JSC HALYK BANK

Interim Condensed Consolidated
Financial Information (Unaudited)
For the three months ended 31 March 2017

JSC Halyk Bank

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Statement of Management's Responsibilities
For the Preparation and Approval
Of the Interim Condensed Consolidated Financial Information
For the Three Months Ended 31 March 2017 (Unaudited)

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the financial position of JSC Halyk Bank ("the Bank") and its subsidiaries (collectively – "the Group") as at 31 March 2017, and the results of its operations, cash flows and changes in equity for the three months then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

In preparing the interim condensed consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial information of the Group comply with IAS 34;
- Maintaining accounting records in compliance with the Republic of Kazakhstan legislation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information of the Group for the three months ended 31 March 2017 was authorized for issue by the Management Board on 15 May 2017.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

15 May 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

15 May 2017
Almaty, Kazakhstan

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders and Board of Directors of JSC Halyk Bank

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of JSC Halyk Bank and its subsidiaries (the "Group") as at 31 March 2017 and the related interim consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting.* Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Deloitte, LLP

15 May 2017
Almaty, Republic of Kazakhstan

JSC Halyk Bank

Interim Consolidated Statement of Financial Position
As at 31 March 2017 (Unaudited)
(millions of Kazakhstani Tenge)

	Notes	31 March 2017 (unaudited)	31 December 2016
ASSETS			
Cash and cash equivalents	6	1,490,194	1,774,519
Obligatory reserves	7	72,429	76,122
Financial assets at fair value through profit or loss	8	96,110	328,737
Amounts due from credit institutions	9	38,774	35,542
Available-for-sale investment securities	10	1,069,305	599,624
Precious metals		1,713	1,684
Loans to customers	11, 32	2,219,541	2,319,583
Investment property		30,546	30,146
Commercial property		8,551	10,202
Property and equipment		94,309	94,897
Assets held-for-sale		11,048	10,297
Goodwill		4,954	4,954
Intangible assets		8,828	9,179
Current income tax assets	18	4,723	3,222
Deferred income tax assets	18	905	831
Insurance assets	12	27,538	28,354
Other assets	13	21,679	20,590
TOTAL ASSETS		**5,201,147**	**5,348,483**
LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to customers	14, 32	3,617,073	3,820,662
Amounts due to credit institutions	15	186,694	162,134
Financial liabilities at fair value through profit or loss	8	5,935	2,841
Debt securities issued	16	564,453	584,933
Provisions	17	723	987
Current income tax liability	18	4,696	3,311
Deferred tax liability	18	19,443	23,181
Insurance liabilities	12	69,492	64,374
Other liabilities	19	22,965	20,467
Total liabilities		4,491,474	4,682,890
EQUITY			
Share capital	20	143,695	143,695
Share premium reserve		1,900	1,911
Treasury shares		(103,068)	(103,121)
Retained earnings and other reserves		667,146	623,108
Total equity		709,673	665,593
TOTAL LIABILITIES AND EQUITY		**5,201,147**	**5,348,483**

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

15 May 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

15 May 2017
Almaty, Kazakhstan

The notes on pages 10 to 49 form an integral part of this interim condensed consolidated financial information.

JSC Halyk Bank

Interim Consolidated Statement of Profit or Loss
For the Three Months Ended 31 March 2017 (Unaudited)
(millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)*
Interest income	22, 32	96,208	79,128
Interest expense	22, 32	(46,299)	(41,961)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE		49,909	37,167
Impairment charge	17	(4,855)	(4,504)
NET INTEREST INCOME		45,054	32,663
Fee and commission income	23	14,751	13,456
Fee and commission expense		(3,160)	(3,203)
Fees and commissions, net		11,591	10,253
Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	24	(11,493)	2,994
Net realised gain from available-for-sale investment securities		222	227
Net gain/(loss) on foreign exchange operations	25	15,133	(443)
Insurance underwriting income	26	8,948	4,885
Other income		889	930
OTHER NON-INTEREST INCOME		13,699	8,593
Operating expenses	27	(18,821)	(17,558)
Recoveries of provisions/(additional provisions recognised)	17	243	(110)
Insurance claims incurred, net of reinsurance	26	(8,309)	(4,809)
NON-INTEREST EXPENSES		(26,887)	(22,477)
INCOME BEFORE INCOME TAX EXPENSE		43,457	29,032
Income tax expense	18	(4,975)	(6,109)
NET INCOME		**38,482**	**22,923**
Attributable to:			
Common shareholders		38,482	22,879
Preferred shareholders		-	44
		38,482	**22,923**
Basic earnings per share (in Kazakhstani Tenge)		3.50	2.10
Diluted earnings per share (in Kazakhstani Tenge)		3.50	2.09

*Corrected, as disclosed in Note 5.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

15 May 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

15 May 2017
Almaty, Kazakhstan

The notes on pages 10 to 49 form an integral part of this interim condensed consolidated financial information.

JSC Halyk Bank

Interim Consolidated Statement of Other Comprehensive Income
For the Three Months Ended 31 March 2017 (Unaudited)
(millions of Kazakhstani Tenge)

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
Net income	38,482	22,923
Other comprehensive income/(loss):		
Items that will not to be subsequently reclassified to profit or loss:		
Loss on revaluation of property (net of tax – KZT Nil)	(1)	(183)
Items that may be subsequently reclassified to profit or loss:		
Gain/(loss) on revaluation of available-for-sale investment securities (net of tax – KZT Nil)	5,728	(7,982)
Reclassification adjustment relating to available-for-sale investment securities disposed of in the period (net of tax – KZT Nil)	(222)	(227)
Reclassification adjustment relating to available-for-sale investment securities impaired during the period (net of tax – KZT Nil)	-	461
Exchange differences on translation of foreign operations (net of tax – KZT Nil)	51	1,623
Other comprehensive income/(loss) for the period	5,556	(6,308)
Total comprehensive income for the period	**44,038**	**16,615**
Attributable to:		
Common shareholders	44,038	16,583
Preferred shareholders	-	32
Total comprehensive income	**44,038**	**16,615**

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

15 May 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

15 May 2017
Almaty, Kazakhstan

The notes on pages 10 to 49 form an integral part of this interim condensed consolidated financial information

Interim Consolidated Statement of Changes in Equity
For the Three months Ended 31 March 2017 (Unaudited)
(millions of Kazakhstani Tenge)

	Share capital Common shares	Share premium reserve	Treasury common shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property revaluation reserve*	Retained earnings*	Total equity
31 December 2016	143,695	1,911	(103,121)	5,097	(15,679)	16,609	617,081	665,593
Net income	-	-	-	-	-	-	38,482	38,482
Other comprehensive income/(loss)	-	-	-	51	5,506	(1)	-	5,556
Total comprehensive income/(loss)	-	-	-	51	5,506	(1)	38,482	44,038
Treasury shares purchased	-	(11)	(70)	-	-	-	-	(81)
Treasury shares sold	-	-	123	-	-	-	-	123
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	(128)	128	-
31 March 2017 (unaudited)	143,695	1,900	(103,068)	5,148	(10,173)	16,480	655,691	709,673

Interim Consolidated Statement of Changes in Equity (Continued)
For the Three months Ended 31 March 2016 (Unaudited)
(millions of Kazakhstani Tenge)

	Share capital				Treasury shares						
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Common shares	Preferred shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property revaluation reserve*	Retained earnings* **	Total equity
31 December 2015	83,571	46,891	13,233	2,039	(39,974)	(63,201)	4,695	(19,404)	16,416	485,662	529,928
Net income	-	-	-	-	-	-	-	-	-	22,923	22,923
Other comprehensive income/(loss)	-	-	-	-	-	-	1,623	(7,748)	(183)	-	(6,308)
Total comprehensive income/(loss)	-	-	-	-	-	-	1,623	(7,748)	(183)	22,923	16,615
Treasury shares purchased	-	-	-	-	(91)	-	-	-	-	-	(91)
Treasury shares sold	-	-	-	15	70	-	-	-	-	-	85
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(86)	86	-
31 March 2016 (unaudited)	**83,571**	**46,891**	**13,233**	**2,054**	**(39,995)**	**(63,201)**	**6,318**	**(27,152)**	**16,147**	**508,671**	**546,537**

* These amounts are included within Retained earnings and other reserves in the interim condensed consolidated statement of financial position.
** Corrected, as disclosed in Note 5.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

15 May 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

15 May 2017
Almaty, Kazakhstan

The notes on pages 10 to 49 form an integral part of this interim condensed consolidated financial information.

