ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

ANNUAL REPORT 2016

Call-center: for Almaty (727) 259-07-77
for other cities of Kazakhstan 8 8000-8000-59

Questions, comments, and offers by this Report can be directed by e-mail:
MiraK@halykbank.kz, EkaterinaS@halykbank.kz

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GLOSSARY

1	Altyn Bank	Subsidiary bank of Halyk Bank
2	UAPF	Unified Accumulative Pension Fund
3	Halyk Group, the Group, the Halyk group of companies	Halyk Bank and its subsidiaries
4	Road Map for Business 2020	The "Road Map for Business 2020" Unified Programme for Supporting Entrepreneurship and Business Development
5	IT	Information technology
6	SME	Small and medium-sized enterprise
7	Halyk Bank, the Bank	Halyk Savings Bank of Kazakhstan
8	NBK	National Bank of Kazakhstan
9	Halyk Project	Halyk Bank's subsidiary for doubtful and bad asset management
10	Damu fund	Damu Entrepreneurship Development Fund
11	GDR	Global Depositary Receipt
12	KASE	Kazakhstan Stock Exchange
13	IS	Information security

AT A GLANCE

Financial highlights

Key figures at year-end	01.01.2017		01.01.2016	
	KZT mln	US$ mln*	KZT mln	US$ mln*
Loans to customers	2,319,583	6,960	2,176,069	6,410
Total assets	5,348,483	16,048	4,454,938	13,123
Amounts due to customers	3,820,662	11,464	3,043,731	8,966
Debt securities issued	584,933	1,755	597,525	1,760
Amounts due to credit institutions	162,134	486	168,258	496
Total equity	665,593	1,997	529,928	1,561

Key figures	2016		2015	
	KZT mln	US$ mln**	KZT mln	US$ mln**
Net interest income	158,276	463	138,187	623
Fees and commissions, net	47,254	138	42,471	192
Operating expenses (excluding impairment losses on assets held for sale)	(73,395)	(215)	(70,805)	(319)
Net income	131,412	384	120,312	543

* Calculated using the official National Bank of Kazakhstan rate on the corresponding date

** Calculated using the official National Bank of Kazakhstan average rate for the corresponding period

Key ratios	2016	2015
Return on average common equity	22.3%	24.4%
Return on average assets	2.8%	3.7%
Net interest margin	5.5%	6.2%
Net interest spread	6.3%	6.6%
Cost-to-income	28.5%	29.2%
Cost-to-assets	1.6%	2.2%
Common equity tier 1 capital adequacy ratio (CET1)	19.4%	17.3%
Tier 1 capital adequacy ratio	19.4%	17.3%
Total capital adequacy ratio	19.4%	17.5%

Number of customers/accounts at year-end

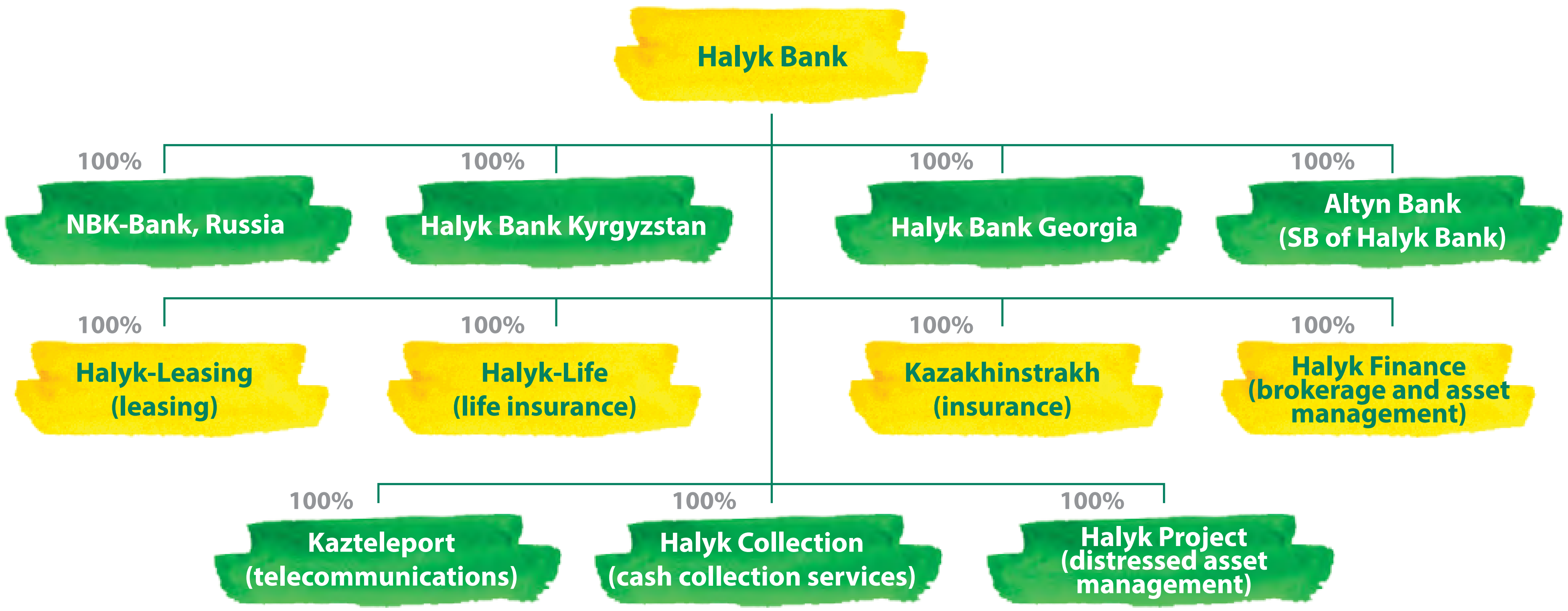
Key ratios	01.01.2017	01.01.2016
Retail accounts, mln	9.8	9.3
Corporate clients	1,621	1,591
Payment cards, mln	5.5	5.3
Retail loans, mln	0.67	0.65
Mortgage loans	21,455	21,900
Other consumer loans	13,590	14,297
Plastic cards of payroll programme customers (individuals), mln	2.9	2.7
Payroll programme clients (legal entities, including public organisations)	23,001	22,866
Internet banking users		
individuals	918,210	699,952
legal entities	15,065	14,888

Distribution network

Halyk Bank	509 outlets, including: - 22 regional branches - 122 sub-regional offices - 57 personal service centres - 2 VIP centres - 1 bank service centre - 305 cash settlement units 2,364 ATMs 23,937 POS terminals 461 multi-service kiosks 577 payment terminals
Kazakhinstrakh	18 branches 212 points of sale
Halyk-Life	17 branches
Halyk-Leasing	1 branch
Halyk Collection	18 branches, 37 outlets
Altyn Bank	6 outlets, including: 4 branches (Astana, Almaty, Aktau, Atyrau) 2 sub-branches (Almaty)
Halyk Bank Kyrgyzstan	9 branches, 10 cash settlement units
Halyk Bank Georgia	7 branches
NBK-Bank	2 lending and cash settlement units

As of 31 December 2016, Halyk Group had 11,402 full-time equivalent employees.

