transactions with foreign currency cash".

The license held by the Bank was re-issued (License issued by the National Bank of Kazakhstan No. 1.1.258 dated 27 January 2017).

Registered address of the Bank: 38 Dostyk Ave., Almaty, 050010, Republic of Kazakhstan

The Bank has no branches. The majority of the assets and liabilities are located in Kazakhstan.

The Bank is wholly-owned by Shinhan Bank JSC (Seoul, Republic of Korea) (the "Parent Bank" or the "Shareholder"). The ultimate parent company is Shinhan Financial Group Co. Ltd (Korea) which has the power to direct the activities of the Company at its own discretion. Related party transactions are disclosed in Note 28.

(b) Business Environment

The Bank operates mainly in Kazakhstan. Consequently, the Bank is exposed to risks inherent in the economic and financial markets of Kazakhstan, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. Moreover, significant depreciation of the KZT and reduced oil prices have increased the risk of uncertainty in the business environment. The accompanying financial statements reflect management's assessment of potential impact of the existing financial and business environment on the Bank's performance and financial position. Future developments may differ from management's assessment.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement of IFRS Compliance

The accompanying financial statements of the Bank have been prepared in compliance with the International Financial Reporting Standards (hereinafter "IFRS") in the version published by the International Accounting Standards Board (IASB).

(b) Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets measured at fair value.

(c) Functional Currency and Presentation Currency

The functional currency of the Bank is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The KZT is also the presentation currency for the purposes of these financial statements. Financial information presented in KZT is rounded to the nearest thousand, unless otherwise stated.

(d) The use of Professional Judgment, Estimates and Assumptions

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

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

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

- Note 15 - Assessment of loan impairment;
- Note 16 - Classification of held-to-maturity investments;
- Note 29 - Fair value of financial instruments.

(e) Going Concern

The accompanying financial statements have been prepared in accordance with the IFRS on a going concern basis, which assumes the realisation of assets and settlement of liabilities in the normal course of business of the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies set out below have been applied consistently by the Bank for all periods presented in these financial statements.

(a) Foreign Currency Transactions

Foreign currency transactions are translated to the functional currency of the Bank at exchange rates prevailing at the date of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Foreign Currency Transactions (continued)

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

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

Exchange differences arising from the translation are recognised in profit or loss.

(b) Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (“nostro” accounts) with the NRBK and other banks, as well as highly liquid financial assets with maturities of less than three months that are not exposed to a significant risk of changes in fair value, and are used by the Bank to settle its short-term commitments. The mandatory reserve deposit with the NBRK is not considered to be a cash equivalent, due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial Instruments

(i) Classification of Financial Instruments

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

- Acquired principally for the purposes of selling or repurchasing in the near term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- A derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument); or
- Designated upon initial recognition at fair value through profit or loss for the period.

The Bank can designate financial assets and liabilities as at fair value through profit or loss provided one of the following conditions are met:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

(i) Classification of Financial Instruments (continued)

- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.
- The asset or liability contains an embedded derivative that does not significantly modify the cash flows that otherwise would be required by the contract.

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

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

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

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

- Upon initial recognition designates as at fair value through profit or loss;
- The Bank designates as available-for-sale; or
- Meet the definition of loans and receivables.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

(i) Classification of Financial Instruments (continued)

(ii) Recognition of Financial Instruments

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

(iii) Measurement of Financial Instruments

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

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

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

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

(iv) Amortised Cost

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

(v) Fair Value Measurement Principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in the absence of a principal market, the most advantageous market in which the Bank would transact. Fair value of the obligation reflects the risk that the obligation will not be fulfilled.

To the extent possible, the Bank measures the fair value of the instrument using a quoted price in an active market. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank uses a valuation technique that makes maximum use of observable inputs, and minimum use of unobservable inputs. The chosen valuation technique incorporates all factors that market participants would consider in these circumstances.

The best evidence of the fair value of a financial instrument on initial recognition is usually the price of the transaction, i.e. the fair value of compensation paid or received. If the Bank determines that the fair value differs from the transaction cost at initial recognition and is not supported by the current quotes in an active market for similar asset or liability, and is not based on valuation technique that use only observable inputs, the financial instrument is initially measured at fair value adjusted to defer the difference between the initial fair value and transaction price. The difference is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price.

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

(vi) Gains and Losses on Subsequent Measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

(vi) Gains and Losses on Subsequent Measurement (continued)

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

(vii) Derecognition

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and Reverse Repurchase Agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (“reverse repo”) recorded as amounts receivable under reverse repo transactions, are recognised within loans to banks or loans to customers, as appropriate. The difference between the repurchase and sale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method. If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and is measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

(ix) Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set-off it that is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

(d) Property, Plant and Equipment

Owned Assets

Items of property and equipment (PPE) are recognised in the financial statements at historical cost less accumulated depreciation and impairment losses. Where an item of PPE comprises few components having different useful lives, they are accounted for as separate PPE items.

(ii) Depreciation

Depreciation of PPE is accrued by the reducing balance method, in amount not exceeding 20% for all types of fixed assets, except for cases when the useful life of the fixed asset is determined by special conditions for the use of this asset and is recognised in profit or loss. Depreciation is accrued from the date of acquisition of the facility, and for items constructed economically, from the moment of completion of the construction and held ready for use. Land is not depreciated.

If the Bank invests in leased PPE, such costs are amortised on a straight-line basis over the shorter of the lease term or the estimated useful life of the leasehold improvement.

(e) Intangible Assets

Acquired intangible assets are recognised in the financial statements at historical cost less accumulated depreciation and impairment losses. Acquired computer software licenses are capitalised in the cost of the relevant intangible asset.

Depreciation of intangible assets is accrued by the reducing balance method, in amount not exceeding 20% for all types of intangible assets, except for cases when the useful life of the intangible asset is determined by special conditions for the use of this asset and is recognised in profit or loss.

(f) Impairment

The Bank reviews its financial assets or group of assets to assess impairment at the end of each reporting period. If there is such evidence, the Bank estimates the amount of any impairment loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment (continued)

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers, or economic conditions that correlate with defaults in the Bank.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial Assets Carried at Amortised Cost

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment (continued)

(i) Financial Assets Carried at Amortised Cost (continued)

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

(ii) Available-for-sale Financial Assets

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

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery of fair value of impaired available-for-sale equity security is recognised in other comprehensive income.

(iii) Non-financial Assets

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

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of amortisation), if no impairment loss had been recognised.

(g) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Provisions (continued)

If the amount of such liability is significant, provisions are determined by discounting the estimated future cash flows using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

(h) Credit Related Commitments

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

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

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

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

Loan commitments are not recognised in the financial statements except for the following:

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

(i) Share Capital

(i) Ordinary Shares

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

(ii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Kazakh legislation.

Dividends on ordinary shares are recognised as the use of retained earnings as they are declared.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Taxation

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

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

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised with respect to the following temporary differences arising from assets and liabilities, the initial recognition of which affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow form the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax asset is recognised only to the extent it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses and unused tax credits can be utilised. Deferred tax assets are reduced to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Recognition of Income and Expense in the Financial Statements

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

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

If a financial asset or a group of financial assets has been written off (or partially written off) as a result of impairment, the interest income is determined taking into account the interest rate used to discount future cash flows for the purpose of calculating impairment losses.

Other fees, commissions and other income and expenses are recognised at the date the respective service is provided.

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

(l) New Standards and Interpretations not yet adopted

As of 31 December 2017, a number of new standards, amendments and clarifications are not yet effective, and have not been applied in the preparation of these financial statements. The Bank plans to adopt these standards when they become effective.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New Standards and Interpretations not yet adopted (continued)

- IFRS 9 *Financial Instruments*[1]*;*
- IFRS 15 *Revenue from Contracts with Customers* (and amendments to IFRS 15)[1];
- IFRS 16 *Leases*[2]*;*
- IFRS 17 *Insurance Contracts;*[3]
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1]*;*
- IFRIC 23 *Uncertainty over Income Tax Treatments*[2]*;*
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*[1];
- Amendments to IFRS 10 and IAS 28 Sales or Contributions of Assets between an Investor and its Associate or Joint Venture [4];
- IAS 40 *Transfers of Investment Property*[1];
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1];
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*[2]*;*
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*[2].
- *Annual Improvements to IFRS, 2014-2016 cycle*[1];
- *Annual Improvements to IFRS, 2015-2017 cycle* [2].

[1] The standard is effective for annual reporting periods beginning on or after 1 January 2018. Early application is permitted.
[2] The standard is effective for annual reporting periods beginning on or after 1 January 2019. Early application is permitted.
[3] The standard is effective for annual reporting periods beginning on or after 1 January 2021. Early application is permitted.
[4] Effective date is to be determined, early application is permitted.

IFRS 9 *Financial Instruments*

IFRS 9, released in November 2009, introduces new requirements for the classification and measurement of financial assets. In October 2010, the standard was amended to introduce new requirements for the classification and measurement of financial liabilities and their derecognition. In November 2013, the standard was amended by new requirements for hedge accounting. An updated version of the standard was issued in July 2014. The amendments are related to a) financial asset impairment requirements b) amended guidance for the classification and measurement of financial assets by introducing a fair value through other comprehensive income category for certain debt instruments.

Basic requirements of IFRS 9:

- Classification and measurement of financial assets. All recognised financial assets that are within the scope of IAS 9 should be measured after initial recognition either at amortised cost or at fair value. In particular, debt instruments that are held within a business model aimed to obtain contractual cash flows that include only principal and interest are typically measured at amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New Standards and Interpretations not yet adopted (continued)

Debt instruments that are held within a business model aimed both at obtaining contractual cash flows and at selling a financial asset, as well as those which have arrangements generating cash flows that represent solely the repayment of principal or interest on the outstanding principal are generally measured at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value. In accordance with IFRS 9, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument (that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination), with only dividend income recognised in profit or loss.

- *Classification and Measurement of Financial Liabilities.* Changes in the fair value of financial liabilities measured at fair value through profit or loss, relating to the changes of their own credit risks, should be recognised in other comprehensive income, unless such recognition creates or increases accounting mismatch in profit and loss. Changes in fair value caused by changes in own credit risk of a financial liability shall not be subsequently reclassified in a statement of profit and loss. In accordance with IAS 39, changes in fair value of financial liabilities measured at fair value through profit or loss were entirely recognised in the statement of profit and loss.

- *Impairment* When estimating impairment of financial assets IFRS 9 requires applying the expected credit loss (ECL) model rather than the incurred loss model provided for in IAS 39. The expected credit loss model requires entities to account for ECLs, and updates the loss allowance for changes in these ECLs at each reporting date to reflect changes in credit risk since initial recognition. In other words, in order to recognise impairment, there is no need to wait for events confirming the high credit risk.

- *Hedge Accounting.* The new hedge accounting requirements retain the three hedge accounting models within IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of financial 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 concept has been replaced with the principle of an economic relationship. Retrospective assessment of hedge effectiveness is no longer required. Enhanced disclosure requirements about an entity's risk management activities have been introduced.