Interim Consolidated Statement of Cash Flows
For the Three months Ended 31 March 2017 (Unaudited)
(millions of Kazakhstani Tenge)

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received from financial assets at fair value through profit or loss	12	94
Interest received from cash equivalents and amounts due from credit institutions	3,705	4,444
Interest received on available-for-sale investment securities	4,251	2,654
Interest received on held to maturity investments	-	1,497
Interest received from loans to customers	65,840	63,694
Interest paid on due to customers	(33,544)	(26,468)
Interest paid on due to credit institutions	(1,267)	(2,165)
Interest paid on debt securities issued	(10,957)	(11,794)
Fee and commission received	13,899	12,604
Fee and commission paid	(3,125)	(3,203)
Insurance underwriting income received	7,911	1,840
Ceded insurance share received/(paid)	126	(4,476)
Receipts from/(payments for) derivative operations	923	(1,092)
Other income received	889	944
Operating expenses paid	(13,218)	(15,774)
Insurance claims paid	(5,586)	(4,863)
Cash flows from operating activities before changes in net operating assets	29,859	17,936
Changes in operating assets and liabilities:		
Decrease/(increase) in operating assets:		
Obligatory reserves	3,693	3,563
Financial assets at fair value through profit or loss	224,007	4,601
Amounts due from credit institutions	(4,340)	6,232
Precious metals	(47)	8
Loans to customers	56,485	57,366
Assets held-for-sale	-	(79)
Insurance assets	2,373	(3,350)
Other assets	(714)	6,476
(Decrease)/increase in operating liabilities:		
Amounts due to customers	(88,460)	(97,918)
Amounts due to credit institutions	28,376	(25,874)
Financial liabilities at fair value through profit or loss	3,096	(2,302)
Insurance liabilities	1,926	14,629
Other liabilities	679	4,710
Net cash inflow/(outflow) from operating activities before income tax	256,933	(14,002)
Income tax paid	(8,903)	(5,909)
Net cash inflow/(outflow) from operating activities	248,030	(19,911)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase and prepayment for property and equipment and intangible assets	(700)	(8,119)
Proceeds on sale of property and equipment	80	1,909
Proceeds on sale of commercial property	333	-
Proceeds from sale of available-for-sale investment securities	80,030	72,696
Purchase of available-for-sale investment securities	(547,788)	(38,405)
Purchase of held to maturity investments	-	(45,923)
Proceeds from maturity of held to maturity investments	-	1,996
Net cash outflow from investing activities	(468,045)	(15,846)

Interim Consolidated Statement of Cash Flows (Continued)
For the Three months Ended 31 March 2017 (Unaudited)
(millions of Kazakhstani Tenge)

	Notes	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds on sale of treasury shares		123	85
Purchase of treasury shares		(81)	(91)
Proceeds on debt securities issued		957	450
Redemption and repayment of debt securities issued		-	(1,906)
Net cash inflow/(outflow) from financing activities		999	(1,462)
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		(65,309)	17,875
Net change in cash and cash equivalents		(284,325)	(19,344)
CASH AND CASH EQUIVALENTS, beginning of the period	**6**	**1,774,519**	**1,404,680**
CASH AND CASH EQUIVALENTS, end of the period	**6**	**1,490,194**	**1,385,336**

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

15 May 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

15 May 2017
Almaty, Kazakhstan

The notes on pages 10 to 49 form an integral part of this interim condensed consolidated financial information.

1. Principal activities

JSC Halyk Bank ("the Bank") and its subsidiaries (collectively, "the Group") provide corporate and retail banking services principally in Kazakhstan, Russia, Kyrgyzstan and Georgia, leasing services in Kazakhstan and Russia, as well as asset management, insurance and brokerage services in Kazakhstan. The primary state registration of the Bank with the authorities of justice of Kazakhstan was made on 20 January 1994. The Bank operates under license No. 1.2.47/230/38/1 for carrying out banking and other operations and activities on the securities market, renewed by the National Bank of the Republic of Kazakhstan ("NBRK") on 8 November 2016. The Bank is a member of the obligatory deposit insurance system provided by the JSC Kazakhstan Deposit Insurance Fund.

The Bank's primary business includes originating loans and guarantees, collecting deposits, trading in securities and foreign currencies, executing transfers, cash and payment card operations as well as rendering other banking services to its customers. In addition, the Bank acts as a non-exclusive agent of the Government of the Republic of Kazakhstan in channeling various budgetary payments and pensions through its nationwide branch network.

The Bank has a primary listing with the Kazakhstan Stock Exchange ("KASE"). In addition, the Bank's Global Depository Receipts ("GDRs") and Eurobonds are primary listed on the London Stock Exchange.

The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 March 2017, the Bank operated through its head office in Almaty and its 22 regional branches, 122 sub-regional offices and 362 cash settlement units (31 December 2016 – 22, 122 and 365, respectively) located throughout Kazakhstan. The Bank's registered office adderess is: 40 Al-Farabi Avenue, Almaty, 050059, Republic of Kazakhstan.

As at 31 March 2017, the number of the Group's full-time equivalent employees was 11,282 (31 December 2016 – 11,402).

The interim condensed consolidated financial information of the Group for the three months ended 31 March 2017 was authorized for issue by the Management Board on 15 May 2017.

Legal proceedings

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

Operating environment

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

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2016, the oil price decreased significantly, which led to a significant decrease in the national export revenue. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on a free floating tenge exchange rate, and cancelled the currency corridor. As a result, the tenge depreciated significantly against major foreign currencies. During September-December 2015 and January-February 2016, the dollarization level in the Kazakh economy kept growing, which resulted in significant shortage of tenge liquidity in the banking system, record levels of interest rates on the money market and suspension in lending activity. In February 2016, the NBRK introduced the base rate of 17% ± 2% and adopted an inflation targeting policy. These measures by the NBRK reduced both the tenge shortage in the system and average inflation levels.

As at 31 March 2017, the base rate was at 11% ± 1% (as at 31 December 2016 – 12% ± 1%). Due to the relatively high cost of funds during 2016, loan demand in Kazakhstan remained relatively weak, whereas tenge liquidity in the banking system demonstrated significant surplus. To sterilize the excess tenge liquidity and to create tenge-denominated investment instruments, the NBRK started issuing short-term notes in the second quarter 2016 at an interest rate equal to the base rate. This measure allowed Kazakh commercial banks to invest the excess tenge liquidity. Compared to year-end 2016, operating environment in the first quarter 2017 did not reveal any significant changes.

Management of the Group is monitoring developments in the current environment and taking measures it considers necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on the future operations and financial position of the Group is at this stage difficult to determine.

(millions of Kazakhstani Tenge)

Ownership

As at 31 March 2017 and 31 December 2016, the Group was owned by the following shareholders, which own individually more than 5% of the issued shares of the Group:

31 March 2017

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	8,086,451,772	73.6%	8,086,451,772	73.6%
Unified Accumulative Pension Fund Joint Stock Company	716,281,746	6.5%	716,281,746	6.5%
GDR holders	1,850,077,960	16.8%	1,850,077,960	16.8%
Other	341,721,665	3.1%	341,721,665	3.1%
Total shares in circulation (on consolidated basis)	10,994,533,143	100%	10,994,533,143	100%

31 December 2016

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	8,086,451,772	73.6%	8,086,451,772	73.6%
Unified Accumulative Pension Fund Joint Stock Company	716,281,746	6.5%	716,281,746	6.5%
GDR holders	1,853,975,480	16.8%	1,853,975,480	16.8%
Other	336,910,333	3.1%	336,910,333	3.1%
Total shares in circulation (on consolidated basis)	10,993,619,331	100%	10,993,619,331	100%

2. Basis of presentation

Accounting basis

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

The interim condensed consolidated financial information is unaudited and does not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of the Group's annual consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRS. Management believes that the disclosures in this interim condensed consolidated financial information are adequate to make the information presented not misleading if this interim condensed consolidated financial information is read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRS. In management's opinion, this interim condensed consolidated financial information reflects all adjustments necessary to present fairly the Group's financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

This interim condensed consolidated financial information is presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

Consolidated subsidiaries

This interim condensed consolidated financial information includes the following subsidiaries:

Subsidiary	Holding, % 31 March 2017 (unaudited)	Holding, % 31 December 2016	Country	Industry
Halyk-Leasing JSC	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	Kazakhstan	Telecommunications
OJSC Halyk Bank Kyrgyzstan	100	100	Kyrgyzstan	Banking
Halyk Finance JSC	100	100	Kazakhstan	Broker and dealer activities
LLC Halyk Collection	100	100	Kazakhstan	Cash collection services
JSC Halyk-Life	100	100	Kazakhstan	Life insurance
Kazakhinstrakh JSC	100	100	Kazakhstan	Insurance
OJSC NBK-Bank	100	100	Russia	Banking
JSC Halyk Bank Georgia	100	100	Georgia	Banking
LLC Halyk Project	100	100	Kazakhstan	Management of doubtful and loss assets
JSC Altyn Bank (SB of JSC Halyk Bank)	100	100	Kazakhstan	Banking

On 3 November 2016, the Bank and China CITIC Bank Corporation Limited ("CITIC-Bank") signed a Memorandum of Understanding ("the Memorandum"), stipulating a sale of 60% shares in JSC Altyn Bank owned by the Bank to CITIC-Bank. The implementation of the terms and conditions of the Memorandum is expected in the second half of 2017. In order to implement the agreement, the parties to the Memorandum will need, among other things, to obtain necessary approvals of the competent authorities of the People's Republic of China and the Republic of Kazakhstan and fulfil other conditions customary for such type of transaction. The management of the Group believes that, as at 31 March 2017, JSC Altyn Bank should not be recognised as an asset held for sale in accordance with IFRS 5, as no approvals were obtained through 31 March 2017 and 15 May 2017, the date when this interim condensed consolidated financial information of the Group was authorised for issue by the Management Board.

(millions of Kazakhstani Tenge)

On 2 March 2017, Halyk Bank signed a non-binding Memorandum of Understanding ("MoU") with respect to a potential acquisition of a controlling interest in Kazkommertsbank ("KKB"). The parties to the MoU include, amongst others, the Government of the Republic of Kazakhstan, the National Bank of the Republic of Kazakhstan, Halyk Bank, KKB, JSC BTA Bank and Mr. Kenges Rakishev (being a major shareholder in KKB). The MoU specifies key principles of the potential transaction, including the actions required for its implementation and the participation of the state. The MoU is non-binding and any potential transaction is subject to customary due diligence by Halyk Bank and the National Bank of the Republic of Kazakhstan, final agreement of its terms between the parties, as well as appropriate internal, corporate and regulatory approvals and other conditions precedent.