Structure of Halyk Group



International credit ratings of Halyk Bank as of 1 January 2017*

Agency	Long-term rating	Outlook
Moody's Investor Services	Ba2	Negative*
Fitch Ratings	BB	Stable**
Standard & Poor's	BB	Negative

* On 24 March 2017, Moody's Investor Services confirmed Halyk Bank's long-term deposit rating at 'Ba2' and changed the outlook from 'negative' to 'developing'
** On 9 March 2017, Fitch Ratings placed Halyk Bank's 'BB' long-term issuer default rating and 'bb' viability rating on 'Rating Watch Negative'

Shareholders of Halyk Bank with at least 5% of shares issued as of 1 January 2017[1]

№	Name	Total shares	Proportion of total shares in circulation	Common shares	Proportion of common shares in circulation	Non-convertible preferred shares**	Convertible preferred shares**
1	Total shares authorised	25,000,000,000	-	25,000,000,000	-	-	-
2	Holding Group ALMEX	8,086,451,772	73.6%	8,086,451,772	73.6%	-	-
3	Unified Accumulative Pension Fund	716,281,746	6.5%	716,281,746	6.5%	-	-
4	GDRs (ISIN: US46627J3023, US46627J2033)	1,853,975,480	16.8%	1,853,975,480	16.8%	-	-
5	Other	336,910,333	3.1%	336,910,333	3.1%	-	-
6	Total shares issued	12,688,857,059	-	12,688,857,059	-	-	-
7	Shares bought back by the Bank	(1,693,317,877)	-	(1,693,317,877)	-	-	-
8	Shares retained by companies in the Group	(1,919,851)	-	(1,919,851)	-	-	-
9	Total shares in circulation (consolidated basis, EPS)	10,993,619,331	-	10,993,619,331	-	-	-
10	Total shares in circulation (as per KASE listing rules)	2,192,785,567	-	2,192,785,567	-	-	-
11	Market share price, KZT*	-	-	49.77	-	-	-

* Market share price as of 1 January 2017, determined and published by KASE (www.kase.kz) on a weekly basis
** On 22 April 2016, Halyk Bank's General Shareholder Meeting resolved to swap the Group's preferred shares and convertible preferred shares into common shares. The swap was conducted on the terms and conditions established at the General Shareholders' Meeting, in accordance with the Bank's Charter and amended Prospectus registered with the National Bank of Kazakhstan on 16 May 2016. The purpose of the swap was to optimise the Group's capital structure in accordance with Kazakh legislation.

"Holding Group ALMEX" ("ALMEX") is a holding company that, in addition to its controlling interest in the Bank, has an interest in "Insurance broker AON Kazakhstan".
Unified Accumulative Pension Fund (UAPF) collects obligatory pension payments, obligatory professional pension payments and voluntary pension payments and disburses pension payments and is one of the leading institutional investors on the Kazakhstan stock market. Its assets are held, accounted and managed by the National Bank of Kazakhstan.
The sole shareholder of the UAPF is the State Property and Privatisation Committee of the Ministry of Finance of Kazakhstan (100%).

[1]Shares of the Bank have been listed on the Kazakhstan Stock Exchange since 1998 and common shares in the form of global depositary receipts on the London Stock Exchange since 2006.

HALYK BANK

BUSINESS MODEL

Solid financial position, capable of withstanding negative macroeconomic developments

- High level of capitalisation: common equity tier 1 capital adequacy ratio of 19.4%, tier 1 capital adequacy ratio of 19.4% and total capital adequacy ratio of 19.4%
- Sufficient liquidity: liquid assets to total assets ratio of 46.8%
- High-quality funding base: loans to deposits ratio of 60.7%
- Sufficient provisioning: the share of non-performing loans (overdue by 90 days or more) has been reduced to 10.2% and the provision coverage ratio is 106.7%
- Highest long-term credit ratings among second-tier Kazakh banks with no major overseas shareholders:
  - Moody's Investor Services – Ba2
  - Fitch Ratings – BB
  - Standard & Poor's – BB

Systemically important financial group in Kazakhstan with a strong market position

- High-quality assets, sustainable profitability, high level of capitalisation
- Kazakhstan's leading universal financial group, with the largest client base and branch network in the country
- One of the leaders in terms of total equity, retail deposits, retail current accounts, net income, payment cards, portfolio of letters of credit and guarantees, and payroll programmes
- Active participant in government business-support programmes

Market share

- Largest branch network, with 509 outlets, 2,364 ATMs and 23,937 POS terminals
- Market share among second-tier banks is 20.7% of retail deposits, 19.9% of retail term deposits and 28.0% of retail current accounts
- Share of the retail lending market is 16.5%
- Share of total cards issued is 46.0%

Solid and low-cost funding base

- 'Safe haven' for deposits during a crisis
- One of the lowest funding rates among second-tier banks
- 81.6% of the funding base consists of deposits, of which 28.3% pay 0% interest
- 12.5% of total liabilities are debt securities

Diversified sources of income and high cost efficiency ratio

- High profitability is supported by diversified stream of commission income, which generated 16.9% of total revenues in 2016
- Strict control of operating expenses: cost to income ratio of 28.5%

CHAIRMAN OF THE BOARD'S STATEMENT

Alexander Pavlov
Chairman of the Board of Directors
Halyk Bank

Dear shareholders, clients and partners,

Several key events drove the market in 2016. The beginning of the year was rather challenging for the financial sector, as banks faced a deficit of tenge liquidity, forcing them to pay high tenge borrowing rates that at times reached triple digits. This, in turn, limited the real sector's access to funding and reduced lending volumes. Only when the National Bank introduced its base rate mechanism towards the end of the first quarter did the cost of borrowing in tenge stabilise. Lending growth did not return until later, in the second half of the year, when funding became more accessible after the regulator gradually lowered its base rate as part of its inflation targeting policy. By mid-2016, exchange rate volatility had reduced significantly and confidence in the national currency began to return, driving tenge deposit growth.

Overall, 2016 was not an easy year for Kazakhstan's economy. Despite the government's economic support measures, including accelerated implementation of the Nurly Zhol programme, GDP growth remains low. This is primarily related to the slow recovery in energy prices. Even after accounting for the positive trend in the second half of the year, the World Bank estimates the average oil price at no more than US$42 a barrel in 2016, down 25% year-on-year.

Aside from the slow economic recovery, loan quality remains one of the key issues facing the Kazakh financial sector. Despite the measures that the regulator has enacted to reduce the level of non-performing loans (NPLs), a relatively large volume of them remains. Given the lack of adequate capital, some banks cannot surmount these issues, which could introduce some uncertainty to the market. Indeed, as 2016 drew to a close, the market situation was complicated by one bank losing its licence, which created volatility on the financial market.

Despite such complex conditions, Halyk Bank continued to successfully implement its strategy and reached its goal of becoming the number one financial institution of choice in Kazakhstan. The Bank achieved solid financial results: consolidated net profit amounted to KZT131.4 billion, total equity was KZT665.6 billion, and the Group's assets rose to KZT5,349 billion. At the same time, the level of NPLs in Halyk Bank's unconsolidated loan portfolio fell from 9.2% to 8.6% during 2016, according to National Bank data, and although constrained by the factors mentioned above, loan portfolio growth significantly outpaced the market average. Halyk Bank's market share of corporate and SME loans rose from 14.7% to 15.3%, while that of retail loans increased from 16.0% to 16.5%, according to the regulator's data.