Based on the analysis of the Bank's financial assets and financial liabilities as of 31 December 2017, and based on facts and circumstances as of that date, management of the Bank assessed the impact of IFRS 9 on the Bank's financial statements:

<u>Classification and Measurement</u>

- Debt instruments and unsecured bonds classified as held-to-maturity investments and loans carried at amortised cost are held within a business model for which the objective is to collect the contractual cash flows of the instrument and for which the contractual cash flows are solely payments of principal and interest. Accordingly, following the transition to IFRS 9, these financial assets will be measured at amortised cost.

- Traded redeemable bonds classified as available for sale investments are measured at fair value; such instruments are held within the business model whose objective is achieved both by collecting contractual cash flows and selling bonds in an open market. Contractual arrangements provide for the collection of cash flows on certain dates that represent solely the repayment of principal or interest on the principal amounts outstanding. Accordingly, traded bonds shall be accounted for after initial recognition as measured at fair value through other comprehensive income in accordance with IFRS 9, with profit or loss accumulated in the investment revaluation reserve reclassified to profit or loss at derecognition or reclassification of the bonds;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New Standards and Interpretations not yet adopted (continued)

- Non-trading shares classified as available-for-sale investments as disclosed in note XX: an entity may elect to classify as a financial instrument measured at fair value through other comprehensive income in accordance with IFRS 9; However, unlike the current accounting model, gains or losses arising from changes in the fair value, that have been accumulated in the investment revaluation reserve will not be subsequently reclassified to profit or loss. This will affect the amounts recognised in the profit or loss and other comprehensive income but will not affect the comprehensive income;
- All other financial assets and liabilities will be recognised accordance with IFRS 9 in a way similar to IAS 39.

<u>Impairment</u>

IFRS 9 impairment requirements will apply to financial assets carried at amortised cost, traded callable bonds, which will be measured at fair value through other comprehensive income under IFRS 9.

It is expected that the new impairment model will have the most significant impact on the Bank. Impairment losses will increase and become more volatile financial instruments within the IFRS 9 impairment model. Effects of transition to IFRS 9 will be recognised in equity as of 1 January 2018. The Bank will continue to comply with the minimum capital requirements established by the National Bank of Kazakhstan.

Application of the expected loss model in accordance with IFRS 9 at the effective date resulted in earlier recognition of credit losses and greater amounts of impairment recognised with respect to these items by KZT 112,938 thousand.

IFRS 15 *Revenue from Contracts with Customers*

FRS 15 was issued in May 2014, it establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. As soon as IFRS 15 becomes effective, it will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

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. In particular, the standard introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract (contracts) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when/as the entity satisfies a performance obligation

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New Standards and Interpretations not yet adopted (continued)

In accordance with IFRS 15 revenue is recognised when or as the obligation is fulfilled, i.e. when control of the goods or services that constitute the obligation is transferred to the customer. The standard contains more detailed requirements in respect of treatment of various types of transactions. In addition, IFRS 15 requires extensive disclosures.

In April 2016, the IASB issued Amendments to IFRS 15 on identifying performance obligations, principal versus agent considerations, and the application of a licensing guidance.

The Bank's Management intends to apply IFRS 15 retrospectively. Except for the specific disclosure requirement with respect to revenue, management does not expect that the application of IFRS 15 will have a material impact on the financial position and performance of the Bank.

IFRS 16 *Leases*

IFRS 16 introduces a new definition of a lease, and the lessor and lessee accounting model. The standard will supersede IAS 17 *Lease* and all related interpretations.

IFRS 16 distinguishes between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. There is no distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet) for a lessee anymore, instead, the new model is used, which requires the lessee to recognise right-of-use asset and related liability for all leases; except for short-term leases and leases of low-value assets.

A right-of-use asset is initially recognised at cost and, after initial recognition, is recognised at cost less accumulated depreciation and accumulated impairment losses (subject to few exclusions), adjusted for revaluation of a lease liability. A lease liability is measured at the present value of the remaining lease payments. After initial recognition, the lease liability is adjusted to interest on liability and lease payments, as well as the effect of lease modifications. In addition, cash flow classification will also change. In accordance with IAS 17, payments under operating leases are classified as cash flows from operating activities, whereas in accordance with IFRS 16, lease payments made for the principal portion and interest portion will be as cash flows from financing and operating activities, respectively.

Unlike the lessee accounting, the lessor accounting under IFRS 16 remained largely unchanged compared to IAS 17, and requires separating lease agreements to operating or financial leases.

Among other things, disclosure requirements in accordance with IFRS 16 have been expanded.

As at 31 December 2017, the Bank had a contractual commitment of KZT 23,863 thousand under operating lease. IAS 17 does not require the recognition of right-of-use asset or deferred payment liability in respect of these leases, instead, certain information regarding contractual commitments under operating lease is disclosed in Note 26.

A preliminary analysis shows that these agreements will be consistent with the lease definition in accordance with IFRS 16. Accordingly, the Bank will record the right-of-use assets and lease obligations with respect to these contracts, except for those that meet the criteria for a short-term lease or lease assets of low value in IFRS 16.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New Standards and Interpretations not yet adopted (continued)

The new requirement to recognise right-of-use assets and related lease liability is not expected to have a significant effect on the amounts recognised in the Bank's financial statements. It is impossible to reasonably assess the financial effect before the analysis is completed.

IFRS 17 *Insurance Contracts*

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, and replaces IFRS 4 Insurance Contracts:

- IFRS 17 is a general model for direct participating insurance contracts is modified and identified as a variable fee approach. If certain criteria are met, the general model is simplified through the evaluation of liability for remaining coverage using a premium allocation approach.
- The current assumptions are used in the general model for estimation of amounts, timing and uncertainty related to the future cash flows, and it estimates the cost of such uncertainty. The model considers market interest rates and impact of options and guarantees of the policyholders.
- Profit from the sale of insurance policies is recorded as a separate deferred liability and combined into insurance contracts groups; then on a systematic basis is recognised in profit and loss during the period of providing insurance coverage taking into account adjustments associated with changes in assumptions related to the future coverage.
- Taking into account the scope, some fixed-fee service contracts, which meet the certain requirements, may be taken into account in accordance with IFRS 15 Revenue from Contracts with Customers, instead of the application of IFRS 17.

Standard is to be applied for annual periods beginning on or after 1 January 2021, earlier application is permitted for entities which apply IFRS 9 and IFRS 15 as at the date of initial application of IFRS 17 or earlier. Entities shall apply IFRS 17 retrospectively, if it is practicable, otherwise a modified retrospective approach or a fair value transition should be applied.

Management does not expect that the adoption of these amendments will have a material impact on the Bank's financial statements as it has no insurance contracts.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In measuring the fair value of share-based payments with cash settlements, terms of transfer of rights and the terms under which no transfer of rights occurs are accounted for in a way similar to accounting for share-based payments with equity instruments.

2. If, in accordance with tax legislation, an entity is required to withhold a number of equity instruments that are equal to the monetary value of the employee's tax obligation, which is then transferred to tax authorities (i.e. the share-based payment agreement contains a ‘net share settlement feature’), such an agreement should be classified as equity-settled share-based payments as if it would have been so classified in the absence of the net settlement feature.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New Standards and Interpretations not yet adopted (continued)

3. A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled shall be accounted for as follows:

- A previous liability is derecognised;
- The equity-settled share-based payment transaction is recognised at fair value of the equity instruments on the modification date to the extent to which goods or services have been received;
- Any difference between the carrying amount of the liability and the amount of equity recognised in equity is recognised immediately in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. There are special provisions for the transition.

Management of the Bank does not expect that the adoption of the amendments will have a material impact on the financial statements of the Bank, since the Bank does not have equity-settled share-based payment transactions, as well as any liabilities with respect to withholding income tax arising from share-based payment transactions.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify that transfers to, or from, the investment property category require an analysis of whether the property ceases to meet the definition of the investment property, when there was an evident change in use. The amendments emphasise that situations other than those listed in the standard as examples may also be an evident change in use. In addition, a change in use is also possible for property under construction (that is, the change in use is not limited to completed property).

The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted. Entities may apply the amendments retrospectively (if that is possible without the use of hindsight), or prospectively. Specific transition provisions are applied.

Management does not expect these amendments to have a significant impact on the Bank's financial statements as it does not own investment property.

Amendments to IFRS 10 and IAS 28 *Sales or Contributions of Assets between an Investor and its Associate or Joint Venture*

Amendments to IFRS 10 and IAS 28 apply to the sale or contribution of assets between an investor and its associate or joint venture. In particular, the amendments clarify that the gains or losses from loss of control of a subsidiary that is not a business in a transaction with an equity-accounted associate or joint venture are recognised in profit or loss of the parent company only in the proportion of other unrelated investors in that associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New Standards and Interpretations not yet adopted (continued)

Similarly, gains or losses from fair value revaluation of the remaining interest in former subsidiary (which is classified as investment in associate or joint venture and is accounted for using the equity method) are recognised by the former parent company only in the proportion of unrelated investors into a new associate or joint venture.

Effective date is to be determined by the IASB, however, early application is permitted.

Management of the Bank does not expect these amendments to have a material impact on the Bank's financial statements if such transactions take place.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency resulting in the recognition of a non-monetary asset or non-monetary liability (non-refundable advance consideration or deferred income liability).

The Interpretation specifies that the date of transaction is the date on which the entity 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 date of transaction is determined for each payment or receipt of advance consideration.

The interpretation applies for annual reporting periods beginning on or after 1 January 2018. Early adoption is permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

Management believes that the application of the IFRIC will not have a significant impact on the financial statements of the Bank because it already applies a similar standard.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC addresses the determination of taxable profit when there is uncertainty over income tax treatments. The interpretation requires that an entity shall:

- determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments; and
- assess whether it is probable that the tax authorities will accept the tax treatment used or planned to be used by an entity in its income tax filings:
- if the answer is yes, the entity accounts for the taxable profit consistently with the tax treatment;
- if not, the entity must reflect the effect of uncertainty in determining the related accounting tax position.

The interpretation applies for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted. Entities may use the Interpretation retrospectively (if it is possible without the use of hindsight) or using the modified retrospective approach with no restatement of comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New Standards and Interpretations not yet adopted (continued)

Management believes that adoption of this IFRIC will not have a significant impact on the financial statements of the Bank, since it already applies a similar standard.

Amendments to IFRS 10 Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

The amendments allow the entities whose activities are primarily related to insurance to postpone the transition from IAS 39 to IFRS 9 until the period beginning not earlier than 1 January 2021, or until the date of application of a new insurance standard, if it comes earlier than 1 January 2021. Evaluation of whether the activities of the entity are primarily related to insurance should be made at a level of the reporting entity as at the annual reporting date immediately preceding 1 April 2016. Subsequently, the evaluation should be repeated only if there has been a significant change in the entity's activities, which meets certain criteria. The entity shall apply the amendments connected with temporary release from application of IFRS 9 concerning the annual periods beginning on or after 1 January 2018.

In addition, the amendments provide an opportunity for all entities with insurance contracts in the scope of application of IFRS4, to apply IFRS 9 completely, but to reclassify the amounts of differences in accounting from profit or loss in other comprehensive income according to IFRS 9, compared with IAS 39 in respect of certain financial assets chosen by the entity. This approach is referred to as “an overlay approach” and can be applied to separate assets subject to special requirements regarding the determination of the assets to which this approach will be applied and the termination of this approach to the selected assets. The entity shall apply the amendments authorizing the overlay approach to apply to certain financial assets at its discretion when it applies IFRS 9 for the first time.