3. Significant accounting policies

In preparing this interim condensed consolidated financial information the Group has applied the same accounting policies and methods of computation as those applied in the annual consolidated financial statements of the Group for the year ended 31 December 2016. There were no changes in accounting policies during the three months ended 31 March 2017.

4. Significant accounting estimates

In preparing this interim condensed consolidated financial information, the significant judgments made by the Management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRS.

5. Correction of prior period

During the preparation of interim condensed consolidated financial information for the six months ended 30 June 2016, the Bank identified a timing difference in its interest income recognition when receiving early partial loan repayments, which affected the financial result in the first quarter 2016. As a result, KZT 5,867 million of interest income on loans to customers was not recognized in the condensed consolidated statement of profit or loss in the interim condensed consolidated financial information for the three months ended 31 March 2016 as previously reported. The Bank revised interest income on loans to customers for the three months ended 31 March 2016 in accordance with the accounting policies used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016.

The effect of the corrections made to the interim condensed consolidated financial information for the three months ended 31 March 2016 is as follows:

Interim consolidated statement of profit or loss	As previously reported	Correction	As corrected
Interest income	73,261	5,867	79,128
Net interest income	26,796	5,867	32,663
Income before income tax expense	23,165	5,867	29,032
Income tax expense	(4,874)	(1,235)	(6,109)
Net income	18,291	4,632	22,923

Interim consolidated statement of changes in equity	As previously reported	Correction	As corrected
Retained earnings	504,039	4,632	508,671

(millions of Kazakhstani Tenge)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 March 2017 (unaudited)	31 December 2016
Cash on hand	118,658	149,124
Recorded as loans and receivables in accordance with IAS 39:		
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	127,692	181,144
Short-term deposits with OECD based banks	346,917	428,526
Overnight deposits with OECD based banks	50,198	79,992
Correspondent accounts with NBRK	786,821	915,675
Short-term deposits with NBRK	45,013	4,002
Short-term deposits with Kazakhstan banks (incl. loans under reverse repurchase agreements)	5,060	2,592
Correspondent accounts with non-OECD based banks	8,009	11,459
Short-term deposits with non-OECD based banks	1,826	2,005
	1,490,194	1,774,519

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are as follows:

	31 March 2017 (unaudited)		31 December 2016	
	KZT	Foreign currencies	KZT	Foreign currencies
Short-term deposits with OECD based banks	-	0.5%-1.1%	-	0.7%-1.5%
Overnight deposits with OECD based banks	-	0.9%	-	0.5%-0.7%
Short-term deposits with NBRK	10.0%	-	11.0%	-
Short-term deposits with Kazakhstan banks	10.6%-12.0%	10.0%	12.5%	-
Short-term deposits with non-OECD based banks	-	9.5%	-	6.6%-7.0%

The fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements included into short-term deposits with Kazakhstan banks as at 31 March 2017 and 31 December 2016 are as follows:

	31 March 2017 (unaudited)		31 December 2016	
	Carrying amount of deposits	Fair value of collateral	Carrying amount of deposits	Fair value of collateral
Treasury bills of the Ministry of Finance of Kazakhstan	1,108	1,180	1,591	1,519
NBRK notes	2,601	2,676	-	-
	3,709	3,856	1,591	1,519

As at 31 March 2017 and 31 December 2016, maturities of loans under reverse repurchase agreements were less than one month.

(millions of Kazakhstani Tenge)

7. Obligatory reserves

Obligatory reserves comprise:

	31 March 2017 (unaudited)	31 December 2016
Recorded as loans and receivables in accordance with IAS 39:		
Cash and due from banks allocated to obligatory reserves	72,429	76,122
	72,429	76,122

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the National Banks of the Republic of Kazakhstan, Kyrgyzstan, Georgia and Central Bank of Russian Federation and used for calculation of the minimum reserve requirements. As at 31 March 2017, obligatory reserves of JSC Altyn Bank, OJSC Halyk Bank Kyrgyzstan, OJSC NBK-Bank and JSC Halyk Bank Georgia comprised KZT 12,112 million (31 December 2016 – KZT 12,767 million).

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

Financial assets at fair value through profit or loss comprise:

	31 March 2017 (unaudited)	31 December 2016
Financial assets held for trading:		
Derivative financial instruments	67,539	77,776
Notes of NBRK	27,254	249,574
Corporate bonds	668	743
Bonds of JSC Development Bank of Kazakhstan	207	215
Equity securities of foreign organisations	125	102
Bonds of Kazakhstan banks	114	137
Equity securities of Kazakhstan corporations	103	88
Bonds of foreign organisations	100	102
	96,110	328,737

Financial liabilities at fair value through profit or loss comprise:

	31 March 2017 (unaudited)	31 December 2016
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments	5,935	2,841

Interest rates on financial assets at fair value through profit or loss are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective financial assets:

	31 March 2017 (unaudited)	31 December 2016
Notes of NBRK	11.9%	13.2%
Corporate bonds	6.6%	6.6%
Bonds of JSC Development Bank of Kazakhstan	5.9%	5.9%
Bonds of Kazakhstan banks	9.7%	9.7%
Bonds of foreign organisations	6.6%	6.9%

(millions of Kazakhstani Tenge)

Derivative financial instruments comprise:

	31 March 2017 (unaudited)			31 December 2016		
	Notional amount	Asset	Fair value Liability	Notional amount	Asset	Fair value Liability
Foreign currency contracts:						
Swaps	213,097	67,316	5,846	228,905	77,655	2,833
Forwards	4,628	142	-	4,644	107	-
Spots and options	12,244	81	89	3,583	14	8
		67,539	5,935		77,776	2,841

As at 31 March 2017 and 31 December 2016, the Group used quoted market prices from independent information sources for all of its financial assets at fair value through profit or loss, except for derivative financial instruments, which are valued using valuation models based on observable market data.

9. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 March 2017 (unaudited)	31 December 2016
Recorded as loans and receivables in accordance with IAS 39:		
Term deposits	20,329	18,678
Loans to credit institutions	10,651	11,256
Deposit pledged as collateral for derivative financial instruments	7,794	5,608
	38,774	35,542
Less – Allowance for impairment (Note 17)	-	-
	38,774	35,542

Interest rates and maturities of amounts due from credit institutions are as follows:

	31 March 2017 (unaudited)		31 December 2016	
	Interest rate	Maturity, year	Interest rate	Maturity, year
Term deposits	0.5%-18.0%	2017-2018	0.5%-18.0%	2017-2018
Loans to credit institutions	8.2%-10.3%	2017	8.2%-10.3%	2017
Deposit pledged as collateral for derivative financial instruments	0.2%-1.8%	2018	0.2%-1.8%	2018

(millions of Kazakhstani Tenge)

10. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	31 March 2017 (unaudited)	31 December 2016
Notes of NBRK	661,950	199,390
Treasury bills of the Ministry of Finance of Kazakhstan	157,734	138,018
Corporate bonds	100,026	103,464
Treasury bills of the USA	84,660	91,534
Bonds of JSC Development Bank of Kazakhstan	36,842	37,640
Bonds of Kazakhstan banks	9,098	10,223
Treasury bills of Hungary	7,443	7,762
Equity securities of Kazakhstan corporations	4,172	4,719
Bonds of foreign organisations	3,453	3,138
Treasury bills of Georgia	2,085	2,116
Treasury bills of the Russian Federation	862	820
Treasury bills of the Kyrgyz Republic	979	705
Equity securities of foreign corporations	1	95
	1,069,305	599,624

As at 31 March 2017 and 31 December 2016, available-for-sale investment securities included Treasury bills of the Ministry of Finance of Kazakhstan at fair value of KZT 11,776 million and KZT 15,201 million, respectively, which were pledged under repurchase agreements with other banks (see Note 15). All repurchase agreements as at 31 March 2017 and 31 December 2016 mature before 3 April 2017 and 4 January 2017, respectively.

Interest rates and maturities of available-for-sale investment securities are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective securities.

	31 March 2017 (unaudited)		31 December 2016	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Notes of NBRK	10.7%	2017-2018	13.4%	2017
Treasury bills of the Ministry of Finance of Kazakhstan	5.8%	2017-2031	5.7%	2017-2031
Corporate bonds	6.2%	2017-2031	5.8%	2017-2031
Treasuty bills of the USA	0.5%	2017	0.4%	2017
Bonds of JSC Development Bank of Kazakhstan	4.4%	2022-2026	4.5%	2022-2026
Bonds of Kazakhstan banks	12.2%	2017-2049	11.2%	2017-2049
Treasury bills of Hungary	3.2%	2023	3.2%	2023
Bonds of foreign organisations	8.7%	2017-2039	6.3%	2017-2024
Treasury bills of Georgia	10.7%	2019-2025	10.4%	2017-2024
Treasury bills of the Russian Federation	8.1%	2021	8.1%	2021
Treasury bills of the Kyrgyz Republic	7.7%	2017-2018	10.2%	2017

(millions of Kazakhstani Tenge)

11. Loans to customers

Loans to customers comprise:

	31 March 2017 (unaudited)	31 December 2016
Recorded as loans and receivables in accordance with IAS 39:		
Originated loans to customers	2,498,363	2,602,381
Overdrafts	1,438	1,954
	2,499,801	2,604,335
Less – Allowance for loan impairment losses (Note 17)	(280,260)	(284,752)
Loans to customers	2,219,541	2,319,583

The weighted average interest rate on loans to customers is calculated as interest income on loans to customers divided by monthly average balances of loans to customers. As at 31 March 2017, the average interest rate on loans was 13.0% per annum (as at 31 December 2016 – 13.0% per annum).