Last year, Halyk Group continued to implement its development strategy for 2016-18, particularly to strengthen its leading positions in all segments of the domestic financial services market and develop its business on international markets. The Group's insurance companies retain their leading market positions: Halyk-Life was again number one in terms of life insurance premiums collected, while Kazakhinstrakh is a leader in the general insurance market. Halyk Finance, recognised as Kazakhstan's best investment company, won international and domestic awards from EMEA Finance and the Kazakhstan Stock Exchange. The Bank's overseas subsidiary banks continue to expand their local market shares: Halyk Bank Georgia's assets rose by 42% in 2016, while Halyk Bank Kyrgyzstan managed to outpace the market in terms of asset growth, despite a challenging economic situation. Due to the sanctions imposed on Russia and the stagnation of its economy, NBK-Bank was unfortunately unable to deliver positive results, although it continues to perform its key tasks given the Russian market's strategic significance for the Group.

Kazakh subsidiary Altyn Bank is in a phase of active development. In 2016, it launched a new-generation digital banking platform under the Altyn-i brand, a web service that enables retail customers to use banking services conveniently, without leaving home or office. Altyn Bank's 2016 financial results exceeded expectations, demonstrating the Group's successful organic growth and proving that it was a prudent investment. Further evidence of this came last year, when China CITIC Bank Corporation Limited signed a memorandum of understanding regarding the purchase of 60% in Alyn Bank.

The management team's hard work has helped the Group to achieve significant successes in many business areas, due to greater internal efficiency, IT systems development, a cost-cutting policy and effective risk management. At the same time, improving corporate governance and transparency is one key area of focus. More detailed information about corporate governance can be found in the corresponding sections of this report.

Halyk Group pays significant attention to corporate social responsibility, which it considers a voluntary contribution to the development of society. From 2013 to 2016, Halyk Bank donated more than KZT2 billion to charity and sponsorship. The Halyk charity fund was created in 2016 to ensure a more systematic and professional approach. In 2016, as part of its drive to be a socially responsible institution, Halyk Bank signed a three-year agreement with the Almaty municipal government to support the Universiade infrastructure by sponsoring a 3,000-seat ice skating facility, which has been named Halyk Arena. This is the first sponsorship naming rights agreement for a sports facility in Kazakhstan.

A strong endorsement of the hard work of the Group's highly professional management team came in December. International Banker named Chairperson of the Management Board Umut Shayakhmetova "Banking CEO of the Year Eastern Europe 2016 Award", honouring her significant contribution to Halyk Group's success over the past eight years.

The President of Kazakhstan, in his message to the people has launched an initiative called "The Third Modernisation of Kazakhstan: Global Competitiveness". This year, Halyk Bank and Halyk Group, as a systemically important financial institution, alongside other second-tier banks and the regulator, will play an active role in implementing the third priority: ensuring macroeconomic stability, namely by taking part in initiatives aimed at revitalising the banking sector and further cleansing distressed assets from the balance sheet. Meanwhile, the Group will continue to implement the development strategy for 2016-18, approved by the Board of Directors.

These initiatives are expected to promote further business growth and enhance the service quality of Halyk Group companies.

On behalf of the Board of Directors, I would like to thank every one of our shareholders, employees and partners for their cooperation, trust, understanding and support for the Group's strategic development course.

CHAIRPERSON OF THE MANAGEMENT BOARD'S REVIEW

Umut Shayakhmetova
Chairperson of the Management Board Halyk Bank

Dear shareholders, clients and partners,

Kazakhstan's economy faced significant headwinds in 2016. The beginning of the year saw extremely high market volatility, banks experienced a major shortage of tenge liquidity, and overnight rates reached 80%. The turning point in the situation came towards the end of the first quarter, when the Kazakh National Bank's monetary policy began to bear fruit following the introduction of a base rate. However, the end of the year was also difficult: several banks' licences were withdrawn and there were delays in interbank payments, which forced the regulator to intervene and provide stabilisation loans to resolve some banks' liquidity problems.

There were also positive developments on the financial market in 2016: the tenge exchange rate stabilised and the yield curve was introduced. In addition, a securities market is being formed with the help of National Bank notes, which are sterilising market liquidity without creating pressure on inflation and the exchange rate. The National Bank's de-dollarisation efforts have also begun to show results. Within Halyk Group, the share of customer deposits in tenge rose from 24% in 2015 to 35% at the end of 2016.

Despite the difficult market environment and increased competition, Halyk Group delivered strong growth. In 2016, its assets rose by 20.1% to KZT5,349 billion and loan portfolio by 6.6% to KZT2,320 billion. Net interest income before impairment charge increased by 22.4% year-on-year in 2016, while net fee and commission income climbed by 11.3%.

One clear example of Halyk Group's high professional standards and prudent corporate governance was the memorandum signed with one of China's largest financial institutions, China CITIC Bank Corporation Limited. It intends to take a 60% stake in Altyn Bank, a subsidiary of Halyk Bank, and is interested in Halyk Bank retaining the remaining 40% stake in Altyn Bank. This was a landmark event for Halyk Group in 2016. We believe a strategic partner should create new possibilities for Altyn Bank in investment banking, trade finance and treasury, payments in yuan, private banking and retail banking products, and banking technology. Altyn Bank remains a universal bank and continues to implement its strategy for working with corporate and retail clients.

The deal is expected to ensure a role for Halyk Group as a key player in projects implemented within the framework of Kazakhstan's Nurly Zhol development programme and China's "Economic Belt of the Silk Road – One Belt, One Way" initiatives. Analysts have already called the Altyn Bank sale a highly professional M&A deal and a positive signal for Kazakhstan's financial sector. Working with large international financial institutions brings professional expertise, innovation and international best practice to the local market. The memorandum is due to take effect in the third quarter of 2017.

Halyk Group's successes have again attracted international acclaim. In March 2016, for the sixth consecutive year, Halyk Bank's subsidiary, Halyk Finance, won EMEA Finance Achievement Awards in two prestigious categories: "Best Sovereign Bond in EMEA" and "Best Financial Institution Bond" for Halyk Bank's tenge bonds. In addition, also for the sixth consecutive year, Halyk Finance was named "Best Investment Bank in Kazakhstan" by EMEA Finance magazine. In July 2016, the authoritative magazine Euromoney named Halyk Bank the best financial institution in Kazakhstan. In September 2016, Halyk Bank was recognised in local internet journal Vlast's list of Kazakhstan's top 25 charitable institutions, ranking first among commercial banks. In October 2016, Halyk Bank took the fourth place among CIS banks in terms of profits earned in 2015 in Russian rating agency RIA Rating's listing of the top 200 CIS banks. In December 2016, Halyk Group won international publication International Banker's "Banking Group of the Year Kazakhstan 2016"" award. The publication's analysts noted that Halyk Bank keeps a balance between the active growth of a universal bank with strong positions in all banking business lines, risk monitoring and constant work on preserving loan portfolio quality.