Management does not expect that application of these amendments will have a material impact on the Bank's financial statements as it does not have insurance contracts to which IFRS 4 is applied.

Annual Improvements to IFRS, 2014-2016 cycle

“Annual improvements” document includes amendments to IFRS 1 and IAS 28, which have not yet entered into force. The document also contains amendments to IFRS 12, which entered into force in the current year – see more detailed description of changes in a section “Standards having influence on financial statements”.

The amendments to IAS 28 clarify that the entities that specialise in venture capital investments and similar entities may choose to take into account their investments in associates and joint ventures as measured at fair value through the profit and loss account, for each individual investment in an associated entity or joint venture, and this choice should be made upon initial recognition of the investment. In addition, the choice for entity which is not an investment entity itself but has a participation interest in associate or joint venture, which are investment entities, allows an investor when applying an equity method to retain the fair value measurement applied by its associate or joint venture (which are investment entities) to their own interests in subsidiaries, also exists for each associate or joint venture, which is an investment entity. Amendments shall be applied retrospectively; earlier application is permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) New Standards and Interpretations not yet adopted (continued)

These amendments to IFRS 1 and IAS 28 shall be applied for annual periods beginning on or after 1 January 28.

The Bank management does not expect that the amendments will have a significant impact on the Bank's financial statements in the future, as the Bank does not apply IFRS for the first time and is not an entity specialising in venture capital investments. In addition, the Bank does not have investments in associates and joint ventures which are investment entities.

Annual Improvements to IFRS, 2015-2017 cycle

"Annual Improvements to IFRS, 2015-2017 cycle" document makes amendments to several standards.

Amendments to IFRS 3 clarify that when the company acquires control over business that is a joint operation, the entity revaluates its previously held interest in the business. Amendments to IFRS 11 clarify that when the company acquires control over business that is a joint operation, the entity revaluates its existing interests in this business.

Amendments to IAS 12 explain that all tax consequences of dividend payment (i.e. profit allocation) should be recorded in the statement of profit and loss, regardless of how the tax arises.

The amendments to IAS 23 clarify that, if loan or borrowing, that has been specially received in order to obtain a qualifying asset, remains outstanding on a date when the corresponding asset is available for use or sale, then for purposes of calculation of a capitalization rate such loan or borrowing becomes a part of borrowings for general purposes.

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

The Bank management does not expect that the amendments will have a significant impact on the Bank's financial statements.

(o) Standards Having Impact on Financial Statements

The following new and revised standards and interpretations were applied for the first time in the current period and have affected the financial performance presented in these financial statements.

Amendments to IAS 7 *Disclosure Initiative*

The Bank applied these amendments for the first time in the current period. Amendments introduce requirements regarding the disclosure of information that helps users of financial statements to evaluate changes in liabilities as a result of financial activities, including changes stipulated by cash flows, and non-cash changes.

Financial liabilities of the Bank arise from loans and borrowings (note 21). Reconciliation of incoming and outgoing balances is recorded in the mentioned note. According to transitional provisions of the amendments, the Bank did not disclose comparative data relating to previous period. Besides the additional disclosures provided in note 21, application of these amendments had no impact on the Bank's financial statements.

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

The Bank applied these amendments for the first time in the current period. The amendments contain clarifications on how the entity should evaluate the availability of substantial taxable profits, against which deductible temporary difference can be offset.

Application of these amendments did not have a material impact on the Bank's financial statements as the Bank evaluates the adequacy of future taxable profit in a manner comparable to that described in amendments.

in KZT thousand

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) New Standards and Interpretations not yet adopted (continued)

Annual Improvements to IFRS, 2014-2016 cycle

For the first time this year, the Bank applied the amendments to IFRS 12, included in Annual Improvements, 2014-2016 cycle. Other amendments, included in this document, are not binding in the current period and have not been applied prematurely.

Amendments to IFRS 12 explain that entities are exempt from the disclosure requirements for summarised financial information regarding interests in subsidiaries, associates and joint ventures which are classified (or included in a disposal group which is classified) as held for sale. Amendments clarify that this exemption is the only exception to general disclosure requirements for such interests.

Application of these amendments had no impact on the Bank's financial statements.

4. TOTAL INTEREST INCOME

	2017	2016
Interest income		
Loans to customers	1,345,460	1,099,491
Cash and cash equivalents	534,796	226,850
Held-to-maturity investments	187,881	103,774
Available-for-sale financial assets	72,891	77,062
Loans to banks	15,172	68,107
Accounts and deposits in banks	201	21,195
	2,156,401	**1,596,479**
Interest expenses		
Interest rate on loans, received from international financial institutions	(171,638)	-
Current accounts and deposits of customers	(414,810)	(179,363)
Accounts and deposits in banks	(990)	(28,649)
Accounts payable under repo transactions	(112)	(49)
	(587,550)	**(208,061)**
	1,568,851	**1,388,418**

5. FEE AND COMMISSION INCOME

	2017	2016
Transfer transactions	44,422	37,372
Cash transactions	12,452	15,313
Guarantees	1,405	2,659
Letters of credit	60	426
Other	2,944	2,543
	61,283	**58,313**

in KZT thousand

6. FEES AND COMMISSION EXPENSES

	2017	2016
Guarantees received	19,116	-
Transfer transactions	17,631	14,241
Brokerage services	1,324	1,020
Other	6,678	3,934
	44,749	**19,195**

7. NET PROFIT FROM TRANSACTIONS WITH FOREIGN CURRENCY

	2017	2016
Dealing transactions, net	116,319	103,220
Foreign exchange differences, net	17,288	1,712
	133,607	**104,932**

8. PERSONNEL EXPENSES

	2017	2016
Employee benefits	584,346	558,231
Payroll taxes and deductions	60,046	56,464
	644,392	**614,695**

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Operating lease costs	74,659	83,712
Professional services	64,446	44,985
Depreciation and amortisation	53,602	18,257
Communication and information services	45,484	64,848
Software maintenance	25,606	25,783
Operational expenses	19,404	12,173
Membership fees	17,725	5,281
Insurance expenses	14,309	6,770
Marketing and advertising	8,197	3,013
Transportation	6,991	9,994
Security	6,910	8,037
Hospitality expenses	6,475	5,413
Business trip expenses	5,762	4,191
Stationery	5,506	2,675
Repairs and maintenance	2,724	3,561
Write-off of Property, Plant and Equipment	1,669	4,710
Other	50,933	21,001
	410,402	**324,404**

in KZT thousand

10. INCOME TAX EXPENSES

The Bank carries out calculations on tax for the current period on the basis of a tax accounting data in accordance with requirements of the tax legislation of the Republic of Kazakhstan. Income tax expenses for the years ended 31 December 2017 and 2016 are as follows.

	2017	2016
Current income tax expenses		
Reporting period	(62,576)	(108,642)
Prior period adjustment	12,404	-
Change in deferred taxes due to temporary differences	15,126	754
Total income tax expenses	**(35,046)**	**(107,888)**

In 2017 a corporate income tax rate in the Republic of Kazakhstan was set at 20% during 2017 and 2016.

Particular types of expenses are not taken into account for tax purposes, as well as due to the presence of non-taxable income, the Bank has certain permanent tax differences.

Calculation of effective rate for income tax for the year ended 31 December 2017 and 2016:

	2017	2016
Profit before income tax	**220,328**	**587,869**
Income tax calculated according to an applicable income tax rate	44,066	117,574
Non-taxable income from securities transactions	(52,154)	(36,167)
Other non-deductible expenses	43,134	26,481
	35,046	**107,888**
Effective income tax rate	**15,9%**	**18,3%**

Deferred Tax Assets and Liabilities

Temporary differences between the value of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax liabilities as at 31 December 2016 and 31 December 2016. Change of temporary differences during the years ended 31 December 2017 and 2016 can be recorded as follows:

2017	**Balance as at 1 January 2017**	**Recognised in profit or loss**	**Balance as at 31 December 2017**
Loans to customers	(53,640)	-	(53,640)
Property, equipment and intangible assets	(1,804)	1,036	(768)
Other liabilities	5,541	14,090	19,631
	(49,903)	**15,126**	**(34,777)**

2016	**Balance as at 1 January 2016**	**Recognised in profit or loss**	**Balance as at 31 December 2016**
Loans to customers	(53,640)	-	(53,640)
Property, equipment and intangible assets	(1,472)	(332)	(1,804)
Accounts and deposits in banks	838	(838)	-
Other liabilities	3,617	1,924	5,541
	(50,657)	**754**	**(49,903)**

in KZT thousand

11. CASH AND CASH EQUIVALENTS

	31.12.2017	31.12.2016
Cash on hand	304,984	157,408
Nostro accounts in the NBRK	843,041	1,012,385
Nostro accounts in other banks		
- with credit rating A- to A+	*2,265,208*	*1,062,301*
- with credit rating BBB- to BBB+	*-*	*255*
- with credit rating BB- to BB+	*69,346*	*-*
- with credit rating B+	*679*	*166,645*
- without rating	*76,188*	*15,767*
Total Nostro accounts in other banks	2,411,421	1,244,968
Cash equivalents		
Fixed-term deposits in NBRK	8,759,314	3,363,581
Fixed terms in other banks		
- with credit rating B+	998,816	-
Total cash equivalents	9,758,130	3,363,581
Total cash and cash equivalents	**13,317,576**	**5,778,342**

Credit ratings are recorded in accordance with standards of Standard and Poor's rating agency or with similar standards of other international rating agencies.

Cash and cash equivalents are not impaired and not past due.

Minimum Reserve Requirements

As at 31 December 2017, in accordance with regulation issued by the NBRK, minimum reserve requirements are calculated as an average of totals of specified proportions of different groups of the Bank's liabilities for a period of twenty eight calendar days (31 December 2016: for twenty eight calendar days). Banks should fulfil these requirements by maintaining average reserve assets (in a form of cash on hand in the national currency and balances on correspondent accounts of the Bank in the National Bank in the national currency) in an amount equal to or exceeding the average minimum requirements. As at 31 December 2017 the amount of minimum reserve is KZT 463,486 thousand (31 December 2016: KZT 328,983 thousand).

Concentration of Cash and Cash Equivalents

As at 31 December 2016 the Bank has 2 banks (31 December 2016: one bank), each of which accounts for more than 10% of equity. The gross value of balances as at 31 December 2017 is KZT 11,865,806 thousand (31.12.2016: KZT 4,375,966 thousand).

12. ACCOUNTS AND DEPOSITS IN BANKS

As at 31 December 2016 the Bank had a deposit in Delta Bank JSC (hereinafter "Delta") for a total amount of KZT 666,580 thousand with a maturity on 3 October 2017. On 4 January 2017 a deposit agreement was terminated and cash was fully returned.

in KZT thousand

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2017	31.12.2016
Held by the Bank		
Debt financial instruments:		
- Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	*1,134,941*	*1,058,073*
- Bonds of Sovereign Wealth Fund Samruk-Kazyna JSC	*-*	*241,226*
	1,134,941	**1,299,299**

Available-for-sale financial assets are not past due or impaired.

14. LOANS TO BANKS

As at 31 December, 2016 loans to banks, constituted a loan to a local commercial bank, having a credit rating of B+ for the amount of KZT 675,193 thousand. In 2017 this loan was repaid.