As at 31 March 2017, the Group's loan concentration to the ten largest borrowers was KZT 478,369 million, which comprised 19% of the Group's total gross loan portfolio (as at 31 December 2016 – KZT 494,953 million; 19%) and 67% of the Group's total equity (as at 31 December 2016 – 74%).

As at 31 March 2017, the allowance for loan impairment losses amounting to KZT 49,536 million was created against these loans (as at 31 December 2016 – KZT 49,762 million).

As at 31 March 2017 and 31 December 2016, loans were extended to the customers operating in the following sectors:

	31 March 2017 (unaudited)	%	31 December 2016	%
Retail loans:				
- consumer loans	430,091	17%	433,291	17%
- mortgage loans	177,526	7%	187,772	7%
	607,617		621,063	
Services	415,484	17%	413,150	16%
Wholesale trade	325,528	13%	383,261	15%
Construction	181,363	7%	191,171	7%
Retail trade	153,302	6%	157,146	6%
Real estate	148,471	6%	150,662	6%
Agriculture	118,707	5%	121,368	5%
Transportation	115,850	5%	101,965	4%
Mining	68,574	3%	78,528	3%
Energy	65,063	3%	69,690	3%
Financial services	46,614	2%	44,645	2%
Communication	37,997	2%	61,461	2%
Oil and gas	36,766	1%	33,815	1%
Hotel industry	34,132	1%	34,706	1%
Food industry	33,050	1%	34,797	1%
Chemical industry	26,931	1%	28,051	1%
Machinery	26,723	1%	22,559	1%
Metallurgy	24,402	1%	23,290	1%
Light industry	7,975	0%	8,911	0%
Other	25,252	1%	24,096	1%
	2,499,801	100%	2,604,335	100%

As at 31 March 2017, accrued interest on loans comprised KZT 142,288 million (as at 31 December 2016 – KZT 142,046 million).

(millions of Kazakhstani Tenge)

As at 31 March 2017 and 31 December 2016 loans to customers included loans of KZT 129,285 million and KZT 149,024 million, respectively, which terms were renegotiated. Otherwise, these loans would be past due or impaired.

12. Insurance assets and liabilities

Insurance assets comprised the following:

	31 March 2017 (unaudited)	31 December 2016
Unearned reinsurance premium	15,393	15,519
Reinsurance amounts	4,030	2,294
	19,423	17,813
Premiums receivable	8,115	10,541
Insurance assets	27,538	28,354

Insurance liabilities comprised the following:

	31 March 2017 (unaudited)	31 December 2016
Reserves for insurance claims	38,190	33,731
Gross unearned insurance premium reserve	24,157	23,120
	62,347	56,851
Payables to reinsurers and agents	7,145	7,523
Insurance liabilities	69,492	64,374

13. Other assets

Other assets comprise:

	31 March 2017 (unaudited)	31 December 2016
Other financial assets recorded as loans and receivables in accordance with IAS 39:		
Debtors on banking activities	7,130	8,397
Accrued commission income	2,506	1,652
Debtors on non-banking activities	1,677	1,212
Others	28	12
	11,341	11,273
Less – Allowance for impairment (Note 17)	(4,308)	(4,516)
	7,033	6,757
Other non-financial assets:		
Prepayments for investment property	7,576	7,559
Advances for taxes other than income tax	1,438	1,077
Inventory	1,190	1,323
Prepayments for property and equipment	925	1,263
Other investments	159	168
Others	3,358	2,443
	14,646	13,833
	21,679	20,590

(millions of Kazakhstani Tenge)

14. Amounts due to customers

Amounts due to customers include the following:

	31 March 2017 (unaudited)	31 December 2016
Recorded at amortized cost:		
Term deposits:		
Individuals	1,471,137	1,470,536
Legal entities	1,148,682	1,267,589
	2,619,819	2,738,125
Current accounts:		
Legal entities	773,505	837,625
Individuals	223,749	244,912
	997,254	1,082,537
	3,617,073	3,820,662

As at 31 March 2017, the Group's ten largest groups of related customers accounted for approximately 30% of the total amounts due to customers (31 December 2016 – 32%), where each group of related customers represents customers related to each other within that group.

Management believes that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

An analysis of customer accounts by sectors is as follows:

	31 March 2017 (unaudited)	Share	31 December 2016	Share
Individuals and entrepreneurs	1,694,886	47%	1,715,448	45%
Oil and gas	609,428	17%	747,458	20%
Other consumer services	188,013	5%	171,245	4%
Financial sector	154,524	4%	203,948	5%
Government	140,273	4%	87,489	2%
Transportation	131,808	4%	185,039	5%
Metallurgy	107,304	3%	77,103	2%
Wholesale trade	99,495	3%	166,918	4%
Healthcare and social services	73,790	2%	61,184	2%
Construction	68,310	2%	81,113	2%
Communication	50,542	1%	52,550	1%
Education	47,659	1%	35,723	1%
Insurance and pension funds activity	47,047	1%	25,268	1%
Energy	39,145	1%	33,729	1%
Other	164,849	5%	176,447	5%
	3,617,073	100%	3,820,662	100%

(millions of Kazakhstani Tenge)

15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 March 2017 (unaudited)	31 December 2016
Recorded at amortized cost:		
Correspondent accounts	42,329	27,882
Loans from JSC National Managing Holding KazAgro	37,479	38,534
Loans from JSC Entrepreneurship Development Fund DAMU	36,616	36,552
Loans from JSC Development Bank of Kazakhstan	21,367	21,372
Loans and deposits from Kazakhstan banks	21,186	21,924
Loans and deposits from non-OECD based banks	19,938	7,109
Loans and deposits from OECD based banks	5,488	5,858
Loans from other financial institutions	2,291	2,903
	186,694	162,134

As at 31 March 2017, loans from JSC National Managing Holding KazAgro ("KazAgro") included long-term loans of KZT 37,430 million (31 December 2016 - KZT 38,483 million) at 3.0% interest rate maturing in 2022. These loans were received for restructuring/refinancing of loan/leasing debts of the Bank's borrowers operating in agricultural sector, originated before 1 January 2014 in connection with working capital loans, loans for the purchase of property and equipment, loans for construction-and-assembling works and loans for leasing of agriculture and technology equipment. Restructuring/refinancing of loan/leasing obligations is provided at 6.0% - 7.0% interest rate for the period not later than 31 December 2022.

As at 31 March 2017, loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") included long-term loans of KZT 36,310 million (31 December 2016 – KZT 36,367 million) at 2.0% interest rate maturing in 2034-2035 with an early recall option. These loans were received in accordance with the Government program ("the Program") to finance small and medium enterprises ("SME") operating in certain industries. According to the loan agreement between DAMU and the Group, the Group is responsible to extend loans to SME borrowers, eligible to participate in the Program, up to 10 years at 6.0% interest rate.

As at 31 March 2017, loans from JSC Development Bank of Kazakhstan ("DBK") included long-term loans of KZT 16,000 million (31 December 2016 – KZT 16,000 million) at 2.0% interest rate maturing in 2034-2035 to finance corporate enterprises operating in manufacturing industries, as well as long-term loans of KZT 5,300 million (31 December 2016 – KZT 5,300 million) at 1% interest rate maturing in 2035 to finance the purchase of cars by the Group's retail customers. According to the loan agreement between DBK and the Group, the Group is responsible to extend loans to corporate borrowers, eligible to participate in the Program, up to 10 years at 6.0% interest rate, and to retail borrowers – up to 5 years at 4.0% interest rate.

The Management of the Group believes that there are no other similar financial instruments and due to its specific nature, the loans from KazAgro, DAMU and DBK represent separate segments in retail, SME and corporate lending. As a result, these loans were received in an orderly transaction and as such have been recorded at fair value at the recognition date.

(millions of Kazakhstani Tenge)

Interest rates and maturities of amounts due to credit institutions are as follows:

	31 March 2017 (unaudited) Interest rate, %	Maturity, year	31 December 2016 Interest rate, %	Maturity, year
Loans from JSC National Managing Holding KazAgro	3.0%	2019-2022	3.0%	2019-2022
Loans from JSC Entrepreneurship Development Fund DAMU	2.0%	2017-2035	2.0%	2017-2035
Loans from JSC Development Bank of Kazakhstan	1.0%-2.0%	2034-2035	1.0%-2.0%	2034-2035
Loans and deposits from Kazakhstan banks	8.8%-14.0%	2017	8.8%-11.1%	2017
Loans and deposits from non-OECD based banks	1.0%-10.0%	2017-2021	1.0%-10.0%	2017-2021
Loans and deposits from OECD based banks	2.7%-6.5%	2017-2023	2.6%-6.5%	2017-2023
Loans from other financial institutions	10.0%	2023	5.0%-10.0%	2017-2023

Fair value of assets pledged (Note 10) and carrying amounts of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 March 2017 and 31 December 2016 are as follows:

	31 March 2017 (unaudited)		31 December 2016	
	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans
Treasury bills of the Ministry of Finance of Kazakhstan	11,776	11,442	15,201	15,009
	11,776	11,442	15,201	15,009

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

The Group uses loans under repurchase agreements to ensure current KZT cash flows for its operating activities. The Group uses regularly this type of instrument to attract short-term liquidity and plans to continue raising funds through loan repurchase agreements should it become necessary.