Last year, Halyk Bank continued to expand its retail business, maintaining a leading position in terms of retail deposits, with a market share of 20.7% of second-tier banks' retail deposits. The retail loan portfolio expanded, driven primarily by consumer loans. The Bank's market share in retail lending rose from 16.0% to 16.5%. Our clients increasingly value mobility and comfort: mobile banking accounted for 43.3% of all operations last year. The myHalyk app was downloaded around 480,000 times from Google Play and App Store in 2016, and remains in the top three most popular free apps in the Finance category.

In 2016, Halyk Bank increased its social media presence to receive client feedback and improve its service quality. At the end of the year, the Bank's Facebook, Vkontakte, Instagram and Twitter accounts had a combined total of 72,000 followers. Halyk Bank has the highest social media engagement rate among Kazakhstan's commercial banks. The average response time is three to five minutes and the response rate is 100%, meaning that the Bank is answering clients' questions within three to five minutes.

The Bank plays an active role in state programmes together with the Damu Entrepreneurship Development Fund. In a programme to support entrepreneurship and business development, Halyk Bank is one of the leading commercial banks in terms of loan volumes and number of approved borrowers. Halyk Bank has strengthened its corporate lending presence, increasing its market share from 14.7% to 15.3% in 2016.

Halyk Bank stands out on the market due to its exemplary business conduct, as well as the strength of its analytics and professional expertise. In terms of capital adequacy and net profit, Halyk Bank is a leader among Kazakhstan's commercial banks. The Bank also enjoys some of the highest ratings from international rating agencies Fitch, Moody's and Standard & Poor's.

We continue to implement our development strategy consistently, strengthening our leading positions as a full-service financial group offering commercial banking, investment banking, insurance and brokerage services.

BOARD OF DIRECTORS

ALEXANDER PAVLOV (b. 1953)
Chairman, Independent Director

Mr. Pavlov was elected Chairman of the Board of Halyk Bank in March 2004 and re-elected to the same post in April 2014. He has held numerous high-level posts in Kazakhstan's government over the years, including First Deputy Prime Minister, Deputy Prime Minister – Minister of Finance, Head of the Main Tax Inspectorate – First Deputy Minister of Finance. He also worked in the management teams of large Kazakh natural resource companies and represented Kazakhstan at numerous international financial organisations. Mr. Pavlov is a graduate of the Belarus State Institute of People's Economy, where he specialised in economics (1970-74), and of the Academy for Social Sciences of the Central Committee of the Communist Party of the USSR, where he specialised in political sciences (1991).

ARMAN DUNAEV (b. 1966)

Independent Director

Mr. Dunaev was elected to the Board of Halyk Bank in September 2013 and re-elected to the same post in April 2014. His experience in Kazakhstan's government includes such posts as First Deputy Minister of Finance, Minister of Finance, and Chairman of the Agency for Regulation and Supervision of the Financial Market and Financial Organisations. He also held management positions in quasi-government sector. He is currently a member of the boards of directors of several Halyk Bank subsidiaries. Mr. Dunaev is a graduate of Kazakh State University named after S. Kirov with a degree in political economy and Moscow State University named after M. Lomonosov with a Ph.D.

FRANCISCUS CORNELIS WILHELMUS (FRANK) KUIJLAARS (b. 1958)

Independent Director

Mr. Kuijlaars was elected to the Board of Halyk Bank in April 2009 and re-elected to the same post in April 2014. From 1990 to 2007, he served at ABN AMRO Bank and later at RBS as Head of Corporate and Investment Banking in Belgium, Regional Manager in Brazil and Country Manager in Russia and Argentina. Mr. Kuijlaars was a Member of the Supervisory Board in Russia, Kazakhstan and Uzbekistan. After his appointment as Corporate Executive Vice President in 2001, in addition to supervision of global energy issues, he was a member of the Executive Committees of EMEA countries, as well as a member of the Corporate and Investment Banking Committee. He is an adviser to several international organisations and for a long time was a member of the Foreign Investor Council of the President of the Republic of Kazakhstan. Mr. Kuijlaars is Chairman of the Board of Directors and Independent Director of National Company KazMunayGas. He is the owner and Managing Director of Eureka (Energy) Ventures B.V., as well as an Independent Non-executive Director and independent member of the Supervisory Council of Amsterdam Trade Bank N.V. Mr. Kuijlaars received a Master's degree in Law from Erasmus University, Rotterdam, the Netherlands. He studied at the Dutch Institute of Banks and Insurance Companies and in a number of postgraduate programmes in such international institutions as Fontainebleau (France), Cambridge (UK) and Harvard Business School (US).

MAZHIT YESSENBAYEV (b. 1949)

Member of the Board of Directors, Representative of Holding Group ALMEX

Mr. Yessenbayev was elected to the Board of Halyk Bank in April 2014. Over the years, he has held numerous important positions in Kazakhstan's government, including Head of the Main Tax Inspectorate – First Deputy Minister of Finance, Chairman of the State Tax Committee, Governor of Karaganda Region, Minister of Finance, Minister of Industry and Trade, Governor of Akmola Region, Chairman of the Agency for Competition Protection, and Chairman of the Customs Control Committee. Over the years, he represented Kazakhstan in a number of international financial organisations. In February 2014, he became Chairman of the Management Board and a Member of the Board of Directors of Holding Group ALMEX. Mr. Yessenbayev graduated from the Kazakh Polytechnic Institute named after V.I. Lenin with a degree in economics and the mining industry. He also completed postgraduate studies on the Council for the Study of Productive Forces under the State Planning Committee of the USSR, has a Ph.D. in economics and is an associate professor.

CHRISTOF RUEHL (b. 1958)

Independent Director

Mr. Ruehl was appointed to the Board of Halyk Bank in June 2007 and re-elected to the same post in April 2014. He previously worked at the University of California, Los Angeles, where he was an Assistant Professor of Economics. He also worked for the World Bank Group as Senior Economist in Washington, Chief Economist in Moscow, and Lead Economist and Sector Leader in Brazil. At British Petroleum, he held the positions of Deputy Chief Economist, Group Chief Economist and Vice President. In 2008, he became Chairman of the British Institute of Energy Economics, London. In July 2014, Mr. Ruehl was appointed as First Global Head of Research by Abu Dhabi Investment Authority. He holds an MBA from the University of Bremen, Germany.

ANVAR SAIDENOV (b. 1960)
Independent Director

Mr. Saidenov was appointed to the Board of Halyk Bank in April 2016. He began his career in education, including teaching economic theory at Dzhambul Irrigation and Construction Institute. He later worked as a consultant and associate banker at the European Bank for Reconstruction and Development in London (UK). Over the years, he has held numerous high-level positions in Kazakhstan's government, including Deputy Governor and Governor of the National Bank, Executive Director of the State Investment Committee, Chairman of the National Investment Agency and Deputy Minister of Finance. He also served as chairman of Halyk Bank and other large second-tier banks, financial organisations and large commercial organisations. Mr. Saidenov graduated from the Economic Faculty of Moscow State University named after M. Lomonosov with honours in 1982. He received a Ph.D. in economics from Moscow State University named after M. Lomonosov in 1987 and an MSc in financial economics from the School of Oriental and African Studies at the University of London (UK) in 1994.