15. LOANS TO CUSTOMERS

	31.12.2017	31.12.2016
Loans to corporate customers		
- Loans to large-scale enterprises	*2,210,981*	*4,942,902*
- Loans to small and medium-scale enterprises	*6,897,813*	*4,596,527*
Total loans to corporate customers	**9,108,794**	**9,539,429**
Loans to retail customers		
- Consumer loans	*2,552,141*	*2,441,855*
Total loans to retail customers	**2,552,141**	**2,441,855**
Provision for impairment	398,666	-
Total loans to customers net of provision	**11,262,269**	**11,981,284**

As at 31 December 2017, the Bank has one (31 December 2016: one) corporate borrower which debt is past due for more than 360 days, three retail borrowers, which debt is past due for less than 60 days (31 December 201: three), and two retail borrowers, which debt is past due for more than 60 days, but less than 360 days (31 December 2016: two). Total debt of the mentioned corporate borrower is KZT 606,066 thousand (31 December 2016: KZT 561,119 thousand) and retail borrowers - KZT 68,077, thousand (31 December 2016: KZT 45,467 thousand).

The amount of the allowance for impairment in 2017 includes the creation of provisions for loans valued on an individual basis in the amount of KZT 401,564 thousand and writing off provisions for loans that are assessed on an individual basis in the amount of KZT 2,898 thousand. The provision for collective impairment was not accrued due to the excess collateral coverage. In 2016, the provision for past due debts was not accrued due to the excess collateral coverage.

in KZT thousand

15. LOANS TO CUSTOMERS

Changes in prior estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to customers as at 31 December 2017 would be KZT 112,623 thousand higher (31 December 2016: KZT 119,813 thousand).

As at 31 December 2017 in the loan portfolio the total amount of renegotiated loans to corporate and retail customers that would otherwise be past due or impaired is KZT 1,153,393 thousand (31 December 2016: KZT 1,120,538 thousand).

(a) Analysis of Collateral and Other Credit Enhancements

(i) Loans to Corporate Customers

Loans to corporate customers are subject to individual credit evaluation and impairment testing. General creditworthiness of a corporate customer tends to be the most important quality indicator of the loan issued. However, collateral provides additional guarantees and the Bank generally requests corporate borrowers to provide it.

Tables below provide the information on collateral and other credit enhancements relating for loans to corporate customers by types of collateral.

31 December 2017	**Carrying value of loans to customers**	**Fair value of collateral - for collateral evaluated as at the reporting date**	**Fair value of collateral - for collateral evaluated as at the loan issue date.**	**Fair value of collateral is not determined**
Loans without individual impairment indicators				
Corporate guarantees (provided by the parent banks, having a credit rating of A+)	2,645,700	-	-	2,645,700
Real estate	1,833,435	1,833,435	-	-
Cash and deposits	96,417	96,417	-	-
Other collateral	3,769,738	-	3,769,738	-
	8,345,290	**1,929,852**	**3,769,738**	**2,645,700**
Loans, having individual impairment indicators				
Other collateral	364,838	364,838	-	-
	364,838	**364,838**	**-**	**-**
Total loans to corporate customers	**8,710,128**	**2,294,690**	**3,769,738**	**2,645,700**

in KZT thousand

15. LOANS TO CUSTOMERS (continued)

(a) Analysis of Collateral and Other Credit Enhancements (continued)

(i) Loans to Corporate Customers (continued)

31 December 2016	**Carrying value of loans to customers**	**Fair value of collateral - for collateral evaluated as at the reporting date**	**Fair value of collateral - for collateral evaluated as at the loan issue date.**	**Fair value of collateral is not determined**
Loans without individual impairment indicators				
Corporate guarantees (provided by the parent banks, having a credit rating of A+)	3,932,999	-	-	3,932,999
Real estate	3,284,890	3,284,890	-	-
Cash and deposits	100,087	100,087	-	-
Other collateral	659,590	-	-	659,590
Without collateral	1,000,744	-	-	-
	8,978,310	**3,384,977**	**-**	**4,592,589**
Loans, having individual impairment indicators				
Real estate	561,119	561,119	-	-
	561,119	**561,119**	**-**	**-**
Total loans to corporate customers	**9,539,429**	**3,946,096**	**-**	**4,592,589**

Abovementioned tables exclude the value of overcollateralization.

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

For most of loans the fair value of collateral was updated as at the reporting date. Information on the collateral value is based on when this evaluation was made, if any.

For loans secured by multiple types of collateral, the information is disclosed by a type of collateral which is more significant for collateral evaluation.

(ii) Loans to Retail Customers

Loans to retail customers are secured mainly by the residential real estate. According to the Bank’s policy a loan-to-value ratio as at the date of loan issue shall be maximum of 60%.

Tables below provide the information on collaterals of the loans to retail customers:

in KZT thousand

15. LOANS TO CUSTOMERS (continued)

(a) Analysis of Collateral and Other Credit Enhancements (continued)

(ii) Loans to Retail Customers (continued)

	Carrying value of loans to customers	Fair value of collateral - for collateral evaluated as at the reporting date	Fair value of collateral - for collateral evaluated as at the loan issue date.	Fair value of collateral is not determined
31 December 2017				
Not past due	2,484,064	2,484,064	-	-
Past due	68,077	68,077	-	-
Total loans to retail customers	**2,552,141**	**2,552,141**	**-**	**-**
31 December 2016				
Not past due	2,396,389	2,396,389	-	-
Past due	45,466	45,466	-	-
Total loans to retail customers	**2,441,855**	**2,441,855**	**-**	**-**

Abovementioned tables exclude the value of overcollateralization.

(b) Analysis of the Loan Portfolio by Industries and Geographic Regions

Loans were issued mainly to customers operating in the territory of the Republic of Kazakhstan in the following economic sectors:

	31.12.2017	**31.12.2016**
Loans to retail customers	2,552,141	2,441,855
Real estate	2,326,871	1,564,072
Information and communication	1,508,881	3,028,167
Trading	1,397,817	1,447,111
Rental, hire and lease	1,054,736	935,525
Finance	790,379	630,852
Manufacture of electrical equipment	610,348	-
Rendering individual services	275,579	172,137
Warehousing facilities and support transportation activities	232,759	-
Construction	168,651	64,100
Advertising	130,502	76,906
Manufacture of other non-metallic mineral products	81,632	100,087
Veterinary activities	34,616	-
Crude oil and natural gas production	-	1,000,744
Mining/metallurgy	-	442,637
Vehicles	-	15,660
Other	97,357	61,431
	11,262,269	**11,981,284**

in KZT thousand

15. LOANS TO CUSTOMERS (continued)

(c) Maturities

Maturities of the loans, constituting the loan portfolio, are presented as at the reporting date in the Note 24 (d) and show remaining periods from the reporting date to the maturities according to loan agreements. Due to the short-term nature of the loans issued by the Bank, it is likely that many mentioned loans will be extended. Accordingly, the effective maturities of the loans may differ significantly from the maturities stipulated by loan agreements.

(d) Concentration of Loans to Customers

As at 31 December 2017 and 2016 the Bank has two borrowers, loan balances of which exceed 10% of the equity. Gross value of balances for loans of the mentioned borrowers as at 31 December 2017 and 2016 are KZT 3,719,980 and 4,530,417 thousand.

16. HELD-TO-MATURITY INVESTMENTS

	31.12.2017	31.12.2016
Held by the Bank		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	*2,689,086*	*1,916,066*
- Notes of the National Bank of the Republic of Kazakhstan	*1,031,414*	
	3,720,500	**1,916,066**

The entire amount of held-to-maturity investments is represented by treasury bills of the Ministry of Finance of the Republic of Kazakhstan denominated in KZT and having a credit rating of «BBB-».

In accordance with the Investment Policy, the Bank has intention and ability to hold these securities till their maturities. The published price quotations for the same debt securities with identical terms are available on the local stock exchange.

Hel-to-maturity investments are not impaired and not past due.

in KZT thousand

17. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Computers	Motor vehicles	Other	Intangible assets	Leasehold improvement	Total
Actual costs						
Balance as at 1 January 2017	81,514	12,586	60,305	50,406	147,099	351,910
Proceeds	150	-	1,058	39,229	445	40,882
Disposals	-	-	-	(2,856)	-	(2,856)
Balance as at 31 December 2017	**81,664**	**12,586**	**61,363**	**86,779**	**147,544**	**389,936**
Depreciation and amortisation						
Balance as at 1 January 2017	(29,892)	(10,408)	(32,194)	(22,734)	(615)	(95,843)
Accrued depreciation and amortisation for the year	(9,451)	(397)	(5,471)	(8,848)	(29,435)	(53,602)
Disposals	-	-	-	1,187	-	1,187
Balance as at 31 December 2017	**(39,343)**	**(10,805)**	**(37,665)**	**(30,395)**	**(30,050)**	**(148,258)**
Carrying value as at 31 December 2017	**42,321**	**1,781**	**23,698**	**56,384**	**117,494**	**241,678**
Actual costs						
Balance as at 1 January 2016	67,026	12,586	57,512	44,895	-	182,019
Proceeds	23,188	-	14,978	6,133	147,099	191,398
Disposals	(8,700)	-	(12,185)	(622)	-	(21,507)
Balance as at 31 December 2016	**81,514**	**12,586**	**60,305**	**50,406**	**147,099**	**351,190**
Depreciation and amortisation						
Balance as at 1 January 2016	**(28,703)**	**(9,921)**	**(38,280)**	**(17,479)**	**-**	**(94,383)**
Accrued depreciation and amortisation for the year	(8,152)	(487)	(3,519)	(5,484)	(615)	(18,257)
Disposals	6,963	-	9,605	229	-	16,797
Balance as at 31 December 2016	**(29,892)**	**(10,408)**	**(32,194)**	**(22,734)**	**(615)**	**(95,843)**
Carrying value as at 31 December 2016	**51,622**	**2,178**	**28,111**	**27,672**	**146,484**	**256,067**

in KZT thousand

18. OTHER ASSETS

	31.12.2017	31.12.2016
Accrued penalty and fine	12,385	1,015
Other assets	1,719	494
Total other financial assets	**14,104**	**1,509**
Other prepayments	51,484	27,725
Deferred expenses	24,464	75,278
Guarantee fee	23,863	23,863
Prepayment for lease	13,927	21,909
Prepayments for other payments to the revenue	10,118	27,260
Accounts receivable from employees	1,227	548
Other assets	37,735	1,167
	162,818	**177,750**
Provision for impairment	(23,952)	-
Total other non-financial assets	**138,866**	**177,750**
Total other assets	**152,970**	**179,259**

19. ACCOUNTS AND DEPOSITS IN BANKS

	31.12.2017	31.12.2016
Vostro accounts	249,717	1,444,036
Fixed-term deposits	-	601,678
	249,717	**2,045,714**

As at 31 December 2016 the Bank had one bank, deposits of which exceeded 10% of the equity. The gross value of balances for deposits of the mentioned bank as at 31 December 2016 was KZT 1,444,036 thousand.