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

	Investments available-for-sale (Note 10)
As at 31 March 2017 (unaudited):	
Carrying amount of transferred assets	11,776
Carrying amount of associated liabilities	11,442
As at 31 December 2016:	
Carrying amount of transferred assets	15,201
Carrying amount of associated liabilities	15,009

In accordance with the contractual terms of the loans from certain OECD based banks, the Group is required to maintain certain financial ratios, particularly with regard to capital adequacy. Some of the Group's outstanding financing agreements include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements.

(millions of Kazakhstani Tenge)

The Group's management believes that as at 31 March 2017 and 31 December 2016, the Group was in compliance with the covenants of the agreements that the Group has with other banks and credit institutions.

16. Debt securities issued

Debt securities issued consisted of the following:

	31 March 2017 (unaudited)	31 December 2016
Recorded at amortized cost:		
Unsubordinated debt securities issued:		
USD denominated bonds	339,227	359,355
KZT denominated bonds	225,226	225,578
Total unsubordinated debt securities outstanding	564,453	584,933
Total debt securities issued	564,453	584,933

On 9 November 2016, the Group made a voluntary prepayment of KZT 5,000 million subordinated bond issued in accordance with the legislation of the Republic of Kazakhstan with initial maturity in 2018, bearing a coupon of 13%.

On 25 April 2016, the Group made a repayment of KZT 4,000 million 10-year subordinated reverse inflation indexed local bond issued in accordance with the legislation of the Republic of Kazakhstan, bearing a coupon of 15% minus inflation rate.

The coupon rates and maturities of these debt securities issued are as follows:

	31 March 2017 (unaudited)		31 December 2016	
	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year
Unsubordinated debt securities issued:				
USD denominated bonds	7.3%	2017-2021	7.3%	2017-2021
KZT denominated bonds	7.5%	2024-2025	7.5%	2024-2025

As at 31 March 2017, the amount of accrued interest on debt securities issued was KZT 11,480 million (as at 31 December 2016 – KZT 11,894 million).

In accordance with the terms of the USD denominated bonds, the Group is required to maintain certain financial covenants particularly with regard to its capital adequacy, limitations on transactions at less than fair market value and payment of dividends. Furthermore, the terms of the USD denominated bonds include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements. The Group's management believes that as at 31 March 2017 and 31 December 2016 the Group was in compliance with the covenants of the agreements that the Group has with the notes' trustees and holders.

(millions of Kazakhstani Tenge)

17. Allowances for impairment losses and provisions

The movements in accumulated impairment of available-for-sale investment securities, the allowances for impairment of interest earning and other assets were as follows:

	Loans to customers (Note 11)	Amounts due from credit institutions (Note 9)	Available-for-sale investment securities	Other assets (Note 13)	Total
31 December 2016	(284,752)	-	(3,884)	(4,516)	(293,152)
Additional provisions recognized	(36,541)	-	(37)	(994)	(37,572)
Recovery of provision	31,434	-	249	1,034	32,717
Write-offs	4,665	-	-	111	4,776
Foreign exchange differences	4,934	-	-	57	4,991
31 March 2017(unaudited)	(280,260)	-	(3,672)	(4,308)	(288,240)
31 December 2015	(305,114)	(7)	(5,516)	(4,568)	(315,205)
Additional provisions recognized	(29,700)	-	(522)	(1,535)	(31,757)
Recovery of provision	25,603	7	61	1,582	27,253
Write-offs	2,090	-	236	17	2,343
Foreign exchange differences	(1,243)	-	(4)	(11)	(1,258)
31 March 2016(unaudited)	(308,364)	-	(5,745)	(4,515)	(318,624)

During the three months ended 31 March 2017 and 2016, the Group has written off loans of KZT 4,665 million and KZT 2,090 million, respectively, which allow the writing off of loans without being considered forgiveness of the loan for tax purposes and are therefore not subject to corporate income tax.

Provision represents provisions against letters of credit and guarantees issued. The movements in provisions were as follows:

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
At the beginning of the period	(987)	(982)
Additional provisions recognized	(165)	(224)
Recovery of provisions	408	114
Foreign exchange differences	21	(40)
At the end of the period	(723)	(1,132)

18. Taxation

The Bank and its subsidiaries, except OJSC NBK-Bank, OJSC Halyk Bank Kyrgyzstan and JSC Halyk Bank Georgia, which operate abroad, are subject to taxation in Kazakhstan. OJSC NBK-Bank is subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Republic of Kyrgyzstan. JSC Halyk Bank Georgia is subject to income tax in Georgia.

(millions of Kazakhstani Tenge)

The income tax expense comprises:

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
Current tax charge	9,023	7,134
Deferred tax benefit relating to origination and reversal of temporary differences	(4,048)	(1,025)
Income tax expense	4,975	6,109

The decrease in the effective tax rate in the first quarter of 2017 as compared to the first quarter of 2016 is due to the growth of the expected non-taxable income on government securities in 2017 as compared to 2016.

Deferred tax assets and liabilities comprise:

	31 March 2017 (unaudited)	31 December 2016
Tax effect of deductible temporary differences:		
Fair value of derivatives	4,305	1,737
Bonuses accrued	2,405	1,821
Tax loss carry forward	407	408
Vacation pay accrual	394	361
Other	24	19
Deferred tax asset	7,535	4,346
Tax effect of taxable temporary differences:		
Fair value of derivatives and available-for-sale investment securities	(13,928)	(13,929)
Property and equipment, accrued depreciation	(7,807)	(8,400)
Allowance for loans to customers	(3,898)	(3,895)
Core deposit intangible	(237)	(259)
Other	(203)	(213)
Deferred tax liability	(26,073)	(26,696)
Net deferred tax liability	(18,538)	(22,350)

Current tax assets and liabilities comprise:

	31 March 2017 (unaudited)	31 December 2016
Current income tax assets	4,723	3,222
Current income tax liabilities	(4,696)	(3,311)
Current income tax asset / (liability)	27	(89)

(millions of Kazakhstani Tenge)

The Group has offset deferred tax assets and liabilities on the interim consolidated statement of financial position where a right of offset existed. The amounts presented after offset comprise:

	31 March 2017 (unaudited)	31 December 2016
Deferred tax asset	905	831
Deferred tax liability	(19,443)	(23,181)
Net deferred tax liability	(18,538)	(22,350)

Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

19. Other liabilities

Other liabilities comprise:

	31 March 2017 (unaudited)	31 December 2016
Other financial liabilities:		
Salary payable	13,645	11,205
Creditors on bank activities	1,438	800
Payable for general and administrative expenses	1,421	612
Creditors on non-banking activities	542	782
Others	649	583
	17,695	13,982
Other non-financial liabilities:		
Advances received	2,328	1,382
Taxes payable other than income tax	2,323	2,832
Amounts due to original investors on commercial property	619	2,271
	5,270	6,485
Total other liabilities	22,965	20,467

(millions of Kazakhstani Tenge)

20. Equity

Authorized, issued and fully paid number of shares as at 31 March 2017 and 2016 were as follows:

31 March 2017 (unaudited)	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common shares	25,000,000,000	(12,311,142,941)	12,688,857,059	(1,694,323,916)	10,994,533,143

31 March 2016 (unaudited)	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common shares	24,000,000,000	(12,871,481,549)	11,128,518,451	(219,492,113)	10,909,026,338
Non-convertible preferred shares	600,000,000	(290,140,570)	309,859,430	(289,415,498)	20,443,932
Convertible preferred shares	80,225,222	-	80,225,222	(79,855,667)	369,555

All shares are denominated in KZT. Movements in shares outstanding are as follows:

	Number of shares			Nominal (placement) amount		
	Common	Non-convertible preferred	Convertible preferred	Common	Non-convertible preferred	Convertible preferred
31 December 2015	10,909,450,551	20,443,932	369,555	43,597	(5,154)	2,077
Purchases of treasury shares	(2,353,047)	-	-	(91)	-	-
Sale of treasury shares	1,928,834	-	-	70	-	-
31 March 2016 (unaudited)	10,909,026,338	20,443,932	369,555	43,576	(5,154)	2,077
31 December 2016	10,993,619,331	-	-	40,574	-	-
Purchases of treasury shares	(1,403,228)	-	-	(70)	-	-
Sale of treasury shares	2,317,040	-	-	123	-	-
31 March 2017 (unaudited)	10,994,533,143	-	-	40,627	-	-

Common shares

As at 31 March 2017 and 31 December 2016, share capital comprised KZT 143,695 million.
As at 31 March 2017, the Group held 1,694,323,916 shares of the Group's common shares as treasury shares at KZT 103,068 million (31 March 2016 – 219,492,113 at KZT 39,995 million).

Each common share outstanding is entitled to one vote and dividends. Treasury shares are not entitled to any vote or dividends.