UMUT SHAYAKHMETOVA (b. 1969)
Member of the Board of Directors, Chief Executive Officer

Ms. Shayakhmetova was appointed as CEO of Halyk Bank on 22 January 2009. In April 2009, she was elected a member of the Board of Directors and re-elected to the same post in April 2014. Over the years, she served as Chairperson of the Management Board of ABN AMRO Asset Management and Deputy Chairperson of the Management Board of ABN AMRO Bank Kazakhstan. She became Deputy Chairperson of Halyk Bank in November 2004. Since May 2011, she has been President of the Gymnastics Federation of Kazakhstan. In June 2015, she was elected Chairperson of the Regional Council of Business Women at the Chamber of Entrepreneurs in Almaty. In June 2016, she was appointed as Chairperson of the Financial Sector Committee of the Presidium of the Atameken National Chamber of Entrepreneurs and Chairperson of the Regional Council Eastern Europe, Central Asia, Russia and Caucasus at UnionPay International. Ms. Shayakhmetova is an economics graduate of the People's Friendship University, Moscow, and holds an MBA from Rutgers University, New Jersey, US.

MANAGEMENT BOARD

UMUT SHAYAKHMETOVA (b. 1969)

Member of the Board of Directors, Chief Executive Officer

Ms. Shayakhmetova was appointed as CEO of Halyk Bank on 22 January 2009. In April 2009, she was elected a member of the Board of Directors and re-elected to the same post in April 2014. Over the years, she served as Chairperson of the Management Board of ABN AMRO Asset Management and Deputy Chairperson of the Management Board of ABN AMRO Bank Kazakhstan. She became Deputy Chairperson of Halyk Bank in November 2004. Since May 2011, she has been President of the Gymnastics Federation of Kazakhstan. In June 2015, she was elected Chairperson of the Regional Council of Business Women at the Chamber of Entrepreneurs in Almaty. In June 2016, she was appointed as Chairperson of the Financial Sector Committee of the Presidium of the Atameken National Chamber of Entrepreneurs and Chairperson of the Regional Council Eastern Europe, Central Asia, Russia and Caucasus at UnionPay International. Ms. Shayakhmetova is an economics graduate of the People's Friendship University, Moscow, and holds an MBA from Rutgers University, New Jersey, US.

MARAT ALMENOV (b. 1976)
Deputy Chairman: Retail Banking

Mr. Almenov started his career at Halyk Bank in 1997 as a corporate lending banker. He also held the positions of Loan Officer, Risk Manager, Head of the Retail unit in the Credit Risk Department, Deputy Director responsible for retail banking in the Astana regional branch, Deputy Director of the Retail Sales Department, Director of the Retail Sales Support Department, Director of the Banking Products and Agency Services Department, and Director of the Almaty regional branch of the Bank. Since June 2010, Mr. Almenov has been Deputy Chairman of the Management Board of Halyk Bank. In February 2016, he was elected Chairman of the Board of Halyk-Life. In April 2016, he was elected Chairman of the Board of Halyk Bank Kyrgyzstan. He is an economics graduate of the Kazakh State Academy of Management with a degree in finance and credit.

AIVAR BODANOV (b. 1962)
Deputy Chairman: Security and Problem Loans

Mr. Bodanov was appointed as Deputy Chairman of the Management Board of Halyk Bank in January 2015. From September 2014 to January 2015, he was Director of the Security Department of Halyk Bank. He started his career in 1984 as a high-voltage overhead specialist for Dzhambul Grid Operating Company. He then worked as a specialist and senior producer at the Grazhdanstroy construction enterprise, as well as a chief engineer at the Kultbytstroy construction enterprise. From 1990 to 2014, Mr. Bodanov held numerous posts in the Department of Internal Affairs, the State Investigative Committee and the Tax and Financial Police. These included Deputy Head of the Agency of the Republic of Kazakhstan for Combating Economic Crimes and Corruption; Head of the Department for Combating Economic Crimes and Corruption in Almaty and West Kazakhstan Regions; Head of the Department for Investigating Economic and Financial Crimes under the Agency of the Republic of Kazakhstan for Combating Economic Crimes and Corruption; Deputy Head of the Financial Police Department in Kyzylorda, South Kazakhstan and Atyrau Regions; and others. He holds the rank of Major General in the Financial Police and has received the Aibyn II Order of Valour and other medals. Mr. Bodanov is a graduate of the Dzhambul Irrigation and Construction Institute, where he specialised in hydraulic engineering of river constructions and hydroelectric power plants, and holds a law degree from the Karaganda Higher School under the Ministry of Internal Affairs of Kazakhstan.

ALIYA KARPYKOVA (b. 1970)

Deputy Chairperson: Finance, Accounting and Subsidiaries

Ms. Karpykova has worked in the Kazakh banking system since 1992. From 1992 to 1996, she held various positions at the National Bank of Kazakhstan. From 1996 to 1997, Ms. Karpykova worked in Barents Group as an adviser on a Kazakh banking system accounting reform project. From 1998 to 2001, she was the Director of the Financial Control and Administration department and then a Member of the Management Board – Chief Accountant of Citibank Kazakhstan. From 2001 to 2004, she was Managing Director and then First Deputy Chairman of the Management Board of Nauryz Bank Kazakhstan. She has worked at Halyk Bank since 2004, including as Managing Director responsible for risk management, Managing Director – Director of Risk Management Department, Head of Risk Management, and Finance Director. She has been Deputy Chairperson of the Management Board of Halyk Bank since October 2011 and Board member of Kazakhinstrakh since 2016. Ms. Karpykova has a degree in political economy from Al-Farabi Kazakh National University.

MURAT KOSHENOV, CFA, FRM (b. 1973)

Deputy Chairman: Corporate Banking and International Activities

Mr. Koshenov joined Halyk Bank in January 2010 as Chief Risk Officer and then also became Compliance Controller. He has been Deputy Chairman of the Management Board of Halyk Bank since September 2014 and Chairman of the Board of NBK-Bank since 2016. Mr. Koshenov has been working in the banking sector since 2000. From 2000 to 2010, he worked first as Head of Broker-Dealer Operations at ABN AMRO Asset Management, and then as Risk Manager, Head of the Risk Management Division and Deputy Chairman of the Management Board at SB ABN AMRO Bank Kazakhstan (later SB RBS (Kazakhstan)). Mr. Koshenov has a degree in physics from Al-Farabi Kazakh National University and an MBA from the Kazakhstan Institute of Economics, Management and Strategic Research.

KUAT KUSSAINBEKOV (b. 1966)
Deputy Chairman: IT

Mr. Kussainbekov has been Deputy Chairman of the Management Board of Halyk Bank since February 2015. He joined Halyk Bank in November 1999 and has extensive experience in IT at the Bank, having been Head of Banking Systems Design in the IT Department; Head of Banking Information System Design and Development – Deputy Director of the IT Department; Deputy Director of the IT Department; Deputy Director of the Information Systems Department; Director of the IT Department; Managing Director – Director of the Information Systems Department; Director of the Information Systems Department at Head Office; Managing Director; and Chief IT Director. Mr. Kussainbekov has a degree in automated control systems from the Kazakh Polytechnic Institute named after V.I. Lenin.