20. CURRENT ACCOUNTS AND DEPOSITS OF CUSTOMERS

	31.12.2017	31.12.2016
Current accounts and demand deposits		
- Retail customers	*879,295*	*836,391*
- Corporate customers	*2,405,241*	*2,017,119*
	3,284,536	2,853,510
Fixed-term deposits		
- Retail customers	*1,704,988*	*841,016*
- Corporate customers	*6,913,853*	*4,480,651*
	8,618,841	5,321,667
	11,903,377	**8,175,177**

Blocked Amounts

As at 31 December 2017 the deposits of the Bank customers for amount of KZT 118,284 thousand (31 December 2016: KZT 126,497) serve as collateral for loans to customers and off-balance credit instruments provided by the Bank.

in KZT thousand

20. CURRENT ACCOUNTS AND DEPOSITS OF CUSTOMERS (continued)

Concentration of Current Accounts and Deposits of Customers

As at 31 December 2017 and 31 the Bank has two customers (31 December 2016: one), accounts and deposits of which exceed 10% of the equity. The gross value of balances as at 31 December 2017 was KZT 3,695,013 thousand (31 December 2016: KZT 1,442,749 thousand).

21. LOANS OF INTERNATIONAL FINANCIAL INSTITUTIONS

	31.12.2017	**31.12.2016**
Loan from EBRD	4,794,954	-
	4,794,954	**-**

In 2016 the Bank concluded 2 loan agreements with European Bank for Reconstruction and Development:

- Loan agreement No. 47953 dated 28.06.2016 for support of small and medium-scale business for the amount of US dollars 15,000,000 with maturity up to 25.01.2023;
- Loan agreement No. 47954 dated 28.06.2016 for support of Women in business project for the amount of US dollars 5,000,000 with maturity up to 25.01.2023;

Each loan agreement is issued in 2 tranches. In accordance with the terms of the loan agreement, it is possible to receive each tranche in two parts. The first tranche and the first part of the second tranche were received during 2017 in tenge.

Interest on the loan is accrued and paid on a quarterly basis at a floating rate, in accordance with the terms of the agreement. The interest rate in the reporting period was 7.9%.

The Bank shall comply with certain financial liabilities to fulfil the conditions of the fundraising agreements presented above. These liabilities include the abovementioned ratios used for financial performance. The Bank has not violated any liabilities as at 31 December 2017.

Movement of Liabilities Arising from Financial Operations

Table below shows the changes in liabilities as a result of financial operations including the changes stipulated by cash flows and the changes not associated with cash flows. Liabilities arising from financial operations as liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financial operations.

	31 December 2016	**Cash flows**	**Other changes***	**31 December 2017**
Loans of international financial institutions	-	4,796,350	(1,396)	4,794,954

* Other changes include interest expenses and interest payments.

in KZT thousand

22. OTHER LIABILITIES

	31.12.2017	31.12.2016
Accounts payable to suppliers	81,352	48,341
Accounts payable for bank transactions	13,412	-
Other liabilities	9,779	1,217
Total other financial liabilities	**104,543**	**49,558**
Accounts payable to employees	70,692	15,834
Provision for annual leaves	22,734	20,864
Calculations of taxes and other mandatory payments to the revenue	11,576	5,508
Other liabilities	1,926	9
Total other non-financial liabilities	**106,928**	**42,215**
Total other liabilities	**211,471**	**91,773**

23. SHARE CAPITAL

(a) Issued and additional paid-in capital

Authorised issued and outstanding share capital of the Bank consists of 1,002,872 ordinary shares (in 2016: 1,002,872 ordinary shares). All shares have a nominal value of KZT 10,000.

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

(b) Earnings per share

	31.12.2017	31.12.2016
Net profit for the year	185,282	479,981
Number of issued ordinary shares	1,002,872	1,002,872
Earnings per share		
Basic earnings per share, in tenge	**184.75**	**478.61**

Ordinary shares of the Bank are not in circulation on the open market, but the Bank has independently decided to disclose information on the amount of net profit per share calculated in accordance with the requirements of IAS 33 "Earnings per share".

(c) Nature and Purpose of Reserves

Reserves for General Bank Risks

Until 2013, in accordance with the amendments to Decree of the Committee for Financial Control and Supervision over the Financial Market and Financial Institutions (hereinafter “FSC”) “On Establishment of Minimum Amount of Reserve Capital of Second-Tier Banks” dated 31 January 2011 (which became void in 2013), the Bank had to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred annually was calculated as the net profit for the preceding year before distribution of dividends, attributable to the holders of ordinary shares, multiplied by a ratio of increase of classified assets and contingent liabilities (according to Decree No. 296 “On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities” issued by the FSC on 25 December 2006) (which became void in 2013) during the preceding year. Such percentage increase should have been not less than 10% and not more than 100%.

23. SHARE CAPITAL (continued)

(c) Nature and Purpose of Reserves (continued)

In accordance with the amendments made on 25 December 2018 to Decree No. 358 “On Approval of the Instruction on Statutory Values and Prudential Standards Calculation Method for the Second Tier Banks”, the statutory reserve capital is non-distributable.

During the year ended 31 December 2017 and 2016, the Bank made no transfers to reserve for general bank risks.

Dynamic Provisions

In accordance with Decree of the National Bank of the Republic of Kazakhstan No.137 dated 27 May 2013 “On Approval of Rules for Creation of Dynamic Provisions by Second-Tier Banks and Establishment of Minimum Amount of Dynamic Provisions and Expected Losses”, the Bank shall establish a dynamic provision calculated using a formula determined in the Decree, and a value of reserve shall not be less than zero. The Decree has been effective from 1 January 2013.

In 2014, the dynamic provision is temporarily frozen by the NBRK at the level as at 31 December 2013.

As at 31 December 2017 and 31 December 2016, dynamic provision amounted to KZT 268,199 thousand and was included in retained earnings in the statement of financial position of the Bank.

(d) Reserve for Revaluation of Available-for-sale Financial Assets

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

(e) Dividends

Ability of the Bank to declare and pay dividends is determined in accordance with the requirements of the legislation of the Republic of Kazakhstan.

Dividends in relation to ordinary shares are recorded as an appropriation of retained earnings for the period when they are declared. No dividends were declared for 2017 and 2016.

24. RISK MANAGEMENT

Risk management lies at the heart of the banking business and is an essential element of the Bank's operating activities. Market risk, credit risk and liquidity risk are the main risks faced by the Bank in implementing its activities.

(a) Risk Management Policies and Procedures

The Bank’s risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and compliance with the limits set. Risk management policies and procedures are reviewed regularly to record changes in market conditions, bank products and services offered and emerging best practice.

The Board of Directors of the Bank is responsible for proper functioning of the risk management control system, key risks management and risk management policies and procedures approval as well as major transactions approval.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Bank operates within the established risk limits. The Management Board of the Bank is responsible for the overall risk management and control over the compliance with requirements of the current legislation, and supervision over the application of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

24. RISK MANAGEMENT (continued)

(a) Risk Management Policies and Procedures (continued)

Credit, market and liquidity risks are managed and controlled by Credit Committee and an Assets and Liabilities Management Committee (ALCO), both at the portfolio and separate transactions levels.

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

(b) Market Risk

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

The objective of market risk management is to manage and ensure that exposure to market risk does not exceed acceptable parameters, while optimizing the profitability obtained for accepted risk. ALCO, chaired by the Chairman, is responsible for market risk and liquidity risk management. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department.

The Bank manages market risk by setting open position limits in relation to financial instruments, terms for change of interest rates, currency position, limits, stop-loss limits and regular monitoring of their compliance, the results of which are considered and approved by the Management Board.

(i) Interest Rate Risk

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

Interest rate risk is managed primarily through monitoring of interest rate changes. Summary of the terms for interest rates review for the main interest bearing financial instruments as at 31 December 2017 is as follows:

in KZT thousand

24. RISK MANAGEMENT (continued)

(b) Market Risk (continued)

(i) Interest Rate Risk (continued)

Analysis of the Terms for Interest Rates Review

Interest rate risk is managed primarily through monitoring of interest rate changes. Summary of the terms for interest rates review for the main interest bearing financial instruments as at 31 December 2017 is as follows:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and cash equivalents	8,759,314	998,816	-	-	-	3,559,446	13,317,576
Accounts and deposits in banks	-	-	-	320	-	-	320
Available-for-sale financial assets	-	-	43,541	266,598	824,802	-	1,134,941
Loans to customers	643,453	588,884	5,119,976	3,969,169	940,787	-	11,262,269
Held-to-maturity investments	-	20,596	1,582,343	2,117,561	-	-	3,720,500
	9,402,767	**1,608,296**	**6,745,860**	**6,353,648**	**1,765,589**	**3,559,446**	**29,435,606**
LIABILITIES							
Accounts and deposits in banks	-	-	-	-	-	249,717	249,717
Current accounts and deposits of customers	6,894,382	22,765	2,444,501	-	-	2,541,729	11,903,377
Loans of international financial institutions	50,599	-	-	3,085,734	1,658,621	-	4,794,954
	6,944,981	**22,765**	**2,444,501**	**3,085,734**	**1,658,621**	**2,791,446**	**16,948,048**
	2,457,786	**1,585,531**	**4,301,359**	**3,267,914**	**106,968**	**768,000**	**12,487,558**

in KZT thousand

24. RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Interest Rate Risk (continued)

Analysis of the Terms for Interest Rates Review

Summary of the terms for interest rates review for the main interest bearing financial instruments as at 31 December 2016 is as follows:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and cash equivalents	3,363,581	-	-	-	-	2,414,761	5,778,342
Accounts and deposits in banks	-	-	666,580	320	-	-	666,900
Available-for-sale financial assets	-	3,968	280,799	-	1,014,532	-	1,299,299
Loans to banks	8,613	-	666,580	-	-	-	675,193
Loans to customers	727,340	1,353,781	6,103,749	3,068,670	727,744	-	11,981,284
Held-to-maturity investments	-	-	1,046,607	869,459	-	-	1,916,066
	4,099,534	**1,357,749**	**8,764,315**	**3,938,449**	**1,742,276**	**2,414,761**	**22,317,084**
LIABILITIES							
Accounts and deposits in banks	-	-	601,678	-	-	1,444,036	2,045,714
Current accounts and deposits of customers	3,443,395	1,708	1,738,724	-	-	2,991,350	8,175,177
	3,443,395	**1,708**	**2,340,402**	**-**	**-**	**4,435,386**	**10,220,891**
	656,139	**1,356,041**	**6,423,913**	**3,938,449**	**1,742,276**	**(2,020,625)**	**12,096,193**

24. RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Interest Rate Risk (continued)

Average Effective Interest Rates

The following table records the average effective interest rates for interest bearing assets and liabilities as at 31 December 2017 and 2016.

	2017 Average effective interest rate, %		2016 Average effective interest rate, %	
	KZT	USD	KZT	USD
Interest bearing assets				
Cash and cash equivalents	9.03	2.30	10.97	
Accounts and deposits in banks			-	0.04
Loans to banks			-	4.01
Available-for-sale financial assets	4.75		4.92	-
Loans to customers	12.97	5.20	12.67	4.42
Held-to-maturity investments	8.03		5.54	-
Interest bearing liabilities				
Accounts and deposits in banks				
- Fixed-term deposits	-		5.54	-
Current accounts and deposits of customers				
- Fixed-term deposits	7.16	0.73	7.33	0.92
Loans of International Financial Institutions	8.32			

Interest Rate Sensitivity Analysis

Risk management of interest rate risk based on the analysis of the terms for interest rates review is supplemented by monitoring of financial assets and liabilities sensitivity. Analysis of sensitivity of net profit or loss and equity of the Bank (net of taxes) to the interest rate change (interest rate review risk), based on a simplified scenario of parallel 100 basis points shift towards the increase or decrease of interest rates in the yield curves and reviewed positions for interest assets and liabilities, valid as at 31 December 2017 and 2016, can be recorded as follows.