(millions of Kazakhstani Tenge)

21. Commitments and contingencies

Financial commitments and contingencies

The Group's financial commitments and contingencies comprised the following:

	31 March 2017 (unaudited)	31 December 2016
Guarantees issued	191,044	173,226
Commercial letters of credit	23,478	27,026
Commitments to extend credit	18,231	15,445
Financial commitments and contingencies	232,753	215,697
Less: cash collateral against letters of credit	(7,209)	(10,034)
Less: provisions (Note 17)	(723)	(987)
Financial commitments and contingencies, net	224,821	204,676

Guarantees issued represent bank guarantees issued by the Bank by order of its clients and which are in effect as at the reporting date. As at 31 March 2017, the ten largest guarantees accounted for 70% of the Group's total financial guarantees (as at 31 December 2016 – 70%) and represented 19% of the Group's total equity (as at 31 December 2016 – 18%).

Commercial letters of credit represent letters of credit issued by the Bank by order of its clients, and under which as at the reporting date, the payment has not yet been made. As at 31 March 2017, the ten largest unsecured letters of credit accounted for 65% of the Group's total commercial letters of credit (31 December 2016 – 61%) and represented 2% of the Group's total equity (31 December 2016 – 2%).

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. The Group typically requires collateral support unless it is determined to be not necessary through review of the credit risk of the borrower or analysis of other deposit accounts held by the Group. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Capital commitments

As at 31 March 2017, the Group had commitments for capital expenditures in respect of construction in progress in the amount of KZT 338 million (31 December 2016 – KZT 157 million).

Operating lease commitments

There were no material operating lease commitments under non-cancellable operating leases outstanding as at 31 March 2017 and 31 December 2016.

(millions of Kazakhstani Tenge)

22. Net interest income

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on individually assessed unimpaired assets	39,245	37,237
- interest income on individually assessed impaired assets	7,858	6,909
- interest income on collectively assessed assets	29,793	28,545
Interest income on held to maturity investments	-	564
Interest income on available-for-sale investment securities	15,448	5,847
Interest income on financial assets at fair value through profit or loss	3,864	26
Total interest income	96,208	79,128
Interest income on financial assets recorded at amortized cost:		
Interest income on loans to customers	73,246	69,267
Interest income on amounts due from credit institutions and cash and cash equivalents	3,650	3,424
Interest income on held to maturity investments	-	564
Total interest income on financial assets recorded at amortized cost	76,896	73,255
Interest income on financial assets at fair value through profit or loss:		
Interest income on financial assets held-for-trading	3,864	26
Total interest income on financial assets at fair value through profit or loss	3,864	26
Interest income on available-for-sale investment securities	15,448	5,847
Total interest income	96,208	79,128
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost	(46,299)	(41,961)
Total interest expense	(46,299)	(41,961)
Interest expense on financial liabilities recorded at amortized cost:		
Interest expense on amounts due to customers	(34,254)	(27,212)
Interest expense on amounts due to credit institutions	(1,105)	(2,959)
Interest expense on debt securities issued	(10,940)	(11,790)
Total interest expense on financial liabilities recorded at amortized cost	(46,299)	(41,961)
Net interest income before impairment charge	49,909	37,167

(millions of Kazakhstani Tenge)

23. Fees and commissions

Fees and commissions were derived from the following sources:

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
Bank transfers – settlements	3,979	3,370
Payment cards maintenance	2,840	2,574
Cash operations	2,409	2,190
Servicing customers' pension payments	1,800	1,681
Bank transfers – salary projects	1,686	1,686
Letters of credit and guarantees issued	862	1,006
Maintenance of customer accounts	695	440
Other	480	509
	14,751	13,456

24. Net (loss)/gain from financial assets and liabilities at fair value through profit or loss

Net (loss)/gain on financial assets and liabilities at fair value through profit or loss comprises:

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
Net (loss)/gain on operations with financial assets and liabilities classified as held for trading:		
Unrealized net (loss)/gain on derivative and trading operations	(12,416)	4,048
Realized net gain/(loss) on derivative operations	919	(1,092)
Realized net gain on trading operations	4	38
Total net (loss)/gain on operations with financial assets and liabilities classified as held for trading	(11,493)	2,994

25. Net gain/(loss) on foreign exchange operations

Net gain/(loss) on foreign exchange operations comprises:

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
Translation differences, net	11,273	(4,499)
Dealing, net	3,860	4,056
Net gain/(loss) on foreign exchange operations	15,133	(443)

(millions of Kazakhstani Tenge)

26. Insurance underwriting income

Insurance underwriting income/expense comprised:

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
Insurance premiums written, gross	17,034	15,157
Change in unearned insurance premiums, net	(1,320)	(1,905)
Ceded reinsurance share	(6,766)	(8,367)
Total insurance underwriting income	8,948	4,885
Insurance payments	(3,016)	(2,977)
Commissions to agents	(2,727)	(773)
Insurance reserves expenses	(2,566)	(1,059)
Total insurance claims incurred, net of reinsurance	(8,309)	(4,809)
	639	76

27. Operating expenses

Operating expenses comprised:

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
Salaries and other employee benefits	11,056	10,436
Depreciation and amortization expenses	1,917	1,659
Taxes other than income tax	844	910
Security	671	504
Information services	619	453
Professional services	605	102
Utilities expenses	581	510
Rent	494	690
Communication	440	391
Repairs and maintenance	392	419
Stationery and office supplies	215	191
Business trip expenses	153	127
Insurance agents fees	148	163
Advertisement	128	185
Transportation	123	123
Hospitality expenses	13	13
Social events	12	4
Charity	11	28
Other	399	650
	18,821	17,558

(millions of Kazakhstani Tenge)

28. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income for the period attributable to equity holders of the Bank by the weighted average number of participating shares outstanding during the period.

According to Kazakhstan legislation on Joint Stock Companies, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the common shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Three months ended 31 March 2017 (unaudited)	Three months ended 31 March 2016 (unaudited)
Basic earnings per share		
Net income for the period attributable to shareholders of the Parent	38,482	22,923
Less: Additional dividends that would be paid on full distribution of profit to the preferred shareholders	-	(44)
Earnings attributable to common shareholders	38,482	22,879
Weighted average number of common shares for the purposes of basic earnings per share	10,994,302,320	10,909,299,707
Basic earnings per share (in Kazakhstani Tenge)	3.50	2.10
Diluted earnings per share		
Earnings used in the calculation of basic earnings per share	38,482	22,879
Add: Additional dividends that would be paid on full distribution of profit to the convertible preferred shareholders	-	1
Less: Amounts payable to convertible preferred shareholders upon conversion	-	(41)
Earnings used in the calculation of total diluted earnings per share	38,482	22,839
Weighted average number of common shares for the purposes of basic earnings per share	10,994,302,320	10,909,299,707
Shares deemed to be issued:		
Weighted average number of common shares that would be issued for the convertible preferred shares	-	369,555
Weighted average number of common shares for the purposes of diluted earnings per share	10,994,302,320	10,909,669,262
Diluted earnings per share (in Kazakhstani Tenge)	3.50	2.09

(millions of Kazakhstani Tenge)

As required by KASE rules for listed companies the book value of one share per each class of shares as at 31 March 2017 and 31 December 2016, is disclosed as follows:

Class of shares	Outstanding shares	Equity	31 March 2017 (unaudited) Book value of one share, in KZT
Common	10,994,533,143	700,845	63.74
		700,845	

Class of shares	Outstanding shares	Equity	31 December 2016 Book value of one share, in KZT
Common	10,993,619,331	656,414	59.71
		656,414	

Equity attributable to common shares is calculated as the difference between the total equity and total net book value of intangible assets. The management of the Group believes that it fully complies with the requirement of KASE as at the reporting date.

29. Financial risk management

Risk management is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Liquidity risk; and
- Market risk

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

Credit risk is the risk of loss arising for the Group when counterparty is unable to meet its contractual obligations on time or in full.

Risk Management division plays an important role in managing and controlling the credit risk. This division is responsible for credit risk identification and evaluation and implementation of control and monitoring measures. The Risk Management division directly participates in credit decision-making processes and consideration of internal rules, regulations and loan programs. In addition, the division provides independent recommendations concerning credit exposure minimization measures, controls limits and monitors credit risks, provides relevant reporting to management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, including banks and brokers, covers on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

The risk that the counterparty will not meet its obligations is restricted by the limits covering on and off-balance sheet exposure.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk for off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon counterparties maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the consolidated statement of financial position, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off-balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Liquidity Risk

Liquidity risk is the risk resulting from the inability of the Group to provide funds for repayment of its obligations when they become due. The Group's liquidity risk arises when terms of assets on active operations and maturity dates of obligations do not match.

Short-term liquidity needs are managed by the Group's Treasury function collecting daily customers' cash inflow/outflow forecasts. Long-term liquidity management is performed by ALMC by analyzing longer term liquidity positions and making decisions on managing significant gaps through various available means.

In order to manage liquidity risk, the Group analyzes the financial assets and liabilities, and obligatory reserves taking into account payment schedules for loans issued to customers. The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the earliest of the contractual maturity date or available maturity date, except for financial assets at fair value through profit or loss which are included in the column "Less than 1 month" as they are available to meet the Group's short-term liquidity needs.