YERTAI SALIMOV (b. 1974)
Deputy Chairman: Operations and Treasury

Mr. Salimov has been Deputy Chairman of the Management Board of Halyk Bank since February 2015. Since February 2016, he has also been a member of the Board and Independent Director of the Kazakhstan Stock Exchange and Chairman of the Board of Halyk Finance. He joined Halyk Bank in August 1995 and has extensive experience of operations at the Bank, having worked as Deputy Head of the Non-Trading Operations and the Precious Metals desks in the Foreign Exchange Operations Department; a leading banker on the Precious Metals Handling and the Precious Metals desks in the International Operations Department; chief banker on the Commodity Desk in the Trade Finance Department; chief banker on the Commodity Desk in the Commercial Department; senior dealer in the Treasury; Head of Forex, Money Market Operations and Head of Trading Operations in the Treasury; Deputy Director and Director in the Treasury; Head of the Chief Operations Department; and Chief Operating Officer. Mr. Salimov has a degree in finance and credit from the Kazakh State Academy of Management.

ASKAR SMAGULOV (b. 1975)

Deputy Chairman

Mr. Smagulov started his career at ABN AMRO Bank Kazakhstan in 1998 and served as a Treasury Dealer, Head Dealer, Head of the Trade Division of the Treasury, and Director of the Treasury. He joined Halyk Bank as Director of the Treasury in 2005. In September 2007, he was appointed to the Management Board of Halyk Bank, where he currently serves as Deputy Chairman. From 2007 to 2009, he was responsible for Investment Banking, including Halyk Finance subsidiary. From 2010 to 2013, he managed the IT and Operations functions. From early 2014, he led the Bank's team preparing for the purchase of HSBC Kazakhstan. In November 2014, he was appointed as Chairman of the Management Board and elected to the Board of Directors of Altyn Bank. Mr. Smagulov has a degree in economics with honours from Al-Farabi Kazakh National University and an MBA from the William Simon School of Business, University of Rochester (US).

ASLAN TALPAKOV (b. 1975)

Deputy Chairman: SME Banking, Marketing and PR, and Maintenance

Mr. Talpakov has been Deputy Chairman of the Management Board of Halyk Bank since July 2015. He joined the Bank in July 2011 as Head of the Corporate Client Department. He was elected Chairman of the Supervisory Board of Halyk Project in January 2016 and Chairman of the Board of Directors of Halyk-Leasing in March 2016. He began his career in 1999 as an Accountant and then a Financial Analyst at the Allied Support joint venture. Later, he was a Lead Specialist in the Dealing and International Settlement Department at Nurbank, and then a Specialist in the Retail Customer Department, Head of Cash Settlement Unit and a Branch Director at ABN AMRO Bank Kazakhstan in Atyrau. From 2009 to 2011, he worked as a Manager in the Corporate Client Department at SB RBS (Kazakhstan) in Almaty. Mr. Talpakov has a bachelor's degree in international business management from Varna Free University.

KEY EVENTS IN 2016

January

- Expert RA Kazakhstan awards Halyk Bank for the Best Annual Report in the Financial Sector
- Fitch Ratings confirms its long-term issuer default ratings for Halyk Bank, Altyn Bank and Halyk Finance at 'BB', in foreign and local currency, the outlook 'stable'; and its short-term issuer default rating for Halyk Finance at 'B', in foreign and local currency, the support rating '3'

March

- Halyk Finance wins awards at the EMEA Finance Achievement Awards for the sixth year in a row:
  - in the "Best sovereign bond in EMEA" category, EMEA Finance recognised the Ministry of Finance of the Republic of Kazakhstan's USD4 billion, 10- and 30-year dual-tranche Eurobond, in which Halyk Finance acted as the Joint Lead Manager in July 2015
  - in the "Best financial institution bond" category, EMEA Finance recognised Halyk Bank's KZT132 billion, 10-year bond, where Halyk Finance acted as the Sole Financial Adviser and Bookrunner
- Altyn Bank opens a Private Banking sub-branch
- Saule Kishkimbaeva is appointed CEO of Halyk Bank's subsidiary, Halyk Project

April

- Halyk Finance is recognised as the "Best Investment Bank in Kazakhstan 2015" by EMEA Finance, marking the sixth time in a row that it has won the title
- The Annual General Shareholder Meeting resolves to end the membership of independent non-executive director Mr. Ulf Wokurka on the Board of Directors on 22 April
- Mr. Anvar Saidenov is elected to the Board of Directors as an independent non-executive director on 22 Apri
- A.M. Best confirms its financial strength rating of 'B+' and issuer credit rating of 'bbb-' for Hayk-Life
- A.M. Best confirms its financial strength rating of 'B++' (Good) and issuer credit rating of 'bbb-' for Kazakhinstrakh and changing its outlook from 'stable' to 'negative'
- Halyk Finance acts as Sole Financial Advisor and Bookrunner for Kazakh Temir Zholy's debut KZT50 billion, 10-year bond

May

- Moody's Investors Service issues a deposit rating of 'Ba2 / Not Prime' for Altyn Bank
- Fitch Ratings confirms its long-term issuer default rating for Halyk Bank Georgia at 'BB-', in foreign and local currency

June

- The Board of Directors of the Bank resolves to end the membership on the Management Board of Deputy Chairperson Zhannat Satubaldina on 11 June, and that of Deputy Chairman Dauren Karabayev on 15 June
- Mrs. Umut Shayakhmetova, Chairperson of the Management Board of Halyk Bank, is elected Chairperson of the Regional Council Eastern Europe, Central Asia, Russia and Caucasus at UnionPay International
- Mrs. Umut Shayakhmetova, Chairperson of the Management Board of Halyk Bank, is elected to the Presidium of the Atameken National Chamber of Entrepreneurs
- A.M. Best confirms its financial strength rating of 'B+' and issuer credit rating of 'bbb-' for Hayk-Life, the highest rating among life insurance companies in Kazakhstan

July

- At the Euromoney Awards for Excellence Central and Eastern Europe 2016, Halyk Bank is named the best financial institution in Kazakhstan

August

- Kazteleport launches a new self-service cloud portal offering automated services that do not require a system administrator's input

October

- Halyk Bank confirms that its information security systems comply with ISO/IEC 27001:2013 standard
- Mr. Askar Kusainov is appointed CEO of Halyk Bank subsidiary Kazteleport
- Halyk Bank Georgia opens a branch in Kutaisi

November

- Halyk Bank signs a memorandum of understanding with China CITIC Bank Corporation Limited regarding the sale of a 60% stake in Altyn Bank
- Fitch Ratings puts Altyn bank's ratings on Rating Watch Positive
- Halyk Arena, a 3,000-seat ice arena that will be one of the main venues for the 28th World Winter Universiade, opens in Almaty as part of a partnership between the Almaty municipal administration and Halyk Bank; this is the first sponsorship naming rights agreement for a sports facility in Kazakhstan
- The Southern Kazakhstan branch opens a new office in Shymkent
- Halyk Finance acts as Sole Financial Advisor and Lead Bookrunner on KazAgroFinance's KZT8 billion, five-year bond
- Kazteleport registers in the "Park of Innovative Technologies" special economic zone