	2017		2016	
	Profit or loss KZT thousand	Equity KZT thousand	Profit or loss KZT thousand	Equity KZT thousand
Parallel 100 basis points shift towards the decrease of rates	(42,317)	(42,317)	(29,164)	(29,164)
Parallel 100 basis points shift towards the increase of rates	42,317	42,317	29,164	29,164

24. RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Interest Rate Risk (continued)

Interest Rate Sensitivity Analysis (continued)

Analysis of sensitivity of profit and loss and equity to the change of fair value of available-for-sale financial assets due to interest rates changes (based on positions, valid as at 31 December 2017 and 2016, and simplified scenario of parallel 100 basis points shift towards the increase or decrease of interest rates) can be recorded as follows:

	2017		2016	
	Profit or loss KZT thousand	Equity KZT thousand	Profit or loss KZT thousand	Equity KZT thousand
Parallel 100 basis points shift towards the decrease of rates	-	47,068	-	51,936
Parallel 100 basis points shift towards the increase of rates	-	(44,591)	-	(48,920)

(ii) Currency Risk

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

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

Structure of financial assets and liabilities by currencies as at 31 December 2017 is as follows:

	KZT	USD	Euro	Russian rouble	Other	Total
ASSETS						
Cash and cash equivalents	9,052,469	4,184,533	79,779	679	116	13,317,576
Accounts and deposits in banks	320		-	-	-	320
Available-for-sale financial assets	1,134,941	-	-	-	-	1,134,941
Loans to customers	10,180,466	1,081,803	-	-	-	11,262,269
Held-to-maturity investments	3,720,500	-	-	-	-	3,720,500
Other financial assets	13,698	406	-	-	-	14,104
Total assets	**24,102,394**	**5,266,742**	**79,779**	**679**	**116**	**29,449,710**
LIABILITIES						
Accounts and deposits in banks	2,636	241,244	5,837	-	-	249,717
Current accounts and deposits of customers	6,837,813	5,018,849	45,693	1,022	-	11,903,377
Loans of international financial institutions	4,794,954	-	-	-	-	4,794,954
Other financial liabilities	69,671	34,872	-	-	-	104,543
Total liabilities	**11,703,355**	**5,294,965**	**51,530**	**1,022**	**-**	**17,050,872**
Net position	**12,399,039**	**(28,223)**	**28,249**	**(343)**	**116**	**12,398,838**

24. RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Currency Risk (continued)

Structure of financial assets and liabilities by currencies as at 31 December 2016 is as follows:

	KZT	USD	Euro	Russian rouble	Other	Total
ASSETS						
Cash and cash equivalents	3,429,261	2,326,754	21,960	255	112	5,778,342
Accounts and deposits in banks	320	666,580	-	-	-	666,900
Available-for-sale financial assets	1,299,299	-	-	-	-	1,299,299
Loans to banks	-	675,193		-	-	675,193
Loans to customers	10,319,124	1,662,160	-	-	-	11,981,284
Held-to-maturity investments	1,916,066	-	-	-	-	1,916,066
Other financial assets	1,509	-	-	-	-	1,509
Total assets	**16,965,579**	**5,330,687**	**21,960**	**255**	**112**	**22,318,593**
LIABILITIES						
Accounts and deposits in banks	2,937	2,037,611	5,166	-	-	2,045,714
Current accounts and deposits of customers	4,773,909	3,380,909	19,458	901	-	8,175,177
Other financial liabilities	46,819	2,739	-	-	-	49,558
Total liabilities	**4,823,665**	**5,421,259**	**24,624**	**901**	**-**	**10,270,449**
Net position	**12,141,914**	**(90,572)**	**(2,664)**	**(646)**	**112**	**12,048,144**

Depreciation of KZT against these currencies, as shown below, as at 31 December 2017 and 2016 would have increased (decreased) equity and profit or loss by the amounts mentioned below. These insights are recorded net of tax amount and based on foreign currency exchange rate fluctuations which were considered by the Bank as reasonably possible ones as at the end of the reporting period. This analysis was performed on the basis of an assumption that all other variables, in particular exchange rates remain constant.

	2017		2016	
	Profit or loss KZT thousand	**Equity KZT thousand**	**Profit or loss KZT thousand**	**Equity KZT thousand**
30% rise of USD against KZT	(6,773)	(6,773)	(21,737)	(61,732)
30% rise of EUR against KZT	6,778	6,778	(639)	(639)
30% rise of RUR against KZT	(82)	(82)	(155)	(155)

Rise of KZT against the abovementioned currencies as at 31 December 2017 and 2016 would have had the equal in a magnitude but opposite in a sign effect on the amounts shown above, assuming that all other variables remain constant.

24. RISK MANAGEMENT (continued)

(c) Credit Risk

Credit risk is the risk that a borrower or a counterparty of the Bank will cause a financial loss to the Bank by failing to discharge an obligation. The Bank manages credit risk (for recognised financial assets and unrecognised contractual commitments) through the application of approved policies and procedures, including the requirements for establishment and observance of the credit risk concentration limits, as well as through establishment of a Credit Committee, which actively monitors credit risk. Credit policy is considered and approved by the Board of Directors.

Credit policy establishes:

- procedures for consideration and approval of loan applications;
- methodology for evaluation of the borrowers' (corporate customers and individuals) creditworthiness;
- methodology for evaluation of the counterparties' creditworthiness;
- methodology for evaluation of the offered collateral;
- requirements for credit documentation;
- procedures for permanent monitoring of loans and other products bearing the credit risk.

Applications from corporate clients for loans are made by the relevant customer relationship managers and are then submitted to Credit Office, which is responsible for a portfolio of loans to legal entities. Reports of analysts of this Office are based on a structural analysis of the business and financial position of the borrower. Then applications and reports pass an independent review of Risk Management Department, which issues the second opinion; herewith the proper implementation of the credit policy requirements is reviewed. Credit Committee approves applications for loans on the basis of documents provided by the Credit Office, Integrated Security Department, Collaterals Evaluation Department, Legal Department and Risk Management Department.

The Bank constantly monitors the performance of separate loans and regularly revaluates the creditworthiness of its borrowers. Revaluation procedures are based on an analysis of the borrower's financial statements as at the latest reporting date or other information provided by the borrower or received by the Bank by other means. At the same time, a decision to provide each loan is made by the Credit Committee, after carrying out all necessary procedures, which in turn allows to control the entire credit process in case of a small number of incoming applications.

In addition to the analysis of individual borrowers, Risk Management Department evaluates loan portfolio as a whole in relation to credit concentration and market risks.

Maximum level of credit risk is generally recorded in a carrying value of financial assets in the statement of financial position and in the amount of unrecognised contractual obligations. The impact of possible offsetting assets and liabilities is not significant to mitigate potential credit risk.

in KZT thousand

24. RISK MANAGEMENT (continued)

(c) Credit Risk (continued)

The table below shows the maximum credit risk exposure on financial assets as at the reporting date.

	31.12.2017	31.12.2016
ASSETS		
Cash and cash equivalents	13,317,576	5,620,934
Accounts and deposits in banks	320	666,900
Available-for-sale financial assets	1,134,941	1,299,299
Loans to banks	-	675,193
Loans to customers	11,262,269	11,981,284
Held-to-maturity investments	3,720,500	1,916,066
Other financial assets	14,104	1,509
Total maximum credit risk exposure	**29,144,726**	**22,161,185**

Analysis of collateral for loans to customers and concentration of credit risk on loans to customers is disclosed in Note 15.

The maximum credit risk exposure on unrecognised contractual obligations as at the reporting date is disclosed in Note 26.

As at 31 December 2017, the Bank has no debtors (31 December 2016: one debtor) the credit risk exposure of which exceeds 10% of the maximum credit risk exposure. The gross value of balances as at 31 December 2016: KZT 3,028,167 thousand).

(d) Liquidity Risk

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

The Bank maintains the necessary liquidity level in order to ensure the continued availability of cash necessary to meet all obligations as they mature. Liquidity management policy is considered and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable structure of funding sources consisting of long-term loans from international financial institutions, short-term loans from other banks, deposits of key corporate customers and individuals, and a diversified portfolio of highly liquid assets in order for the Bank to promptly and smoothly respond to unforeseen liquidity requirements.

24. RISK MANAGEMENT (continued)

(d) Liquidity Risk (continued)

Section of corporate risk management policy that relates to liquidity risk management consists of:

- Forecasting cash flows in the context of the main currencies and the calculation associated with these cash flows of required liquid assets level;
- Maintaining a diversified structure of funding sources;
- Borrowings concentration and structure management;
- Development of plans for fund raising from borrowings;
- Maintaining a portfolio of highly liquid assets that can be freely sold as a defensive measure in the event of cash liquidity gap;
- Development of reserve plans for maintenance of the liquidity and predetermined funding level;
- Monitoring the compliance of liquidity ratios with statutory ratios.

The Treasury receives information from divisions on the liquidity structure of their financial assets and liabilities and on the forecasting of cash flows expected from planned future business. Afterwards the Treasury forms an appropriate portfolio of short-term liquid assets, mainly consisting of short-term liquid held-for-sale securities, loans to banks and other inter-bank products in order to provide the required level of liquidity for the Bank as a whole.

The Treasury monitors its liquidity position on a daily basis and regularly conducts stress tests, taking into account a variety of possible market scenarios under both normal and adverse environment. Under normal market environment, liquidity reports are provided to the senior management on a weekly basis. Decisions on liquidity management policy are taken by ALCO and performed by the Treasury.

The following tables show the undiscounted cash flows of financial assets, financial liabilities and credit-related contingent liabilities at the earliest contractual maturities. The combined cash inflow and outflow amounts shown in these tables are the contractual undiscounted cash flows of financial assets, liabilities or credit-related contingent liabilities. For issued financial guarantees, the maximum amount of the guarantee applies to the earliest period when the guarantee can be used.

in KZT thousand

24. RISK MANAGEMENT (continued)

(d) Liquidity Risk (continued)

Analysis of financial liabilities by maturities as at 31 December 2017 is as follows:

	On demand and up to 1 month	1 - 2 months	3 - 6 months	6 - 12 months	Over 1 year	Total amount of outflows	Carrying value
Non-derivative financial liabilities							
Accounts and deposits in banks	249,717	-	-	-	-	249,717	249,717
Current accounts and deposits of customers	9,610,969	22,894	1,073,385	1,482,971	46,501	12,236,720	11,903,377
Loans of international financial institutions	78,904		98,522	200,572	5,654,098	6,032,096	4,794,954
Other financial liabilities	104,543	-	-	-	-	104,543	104,543
Total liabilities	**10,044,133**	**22,894**	**1,171,907**	**1,683,543**	**5,700,599**	**18,621,356**	**17,052,591**
Credit-related Contingent Liabilities	**1,058,521**	**-**	**-**	**-**	**-**	**1,058,521**	**1,058,521**

in KZT thousand

24. RISK MANAGEMENT (continued)

(d) Liquidity Risk (continued)

Analysis of financial liabilities by maturities as at 31 December 2016 is as follows:

	On demand and up to 1 month	1 - 2 months	3 - 6 months	6 - 12 months	Over 1 year	Total amount of outflows	Carrying value
Non-derivative financial liabilities							
Accounts and deposits in banks	1,444,036	-	610,720	-	-	2,054,756	2,045,714
Current accounts and deposits of customers	6,314,110	1,720	1,029,192	749,667	118,828	8,213,517	8,175,177
Other financial liabilities	49,558	-	-	-	-	49,558	49,558
Total liabilities	**7,807,704**	**1,720**	**1,639,912**	**749,667**	**118,828**	**10,317,831**	**10,270,449**
Credit-related Contingent Liabilities	**1,175,333**	**-**	**-**	**-**	**-**	**1,175,333**	**1,175,333**

In accordance with the legislation of the Republic of Kazakhstan, depositors are entitled to withdraw their term deposits from the Bank at any time, while in most cases they cease to be entitled to receive accrued interest income. These deposits were given on the basis of their maturities stipulated in agreements.