(millions of Kazakhstani Tenge)

	31 March 2017 (unaudited)					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,348,998	141,196	-	-	-	1,490,194
Obligatory reserves	45,517	8,062	14,723	3,472	655	72,429
Financial assets at fair value through profit or loss	29,176	-	66,934	-	-	96,110
Amounts due from credit institutions	13,191	6,469	16,606	82	2,426	38,774
Available-for-sale investment securities	418,792	201,260	195,809	93,363	160,081	1,069,305
Loans to customers	145,612	207,664	1,410,924	339,735	115,606	2,219,541
Other financial assets	6,144	564	297	11	17	7,033
	2,007,430	565,215	1,705,293	436,663	278,785	4,993,386
FINANCIAL LIABILITIES:						
Amounts due to customers	1,866,884	216,511	790,823	678,186	64,669	3,617,073
Amounts due to credit institutions	78,322	2,740	1,748	7,803	96,081	186,694
Financial liabilities at fair value through profit or loss	548	-	-	5,387	-	5,935
Debt securities issued	-	191,398	3,249	148,635	221,171	564,453
Other financial liabilities	15,264	1,623	637	145	26	17,695
	1,961,018	412,272	796,457	840,156	381,947	4,391,850
Net position	46,412	152,943	908,836	(403,493)	(103,162)	
Accumulated gap	46,412	199,355	1,108,191	704,698	601,536	

(millions of Kazakhstani Tenge)

						31 December 2016
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,774,519	-	-	-	-	1,774,519
Obligatory reserves	49,593	3,972	18,368	3,650	539	76,122
Financial assets at fair value through profit or loss	251,544	-	77,193	-	-	328,737
Amounts due from credit institutions	9,685	11,281	10,930	2,183	1,463	35,542
Available-for-sale investment securities	13,290	79,328	269,298	78,463	159,245	599,624
Loans to customers	146,771	236,233	1,526,644	286,133	123,802	2,319,583
Other financial assets	3,782	2,554	364	5	52	6,757
	2,249,184	333,368	1,902,797	370,434	285,101	5,140,884
FINANCIAL LIABILITIES:						
Amounts due to customers	2,046,317	226,071	784,955	694,228	69,091	3,820,662
Amounts due to credit institutions	52,961	1,532	7,028	30,333	70,280	162,134
Financial liabilities at fair value through profit or loss	73	99	-	2,669	-	2,841
Debt securities issued	4,915	3,812	197,516	157,792	220,898	584,933
Other financial liabilities	11,527	354	1,887	189	25	13,982
	2,115,793	231,868	991,386	885,211	360,294	4,584,552
Net position	133,391	101,500	911,411	(514,777)	(75,193)	
Accumulated gap	133,391	234,891	1,146,302	631,525	556,332	

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Group possesses a right to unilaterally call back part of long-term loans provided to customers in ten months period after proper notification would be issued by the Group.

A significant portion of the Group’s liabilities is represented by customer term deposits, current accounts of corporate and retail customers, and bonds.

Management believes that although a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group indicate that these deposits provide a long-term and stable source of funding for the Group. Therefore, an essential part of current accounts is considered as stable resources for the purposes of liquidity analysis and management.

Currency Risk

The Group is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on the financial performance of the Group.

ALMC controls currency risk by management of the open currency position based on the estimations of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations of national and foreign currencies.

The Treasury Department performs daily monitoring of the Group's open currency position with the aim to comply with the requirements of the regulatory authority.

The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial position, results of operations and cash flows, which are monitored daily. ALMC sets limits on the level of exposure by currencies within the authority approved by the Board of Directors. These limits also comply with the minimum requirements of the regulator authority.

The Group's principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying values of the Group's USD denominated monetary assets and liabilities. Currency risk is assessed in relation to the consolidated statement of financial position and off-balance sheet positions. The Group's current sensitivity to fluctuations in exchange rates is acceptable due to the fact that the off balance sheet items significantly neutralize the risk in the statement of financial position.

(millions of Kazakhstani Tenge)

The Group's exposure to foreign currency exchange rate risk is as follows:

							31 March 2017 (unaudited)
	USD	EURO	RUR	Other	TOTAL foreign currencies	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	1,301,808	17,489	16,878	15,456	1,351,631	138,563	1,490,194
Obligatory reserves	40,284	918	581	1,310	43,093	29,336	72,429
Financial assets at fair value through profit or loss	683	-	-	171	854	95,256	96,110
Amounts due from credit institutions	9,661	-	3,498	-	13,159	25,615	38,774
Available-for-sale investment securities	235,840	3,459	2,017	3,064	244,380	824,925	1,069,305
Loans to customers	684,831	12,716	15,813	10,819	724,179	1,495,362	2,219,541
Other financial assets	1,021	52	121	81	1,275	5,758	7,033
	2,274,128	34,634	38,908	30,901	2,378,571	2,614,815	4,993,386
FINANCIAL LIABILITIES:							
Amounts due to customers	2,089,783	39,475	9,629	12,392	2,151,279	1,465,794	3,617,073
Amounts due to credit institutions	28,520	872	1,994	604	31,990	154,704	186,694
Financial liabilities at fair value through profit or loss	-	-	763	-	763	5,172	5,935
Debt securities issued	339,227	-	-	-	339,227	225,226	564,453
Other financial liabilities	1,102	79	428	360	1,969	15,726	17,695
	2,458,632	40,426	12,814	13,356	2,525,228	1,866,622	4,391,850
Net position – on balance	(184,504)	(5,792)	26,094	17,545	(146,657)	748,193	601,536
Net position – off-balance	195,416	6,106	(25,433)	(9,656)	166,433	(103,404)	
Net position	10,912	314	661	7,889	19,776	644,789	

(millions of Kazakhstani Tenge)

							31 December 2016
	USD	EURO	RUR	Other	TOTAL foreign currencies	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	1,628,322	30,673	16,915	14,921	1,690,831	83,688	1,774,519
Obligatory reserves	47,789	1,055	364	1,359	50,567	25,555	76,122
Financial assets at fair value through profit or loss	764	-	-	150	914	327,823	328,737
Amounts due from credit institutions	6,907	-	4,103	-	11,010	24,532	35,542
Available-for-sale investment securities	252,328	3,591	1,939	2,916	260,774	338,850	599,624
Loans to customers	710,067	8,793	14,921	13,261	747,042	1,572,541	2,319,583
Other financial assets	628	88	117	85	918	5,839	6,757
	2,646,805	44,200	38,359	32,692	2,762,056	2,378,828	5,140,884
FINANCIAL LIABILITIES:							
Amounts due to customers	2,431,736	45,087	5,879	14,664	2,497,366	1,323,296	3,820,662
Amounts due to credit institutions	35,749	519	146	855	37,269	124,865	162,134
Financial liabilities at fair value through profit or loss	-	-	199	-	199	2,642	2,841
Debt securities issued	359,521	-	-	-	359,521	225,412	584,933
Other financial liabilities	852	108	437	318	1,715	12,267	13,982
	2,827,858	45,714	6,661	15,837	2,896,070	1,688,482	4,584,552
Net position − on balance	(181,053)	(1,514)	31,698	16,855	(134,014)	690,346	556,332
Net position − off-balance	189,207	2,170	(27,150)	(9,442)	154,785	(78,808)	
Net position	8,154	656	4,548	7,413	20,771	611,538	

30. Segment analysis

The Group is managed and reported on the basis of three main operating segments – corporate banking, SME banking and retail banking. These segments are strategic business units that offer different products and services and are managed separately.

Retail banking represents private banking services to individuals, including private customer current accounts, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, cash and foreign currency related services to individuals.

Corporate banking represents banking services to corporate clients and financial organisations including current accounts and correspondent accounts, deposits, custody, overdrafts, loans and other credit facilities, documentary operations, including guarantees and letters of credit, trade finance products, interbank operations, as well as cash services and foreign exchange transactions.

SME banking represents banking services to SME clients and individual entrepreneurs, including current accounts, deposits, overdrafts, loans and other credit facilities, documentary operations and guarantees, foreign exchange transactions and trade finance products.

Other represents capital market services.

Unallocated amounts are account balances and classes of transactions which are not allocated to a particular segment, not initiated by any business function and relate to the current activity of the Group. Unallocated assets include fixed assets, intangible assets, non-current assets held for sale, cash on hand and other unallocated assets. Unallocated liabilities include deferred tax liabilities and other unallocated liabilities. Unallocated income includes other income from the main and non-operating activities and insurance income. Unallocated expenses include the provision on accounts receivable, operating overhead expenses, insurance expenses and income tax.

The segment information below is based on financial information used for performance evaluation by the Bank's Chairperson of the Management Board, the Group's chief operating decision maker, in accordance with IFRS 8. The Group's management reviews discrete financial information for each segment, including the evaluation of operating results, assets and liabilities.

There were no transactions between business segments during the three months ended 31 March 2017 and 2016.