December

- Mrs. Umut Shayakhmetova, Chairperson of the Management Board of Halyk Bank, wins International Banker's "Banking CEO of the Year" in its Eastern Europe 2016 awards
- Fitch Ratings confirms its issuer default ratings for Halyk Bank and its subsidiaries, Halyk Finance and Altyn Bank, at 'BB', in foreign and local currency; keeps the outlook 'stable' on its long-term ratings for Halyk Bank and Halyk Finance; and leaves Altyn Bank on 'Rating Watch Positive'
- Based on results for 2016, Halyk-Life is named the number one life insurer in Kazakhstan in terms of insurance premiums collected
- In the Kazakhstan Stock Exchange's 2016 member rankings, Halyk Finance is named Market Maker of the Year in Corporate Bonds in 2016

AWARDS

Halyk Bank

Nominated in the "Best Annual Report in the Financial Sector" category
Expert RA Kazakhstan

Halyk Finance

Best Sovereign Bond in EMEA
by EMEA Finance

Halyk Finance

Best Financial Institution Bond
by EMEA Finance

Halyk Finance

Best Investment Bank in Kazakhstan
by EMEA Finance

Halyk Bank

Best Bank in Kazakhstan
by Euromoney

Halyk Bank

Most Active Interbank Desk in Kazakhstan
by Thomson Reuters

Halyk Bank

Best Banking Group in Kazakhstan
by International Banker

Halyk Bank

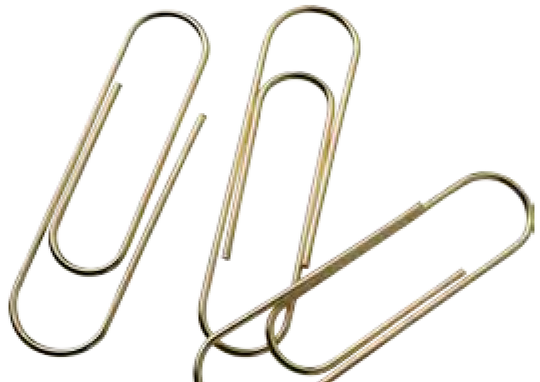
Best Bank for Regional Business Support
by DAMU

Halyk Bank

Market Maker of the Year in Corporate Bonds
by KASE

Halyk Bank

Largest Number of UnionPay Cards Issued
by Union Pay



MACROECONOMIC AND BANKING REVIEW

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for other cities of Kazakhstan 8 8000-8000-59

Questions, comments, and offers by this Report can be directed by e-mail:
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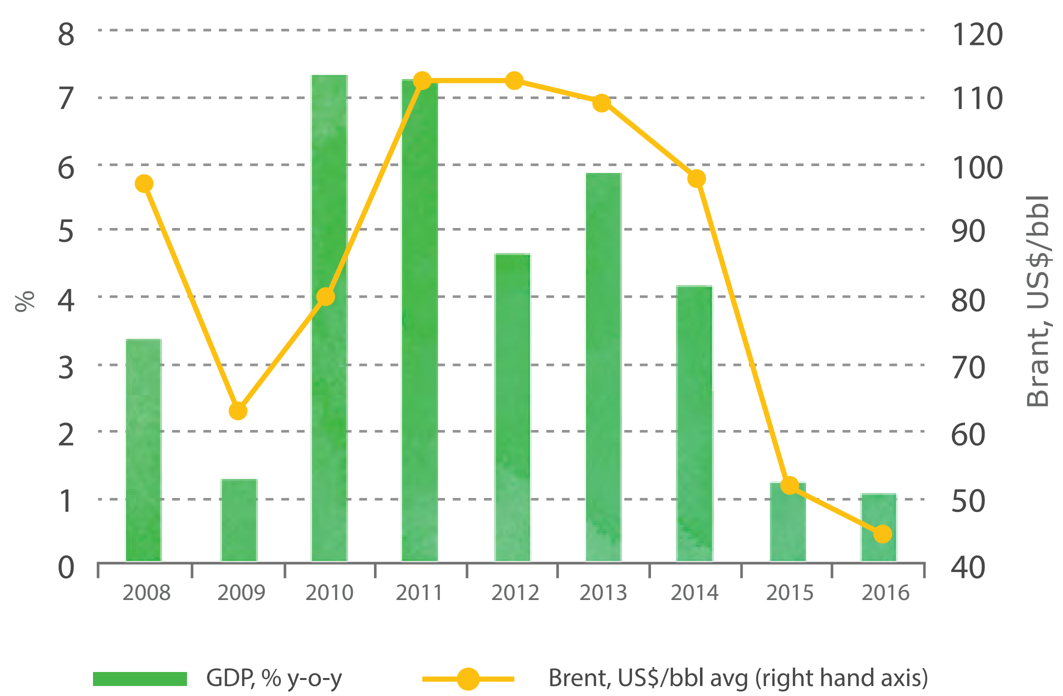
Kazakhstan's economy in 2016

The severe oil price slump that had begun in mid-2014 reached its bottom early in 2016 at nearly US$ 25 a barrel. Despite a subsequent recovery over most of the year, the weighted average price was US$44 a barrel in 2016 (down from US$52 a barrel a year earlier). This was enough, however, to drive economic growth of 1% for the year, led by construction (up nearly 8% year-on-year), agriculture (up 5.5% year-on-year) and transport (up 3.8% year-on-year). The laggards were industry (down 1.1% year-on-year) and telecommunications (down 2% year-on-year).

Consumption across the economy was mixed. Investment increased by 5.1% year-on-year; retail trade returned to mildly positive territory, while real household income continued to decline; and the labour market was relatively stable, with unemployment holding at 5%.

The economy remains dependent on oil: over the past five years, the correlation between oil prices and GDP growth has exceeded 90% and continues to strengthen, whereas the correlation was negative before the global crisis in 2007.

Kazakh economy is increasingly dependent on oil prices



Source: Statistic Committee of the Ministry of National Economy, Bloomberg

While the government is deploying significant resources to stimulate the economy, as a proportion of GDP, the state budget fell from 25% in 2015 to 21.5% in 2016. That said, in nominal terms, state spending was substantially higher than in past years.