However, the management believes that, regardless of whether there is an early withdrawal option and the fact that a significant part of deposits represents demand accounts, diversification of these accounts and deposits by number and type of depositors and the Bank's past experience indicate that these accounts represent the long-term and stable funding source.

Management expects that the cash flows in respect of certain financial assets and liabilities may differ from that indicated in agreements, or because the user is authorised to manage cash flows or because past experience shows that the terms of cash flows for these financial assets and liabilities may differ from the terms established in agreements.

in KZT thousand

24. RISK MANAGEMENT (continued)

(d) Liquidity Risk (continued)

Analysis by repayments of the amounts, recognised in the statement of financial position as at 31 December 2017, is set out in the table:

	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Without maturity	Past due	Total
Non-derivative assets								
Cash and cash equivalents	12,318,760	998,816	-	-	-	-	-	**13,317,576**
Accounts and deposits in banks	-	-	-	320	-	-	-	**320**
Available-for-sale financial assets	-	-	43,541	266,598	824,802	-	-	**1,134,941**
Loans to customers	301,186	588,884	5,119,976	3,969,169	940,787	-	342,267	**11,262,269**
Held-to-maturity investments	-	20,596	1,582,343	2,117,561	-	-	-	**3,720,500**
PPE and intangible assets	-	-	-	-	-	241,678	-	**241,678**
Corporate income tax	-	73,012	-	-	-	-	-	**73,012**
Other assets	77,022	-	-	-	-	75,948	-	**152,970**
Total assets	**12,696,968**	**1,681,308**	**6,745,860**	**6,353,648**	**1,765,589**	**317,626**	**342,267**	**29,903,266**
Non-derivative financial liabilities								
Accounts and deposits in banks	249,717	-	-	-	-	-	-	**249,717**
Current accounts and deposits of customers	9,317,828	22,765	2,516,284	46,500	-	-	-	**11,903,377**
Loans of international financial institutions	50,599	-	-	3,085,734	1,658,621	-	-	**4,794,954**
Deferred tax liabilities	-	-	-	34,777	-	-	-	**34,777**
Other liabilities	188,737	-	22,734	-	-	-	-	**211,471**
Total liabilities	**9,806,881**	**22,765**	**2,539,018**	**3,167,011**	**1,658,621**	**-**	**-**	**17,194,296**
Net position	**2,890,087**	**1,658,543**	**4,206,842**	**3,186,637**	**106,968**	**317,626**	**342,267**	**12,708,970**

in KZT thousand

24. RISK MANAGEMENT (continued)

(d) Liquidity Risk (continued)

Analysis by repayments of the amounts, recognised in the statement of financial position as at 31 December 2016, is set out in the table:

	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Without maturity	Past due	Total
Non-derivative assets								
Cash and cash equivalents	5,778,342	-	-	-	-	-	-	**5,778,342**
Accounts and deposits in banks	-	-	666,580	320	-	-	-	**666,900**
Available-for-sale financial assets	-	3,968	280,799	-	1,014,532	-	-	**1,299,299**
Loans to banks	8,613	-	666,580	-	-	-	-	**675,193**
Loans to customers	169,289	353,911	7,103,619	3,068,670	727,744	-	558,051	**11,981,284**
Held-to-maturity investments	-	-	1,046,607	869,459	-	-	-	**1,916,066**
PPE and intangible assets	-	-	-	-	-	256,067	-	**256,067**
Corporate income tax	-	39,699	-	-	-	-	-	**39,699**
Other assets	115,955	28,003	7,576	-	-	27,725	-	**218,958**
Total assets	**6,072,199**	**425,581**	**9,771,761**	**3,938,449**	**1,742,276**	**283,792**	**558,051**	**22,792,109**
Non-derivative financial liabilities								
Accounts and deposits in banks	1,444,036	-	601,678	-	-	-	-	**2,045,714**
Current accounts and deposits of customers	6,310,412	1,708	1,757,737	105,320	-	-	-	**8,175,177**
Deferred tax liabilities	-	-	-	49,903	-	-	-	**49,903**
Other liabilities	91,773	-	-	-	-	-	-	**91,773**
Total liabilities	**7,846,221**	**1,708**	**2,359,415**	**155,223**	**-**	**-**	**-**	**10,362,567**
Net position	**(1,774,022)**	**356,171**	**7,404,770**	**3,783,228**	**1,742,276**	**283,792**	**558,051**	**12,429,542**

25. CAPITAL MANAGEMENT

The NBRK establishes and monitors the Bank's compliance with the statutory capital requirements.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Starting from 1 January 2017, the new capital requirements set by the NBRK came into effect for the Bank. In accordance with the new requirements, the Bank shall maintain a ratio of tier 1 capital to risk-weighted asset value, contingent liabilities, operational and market risks. As at 31 December 2017 the minimum level of the 1 capital to risk-weighted asset value, contingent liabilities, operational and market risk was 0.055 (31 December 2016: 0.05), and minimum tier of total capital amount to risk-weighted asset value, contingent liabilities, operational and market risk was 0.08 (31 December 2016: 0.075).

As at 31 December 2017 and 31 December 2016 the Bank performed all statutory requirements to capital tier, herewith minimum the tier of the tier 1 capital to risk-weighted asset value, contingent liabilities, operational and market risks as at 31 December 2017 equals 1.02 (31 December 2016: 0.99), and minimum tier of total capital amount to risk-weighted asset, contingent liabilities, operational and market risks, equals 1.02 (31 December 2016: 0.99).

26. OPERATING LEASE

Transactions where the Bank is a Lessee

The Bank leases an office under an operating lease. Non-cancellable operating lease rentals amounted to KZT 23,863 thousand (31 December 2016: KZT 21,865 thousand). The lease runs for an initial period of 60 months, with an option to renew the lease after that date. The lease does not include contingent rentals. During the year ended 31 December 2017 KZT 74,659 thousand was recognised as expense in profit or loss in respect of operating leases (2016: KZT 83,712 thousand).

27. CREDIT-RELATED CONTINGENT LIABILITIES

(a) Credit-related Contingent Liabilities

The Bank issues bank guarantees and opens letters of credit in order to secure performance of obligations of its customers to the third parties. The mentioned contracts fix limits of obligations and, as a rule, have validity period of up to 5 years.

When providing the financial guarantees, credit contingent liabilities and letters of credit the Bank applies the same risk management policies and procedures as in case of providing the loans to customers.

As at 31 December 2017, the Bank had outstanding contractual contingent liabilities related to credit lines provision in the amount of KZT 1,001,111 thousand (31 December 2016: KZT 1,060,014 thousand) and guarantees and letters of credit in the amount of KZT 57,410, thousand (31 December 2016: KZT 115,319 thousand).

(b) Pending Proceedings

The Management has no information about any significant actual or pending proceedings or potential claims which may be brought against the Bank.

27. CREDIT-RELATED CONTINGENT LIABILITIES (continued)

(c) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available in the Republic of Kazakhstan. The Bank has not fully insured buildings and equipment, temporary suspension of operations or third-party liability in respect of property or environmental damage arising from the use of the Bank's property.

The Bank concluded a package insurance agreement of the Bank risks from electronic and computer crime. The insurer is Insurance Company London-Almaty JSC. The agreement is valid within 12 months from the date of signing.

Until the Bank has adequately insured its operations, there is a risk that losses incurred or loss of certain assets can have material adverse effect on operations and financial position of the Bank.

(d) Tax Liabilities

The taxation system in Kazakhstan, being a relatively new, is characterised by frequent changes in legislative regulations, official pronouncements and court decisions, which are often unclear and contradictory, that allows their ambiguous interpretation by various tax authorities, including opinions on the accounting treatment of income, expenses and other items of financial statements in accordance with IFRS. Correctness of tax assessment is subject to inspections and investigations by regulatory bodies of different levels authorised to impose heavy fines and accrue interests. A tax year remains open for review by the tax authorities during the five subsequent calendar years, however, under certain circumstances a tax year may remain open longer.

These circumstances might result in the tax risks in Kazakhstan to be considerably higher than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable legislation of Kazakhstan, official pronouncements and court decisions. However, interpretations of the relevant authorities could differ, and the effect on the financial statements of the Bank, if the authorities were successful in enforcing their interpretations, could be significant.

28. RELATED PARTY TRANSACTIONS

(a) Control Relationship

The parent company of the Bank is Shinhan Bank JSC (Seoul, the Republic of Korea). The parent company of the Bank prepares the financial statements available for external users.

The ultimate parent company of the Bank is Shinhan Financial Group Co. Ltd, which is authorised to direct the activities of the Bank at its sole discretion and in its own interests.