(millions of Kazakhstani Tenge)

Segment information for the main reportable business segments of the Group as at 31 March 2017 and 2016 and for the three months then ended is set out below:

	Retail banking	Corporate banking	SME banking	Other	Unallocated	Total
As at 31 March 2017 and for the three months then ended						
External revenues	118,978	(10,963)	19,103	1,802	7,474	136,394
Total revenues	118,978	(10,963)	19,103	1,802	7,474	136,394
Total revenues comprise:						
- Interest income	27,207	41,216	8,474	19,311	-	96,208
- Fee and commission income	11,114	1,418	1,956	36	227	14,751
- Net realized gain from available-for-sale investment securities	-	-	-	-	222	222
- Net gain/(loss) on foreign exchange operations	80,657	(53,781)	8,639	(17,573)	(2,809)	15,133
- Insurance underwriting income and other income	-	-	-	-	9,837	9,837
- Recoveries of provisions/(additional provisions recognised)	-	184	34	28	(3)	243
Total revenues	118,978	(10,963)	19,103	1,802	7,474	136,394
- Interest expense	(19,199)	(25,324)	(1,776)	-	-	(46,299)
- (Impairment charge)/recovery of provisions	(833)	(3,449)	(745)	184	(12)	(4,855)
- Fee and commission expense	(2,842)	(116)	(44)	(30)	(128)	(3,160)
- Net loss/(gain) from financial assets and liabilities at fair value through profit or loss	(64,540)	42,978	(6,403)	14,570	1,902	(11,493)
- Operating expenses	(10,702)	(1,280)	(2,976)	(506)	(3,357)	(18,821)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(8,309)	(8,309)
Segment result	20,862	1,846	7,159	16,020	(2,430)	43,457
Income before income tax expense						43,457
Income tax expense					(4,975)	(4,975)
Net income						38,482
Total segment assets	545,146	2,981,285	245,101	1,097,876	331,739	5,201,147
Total segment liabilities	1,685,876	2,354,091	328,341	-	123,166	4,491,474
Other segment items:						
Capital expenditures					(700)	(700)
Depreciation and amortization					(1,917)	(1,917)

(millions of Kazakhstani Tenge)

	Retail banking	Corporate banking	SME banking	Other	Unallocated	Total
For the three months ended 31 March 2016						
External revenues	43,586	37,005	9,864	5,581	5,584	101,620
Total revenues	43,586	37,005	9,864	5,581	5,584	101,620
Total revenues comprise:						
- Interest income	25,683	39,343	7,666	6,436	-	79,128
- Fee and commission income	9,997	1,467	1,452	467	73	13,456
- Net gain/(loss)from financial assets and liabilities at fair value through profit or loss	7,906	(3,805)	746	(1,549)	(304)	2,994
- Net realized gain from available-for-sale investment securities	-	-	-	227	-	227
- Insurance underwriting income and other income	-	-	-	-	5,815	5,815
Total revenues	43,586	37,005	9,864	5,581	5,584	101,620
- Interest expense	(15,420)	(23,016)	(1,424)	(2,101)	-	(41,961)
- Impairment charge	(1,500)	(1,718)	(1,046)	(137)	(103)	(4,504)
- Fee and commission expense	(2,967)	(87)	(73)	(10)	(66)	(3,203)
- Net (loss)/gain on foreign exchange operations	(21,739)	17,711	(1,021)	3,747	859	(443)
- Operating expenses	(10,411)	(1,076)	(1,726)	(1,200)	(3,145)	(17,558)
- Recoveries of provisions/ (additional provisions recognised)	-	6	(119)	17	(14)	(110)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(4,809)	(4,809)
Segment result	(8,451)	28,825	4,455	5,897	(1,694)	29,032
Income before income tax expense						29,032
Income tax expense					(6,109)	(6,109)
Net income						22,923
As at 31 December 2016:						
Total segment assets	555,923	3,291,010	289,169	850,585	361,796	5,348,483
Total segment liabilities	1,708,200	2,566,938	289,008	-	118,744	4,682,890
Other segment items:						
Capital expenditures					(8,119)	(8,119)
Depreciation and amortization					(1,659)	(1,659)

(millions of Kazakhstani Tenge)

Geographical information

Information for the main geographical areas of the Group is set out below as at 31 March 2017 and 31 December 2016 and for the three-months ended 31 March 2017 and 2016.

	Kazakhstan	OECD	Non-OECD	Total
31 March 2017 (unaudited)				
Total assets	4,478,300	626,047	96,800	5,201,147
31 December 2016				
Total assets	4,450,495	795,651	102,337	5,348,483
Three months ended 31 March 2017 (unaudited)				
External revenues	131,400	2,424	2,570	136,394
Capital expenditure	(700)	-	-	(700)
Three months ended 31 March 2016 (unaudited)				
External revenues	97,988	835	2,797	101,620
Capital expenditure	(8,119)	-	-	(8,119)

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

31. Fair values of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Management assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit/(loss) could be material.

The tables below summarizes the Group’s financial assets and liabilities held at fair value by valuation methodology at 31 March 2017 and 31 December 2016, before any allowances for impairment losses.

(millions of Kazakhstani Tenge)

Financial Assets/Liabilities	Fair value 31 March 2017 (unaudited)	Fair value 31 December 2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Non-derivative financial assets at fair value through profit or loss (Note 8)	28,571	250,961	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss, excluding options (Note 8)	605	1,093	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss, excluding options (Note 8)	66,934	76,683	Level 3	Future cash flows in USD discounted using the LIBOR rate obtained from available sources. Future cash flows in KZT discounted using the internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to nil at initial recognition.	KZT implied rate	The greater KZT implied rate – the smaller fair value
Total financial assets at fair value through profit or loss	96,110	328,737				
Derivative financial liabilities at fair value through profit or loss, excluding options (Note 8)	5,935	2,841	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting year).	Not applicable	Not applicable
Total financial liabilities at fair value through profit or loss	5,935	2,841				
Non-derivative available-for-sale investment securities (Note 10)	1,067,455	597,682	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities included in bonds of foreign organizations (Note 10)	1,763	1,860	Level 2	Discounted cash flows. Future cash flows discounted using LIBOR adjusted for credit risk of the issuer obtained from available sources.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities – unquoted equity securities (Note 10)	87	82	Level 3	Valuation model based on internal rating model.	Percentage discount	The greater discount - the smaller fair value
Available-for-sale investment securities	1,069,305	599,624				

(millions of Kazakhstani Tenge)

There were no transfers between Level 1 and 2, 2 and 3 during the three months ended 31 March 2017 and 2016.

	Financial assets at fair value through profit or loss (Level 3)	Available-for-sale investment securities Unquoted equity securities (Level 3)
31 December 2015	173,804	98
(Loss)/gain to profit or loss	(6,697)	19
Transfers	-	1,867
31 March 2016 (unaudited)	167,107	1,984
31 December 2016	76,683	82
(Loss)/gain to profit or loss	(9,749)	5
31 March 2017 (unaudited)	66,934	87

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

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

Amounts due from and to credit institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates at the respective period-end.

Amounts due to customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the period-end market rates.

(millions of Kazakhstani Tenge)

The following table sets out the carrying amount and fair values of financial assets and liabilities not carried at their fair values:

	31 March 2017 (unaudited)		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	38,774	38,690	35,542	35,430
Loans to customers	2,219,541	2,082,655	2,319,583	2,178,539
Financial liabilities				
Amounts due to customers	3,617,073	3,643,810	3,820,662	3,972,622
Amounts due to credit institutions	186,694	185,943	162,134	190,971
Debt securities issued	564,453	551,674	584,933	586,378

				31 March 2017 (unaudited)
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	38,690	-	38,690
Loans to customers	-	-	2,082,655	2,082,655
Financial liabilities				
Amounts due to customers	-	3,643,810	-	3,643,810
Amounts due to credit institutions	-	185,943	-	185,943
Debt securities issued	551,674	-	-	551,674

				31 December 2016
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	35,430	-	35,430
Loans to customers	-	-	2,178,539	2,178,539
Financial liabilities				
Amounts due to customers	-	3,972,622	-	3,972,622
Amounts due to credit institutions	-	190,971	-	190,971
Debt securities issued	586,378	-	-	586,378

The carrying amounts of cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

32. Related party transactions

Related parties or transactions with related parties are assessed in accordance with IAS 24 “Related Party Disclosures”. Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

Considering each possible related party not only their legal status is taken into account but also the substance of the relationship between these parties.

(millions of Kazakhstani Tenge)

The Group had the following balances outstanding as at 31 March 2017 and 31 December 2016 with related parties:

	31 March 2017 (unaudited)		31 December 2016	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers before allowance for impairment losses	1,849	2,499,801	2,148	2,604,335
- entities with joint control or significant influence over the entity	1,753		2,024	
- key management personnel of the entity or its Parent	65		94	
- other related parties	31		30	
Allowance for impairment losses	(25)	(280,260)	(21)	(284,752)
- entities with joint control or significant influence over the entity	(25)		(21)	
Amounts due to customers	191,010	3,617,073	197,569	3,820,662
- the parent	88,153		99,641	
- entities with joint control or significant influence over the entity	1,614		4,086	
- key management personnel of the entity or its parent	9,023		9,538	
- other related parties	92,220		84,304	

Included in the interim consolidated income statement and in the interim consolidated statement of other comprehensive income for the three months ended 31 March 2017 and 2016 are the following amounts which arose due to transactions with related parties:

	Three months ended 31 March 2017 (unaudited)		Three months ended 31 March 2016 (unaudited)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	310	96,208	93	79,128
- entities with joint control or significant influence over the entity	306		90	
- key management personnel of the entity or its parent	3		3	
- other related parties	1			
Interest expense	(1,984)	(46,299)	(2,081)	(41,961)
- the Parent	(701)		(1,775)	
- entities with joint control or significant influence over the entity	(5)		(5)	
- key management personnel of the entity or its Parent	(67)		(91)	
- other related parties	(1,211)		(210)	

(millions of Kazakhstani Tenge)

	Three months ended 31 March 2017 (unaudited)		Three months ended 31 March 2016 (unaudited)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:	116	11,056	163	10,436
- short-term employee benefits	116		163	

33. Events after the reporting date

On 21 April 2017, at the annual shareholders meeting, the shareholders made a decision not to declare dividends on common shares.

On 3 May 2017, the Group repaid in full at maturity its 10-year 7.25% coupon rate USD 638,029,000 Eurobond issue.