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

Total benefits, included in an item “Personnel expenses” for the years ended 31 December 2017 and 2016, and may be recorded as follows.

in KZT thousand

28. RELATED PARTY TRANSACTIONS (continued)

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

	2017	2016
Board of Directors	12,349	7,000
Management Board	219,399	254,859
	231,748	**261,859**

As at 31 December 2017 and 2016 account balances and average interest rates for transactions with the members of the Board of Directors and the Management Board amounted to:

	2017	Average interest rate, %	2016	Average interest rate, %
Statement of Financial Position				
Current accounts and deposits	153,971	2.20	6,276	0.40

The amounts included in the profit or loss for transactions with the members of the Board of Directors and the Management Board for the year ended 31 December can be recorded as follows:

	2017	2016
Statement of profit or loss and other comprehensive income		
Income from foreign currency transactions	908	690
Interest income	148	314
Interest expenses	2,565	8

(c) Related Party Transactions

Other related parties include: The Parent bank and subsidiaries of the Parent bank. As at 31 December 2017 and 2016, account balances and relevant average interest rates as well as relevant profit or loss for other related party transactions for the year ended 31 December 2017 and 2016 were:

in KZT thousand

28. RELATED PARTY TRANSACTIONS (continued)

(c) Related Party Transactions (continued)

	Parent bank		Other related parties	
	2017	**Average interest rate, %**	**2017**	**Average interest rate, %**
Statement of Financial Position				
ASSETS				
Cash and cash equivalents				
- in US dollars	1,741	0.5	-	-
- in Euro	16	-	76,072	-
- in other currency	-	-	116	-
Other assets				
- in KZT	-	-	2,149	-
LIABILITIES				
Accounts and deposits in banks				
- in KZT	2,635	-	-	-
- in US dollars	241,245	-	-	-
- in Euro	5,837	-	-	-
Current accounts and deposits of customers				
- in KZT	-	-	438,445	7.6
- in US dollars	-	-	19,946	-
Other liabilities				
- in US dollars	19,298	-	-	-
Items not recognised in the statement of financial position				
Guarantees received*	2,789,097	-	-	-
Statement of profit and loss and other comprehensive income				
Profit from foreign currency operations	52	-	558	-
Interest income	3,732	-	-	-
Interest expense	-	-	(87,960)	-
Commission income	-	-	536	-
Commission expense	(19,116)	-	-	-
Other general and administrative expenses	(22,533)	-	-	-
Other operating income/(expenses), net	(201)	-	-	-

* As of December 31, 2017, the guarantees received include guarantees provided by the parent bank for loans issued to three corporate customers. The guarantees are non-interest bearing with an expiry date - April 10, 2018, May 18, 2018, and June 8, 2018. Two guarantees are in tenge and one in US dollars.

in KZT thousand

28. RELATED PARTY TRANSACTIONS (continued)

(c) Related Party Transactions (continued)

	Parent bank		Other related parties	
	2016	**Average interest rate, %**	**2016**	**Average interest rate, %**
Statement of Financial Position				
ASSETS				
Cash and cash equivalents				
- in US dollars	1,060,760	-		-
- in Euro	1,541	-	15,655	-
- in other currency	-	-	112	-
Other assets				
- in KZT	-	-	3,069	-
LIABILITIES				
Accounts and deposits in banks				
- in KZT	2,937	-	112,872	-
- in US dollars	1,435,933	-	601,678	1.6
- in Euro	5,166	-	-	-
Current accounts and deposits of customers				
- in KZT	-	-	1,421,857	10.0
- in US dollars	-	-	80,938	-
Other liabilities				
- in US dollars	15,714	-	-	-
Items not recognised in the statement of financial position				
Guarantees received*	4,076,686	-	-	-
Statement of profit and loss and other comprehensive income				
Profit from foreign currency operations	5,423	-	4,295	
Interest income	2	-	-	-
Other general and administrative expenses	19.658	-	-	-

* As at 31 December 2016, the guarantees received include a guarantee provided by the parent Bank for a loan to three corporate customers. Guarantees are non-interest bearing with expiration of guarantee on 2 June 2017, 5 June 2017 and 13 April 2017. Two guarantees are given in KZT and one in USD.

in KZT thousand

29. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUE AND ACCOUNTING CLASSIFICATION

(a) Fair Value and Accounting Classifications

The following table records the carrying value of financial assets and liabilities as at 31 December 2017.

	Held-to-maturity	Borrowers and accounts receivable	Available-for-sale	Other, measured at amortised cost	Total carrying value	Fair value
Financial assets						
Cash and cash equivalents	-	13,317,576	-	-	13,317,576	**13,317,576**
Accounts and deposits in banks	-	320	-	-	320	**320**
Available-for-sale financial assets	-	-	1,134,941	-	1,134,941	**1,134,941**
Loans to customers						
- to corporate customers	-	8,710,128	-	-	8,710,128	**8,774,237**
- to retail customers	-	2,552,141	-	-	2,552,141	**2,438,584**
Held-to-maturity investments	3,720,500	-	-	-	3,720,500	**3,608,578**
Other financial assets	-	14,104	-	-	14,104	**14,104**
	3,720,500	**24,594,269**	**1,134,941**	**-**	**29,449,710**	**29,288,340**
Financial liabilities						
Accounts and deposits in banks	-	-	-	249,717	249,717	**249,717**
Current accounts and deposits of customers	-	-	-	11,903,377	11,903,377	**11,903,377**
Loans of international financial institutions	-	-	-	4,794,954	4,794,954	**4,794,954**
Other financial liabilities	-	101,992	-	2,551	104,543	**104,543**
	-	**101,992**	**-**	**16,950,599**	**17,052,591**	**17,052,591**

in KZT thousand

29. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUE AND ACCOUNTING CLASSIFICATION (continued)

(a) Accounting Classifications and Fair Value (continued)

The following table records the carrying value of financial assets and liabilities as at 31 December 2016.

	Held-to-maturity	Borrowers and accounts receivable	Available-for-sale	Other, measured at amortised cost	Total carrying value	Fair value
Financial assets						
Cash and cash equivalents	-	5,778,342	-	-	5,778,342	**5,778,342**
Accounts and deposits in banks	-	666,900	-	-	666,900	**666,900**
Available-for-sale financial assets	-	-	1,299,299	-	1,299,299	**1,299,299**
Loans to banks	-	675,193	-	-	675,193	**675,180**
Loans to customers						
- to corporate customers	-	9,539,429	-	-	9,539,429	**9,459,149**
- to retail customers	-	2,441,855	-	-	2,441,855	**2,287,979**
Held-to-maturity investments	1,916,066	-	-	-	1,916,066	**1,740,111**
Other financial assets	-	1,509	-	-	1,509	**1,509**
	1,916,066	**19,103,229**	**1,299,299**	**-**	**22,318,593**	**21,908,469**
Financial liabilities						
Accounts and deposits in banks	-	-	-	2,045,714	2,045,714	**2,045,714**
Current accounts and deposits of customers	-	-	-	8,175,177	8,175,177	**8,175,177**
Other financial liabilities	-	48,341	-	1,217	49,558	**49,558**
	-	**48,341**	**-**	**10,222,108**	**10,270,449**	**10,270,449**

29. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUE AND ACCOUNTING CLASSIFICATION (continued)

(a) Accounting Classifications and Fair Value (continued)

The estimate of fair value aims to determine the price that would be received in case of asset sale or paid in case of transfer of liability in terms of transaction conducted in the organised market between market participants at the measurement date. However, taking into account the uncertainty and subjectivity of the used judgments, the fair value should not be considered as sold within immediate assets sale or transfer of liabilities.

Fair value of financial assets and financial liabilities, traded in active market is based on market quotations or dealer prices. The Bank defines the fair value of all other financial instruments of the Bank using other measurement methods.

Measurement methods include net present value and discounted cash flow models, comparison with similar instruments for which market quotations are known. Judgements and estimates include risk-free and benchmark interest rates, credit spreads and other adjustments used to evaluate discount rates, stock and bond prices, exchange rates, stock indices, and expected price fluctuations and comparisons. The measurement methods are used to determine the fair value of the financial instrument at the reporting date that would have been determined by independent market participants.

Management used the discount rate assumption of 12.92% and 14.20% (in 2016: 12.97% and 14.19%), to discount future cash flows for evaluation of the fair value of loans to corporate customers and loans to retail customers, respectively.

(b) Fair Value Hierarchy

The Bank estimates the fair value with the use of the following fair value hierarchy which takes into account the significance of inputs used in the formation of the mentioned estimates:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: inputs, different from quotations, related to Level 1, available directly (i.e. quotations) or indirectly (i.e. inputs derived from quotations). This category includes instruments measured with the use of: quoted market prices in active markets for similar instruments, quoted market prices for similar instruments in markets that are not considered as active, or other measurement methods, all used inputs which are directly or indirectly based on observable inputs.
- Level 3: inputs which are not available. This category includes instruments which are evaluated using the information that is not based on observable inputs, while such unobservable data have a significant impact on the instrument evaluation. This category includes instruments evaluated on the basis of quotations for similar instruments in respect of which the use of significant unobservable adjustments or judgments to record differences between the instruments is required.

The Bank has a control system related to fair value measurement. This system includes the Risk Management Department, which does not depend on the front office management and is accountable to the CFO and is responsible for independent review of the results of trading and investment transactions, as well as all significant fair value measurements. Special control mechanisms include:

- Review of observed quotations;
- Recalculation of measurement models;
- Review and approval process for new models and changes to models involving Risk Management Department;
- Quarterly review and back-testing of the model with respect to observed market transactions;
- Analysis and study of significant daily changes in measurements;

in KZT thousand

29. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUE AND ACCOUNTING CLASSIFICATION (continued)

(b) Fair Value Hierarchy (continued)

- The Management Board's review of significant unobservable data, estimated adjustments and significant changes in the fair value of instruments, related to Level 3, as compared to the previous month.

In case of use of third party information, including information about prices and market quotes, to estimate the fair value the Credit Products Control Department evaluates and documents the confirmation received from third parties in order to confirm the conclusions that such measurements meet the requirements of IFRS, including:

- - confirmation that information on prices or market quotations of brokers is approved by the Bank for use in pricing of financial instruments;
- - understanding of how the fair value measurement was obtained to the extent that it represents actual market transactions;
- - where quotations of similar instruments are used to measure fair value, determine how the quoted prices have been adjusted to reflect characteristics of the instrument subject to be measured;
- - in cases where a number of quotations is used for similar financial instruments, the determination of how the fair value was determined using the mentioned quotations.

Significant issues related to the measurement are reported to the Management Board.

The following table provides an analysis of financial instruments recorded at fair value as at 31 December 2017 and 2016, in terms of levels of the fair value hierarchy. Amounts are based on amounts recorded in the statement of financial position.

	Level 2	
	31.12.2017	**31.12.2016**
Available-for-sale financial assets		
- debt securities	1,134,941	1,299,299

The following tables provide analysis of financial instruments, not evaluated at fair value as at 31 December 2017 and 2016, in terms of levels of the fair value hierarchy:

in KZT thousand

29. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUE AND ACCOUNTING CLASSIFICATION (continued)

(b) Fair Value Hierarchy (continued)

2017	Level 2	Level 3	Fair value	Carrying value
Financial assets				
Cash and cash equivalents	13,317,576	-	13,317,576	13,317,576
Accounts and deposits in banks	320	-	320	320
Loans to customers	10,847,983	364,838	11,212,821	11,262,269
Held-to-maturity investments	3,608,578	-	3,608,578	3,720,500
Other financial assets	14,104	-	14,104	14,104
				28,314,769
Financial liabilities				
Accounts and deposits in banks	249,717	-	249,717	249,717
Current accounts and deposits of customers	11,903,377	-	11,903,377	11,903,377
Loans of international financial institutions	4,794,954	-	4,794,954	4,794,954
Other financial liabilities	102,824	-	102,824	102,824
	17,050,872	**-**	**17,050,872**	**17,050,872**

2016	Level 2	Level 3	Fair value	Carrying value
Financial assets				
Cash and cash equivalents	5,778,342	-	5,778,342	5,778,342
Accounts and deposits in banks	666,900	-	666,900	666,900
Loans to banks	675,180	-	675,180	675,180
Loans to customers	11,186,009	561,119	11,747,128	11,981,284
Held-to-maturity investments	1,740,111	-	1,740,111	1,916,066
Other financial assets	1,509	-	1,509	1,509
	20,048,051	**561,119**	**20,609,170**	**21,019,281**
Financial liabilities				
Accounts and deposits in banks	2,045,714	-	2,045,714	2,045,714
Current accounts and deposits of customers	8,175,177	-	8,175,177	8,175,177
Other financial liabilities	49,558	-	49,558	49,558
	10,270,449	**-**	**10,270,449**	**10,270,449**

30. SUBSEQUENT EVENTS

The Bank did not have any significant events in its financial and business operations after the reporting date, requiring adjustments in the financial statements or additional disclosures.