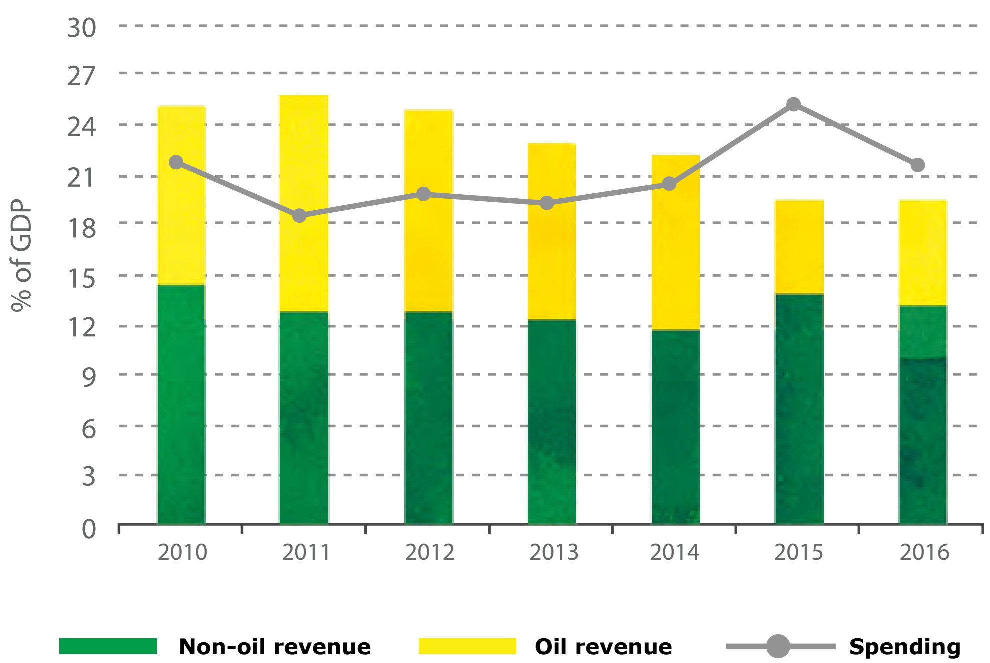
A total of KZT472 billion was set aside from the 2016 budget for the state's Nurly Zhol infrastructure programme, down slightly from KZT492 billion in the previous year. These funds are being used to build and repair roads and rail lines, creating an economic multiplier effect.

In 2016, the new Nurly Zher housing construction initiative, which aims to consolidate existing housing programmes, was presented for 2017-31. A total of KZT1.6 trillion in budget funding is slated for the programme and an additional KZT16 trillion is expected to come from private sources.

In the year, government debt increased from 22% of GDP to 25% due to external borrowing. Such a level is no cause for concern, as it is comparatively low in the global context.

As the National Fund received lower oil revenues in 2016, its spending fell significantly. In nominal terms, transfers from the state budget (guaranteed and targeted) increased by around KZT400 billion. In dollar terms, however, the tenge devaluation caused transfers to decrease by nearly US$3 billion compared with 2015, when the amount of transfers was US$11 billion.

Increased government spending to stimulate economic growth



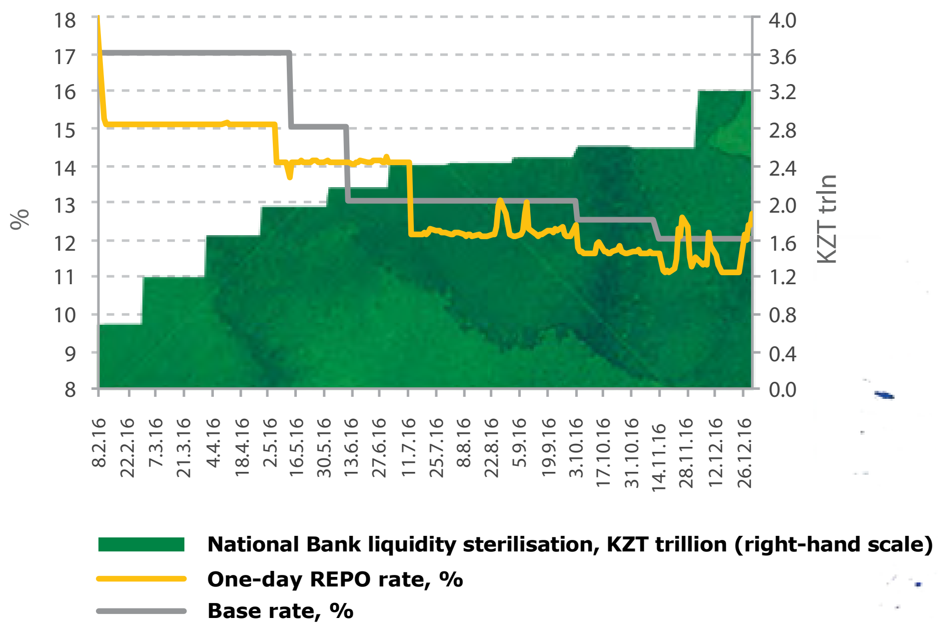
Sources: Ministry of Finance, Halyk Finance

The past year was challenging for the national currency, as falling oil prices in January 2016 caused the tenge to devalue to KZT384 against the US dollar. While the local currency recovered to an intra-year high of KZT327.7 against the US dollar in late April, it ended the year up just 2% year-to-date at KZT333.3 against the US dollar. Given this volatility, the National Bank of Kazakhstan intervened on the forex market in the first half of the year. Beginning in summer 2016, its forex interventions zeroed out on a net basis, implying that both the regulator and the economy have gradually adapted to the floating tenge rate. In 2016, the tenge depreciated by 17.8% against the Russian ruble (from KZT4.6 at the start of the year to KZT5.4 at the end).

Despite the slump in real household incomes and reduced lending volumes, inflation accelerated substantially in November and December 2016. This brought the annual inflation figure to 8.5%, exceeding the National Bank of Kazakhstan's 6-8% target.

Amid last year's substantial reduction in business activity and lower lending demand, the National Bank of Kazakhstan had full control to set interest rates. The return to a more normal inflation rate of 8.5% (down from 13.6% in 2015) allowed it to lower the base rate by 5 percentage points year-on-year, from 17% to 12% (4 percentage points in May-June and 1 percentage point in October-November), as well as to narrow the interest rate corridor to 1 percentage point. Money market rates traded mostly within the corridor and National Bank of Kazakhstan notes were the primary tool used to absorb liquidity, almost 90% of it.

Money market trends



Kazakhstan's banking sector in 2016

In 2016, the banking sector was awash in liquidity, which financial organisations placed in monetary instruments of the National Bank of Kazakhstan . Lending remained subdued amid low demand, high borrowing costs, poor credit quality among new borrowers, and the availability of more attractive investments. Bank deposit growth resumed and the proportion of deposits held in foreign currency significantly decreased over the year, due to lower devaluation expectations, tenge appreciation, and the wide spread in interest rates on tenge and foreign-currency deposits. Banks began accumulating liquidity in February, after the base rate was set at 17% +/- 2 percentage points. From there, the National Bank of Kazakhstan sterilised increasing volumes of liquidity until it held a total of KZT3.2 trillion (21% of second-tier banks' loan portfolios).

At the year-end, the National Bank of Kazakhstan's base rate was set at 12% +/- 1 percentage point and remained an attractive option for storing banking system liquidity, given that monetary instruments of the National Bank of Kazakhstan are risk-free instruments and do not accrue income tax. Second-tier banks' loan portfolios decreased by 0.3% year-on-year to KZT15.5 trillion and provision levels also shrank by 0.3%.

In 2016, lending increased by 1.5% (excluding loans to non-residents), according to National Bank of Kazakhstan statistics. Retail lending rates continued to fall, down 2.9% year-on-year (compared with a 3.3% decline in 2015, taking into account exchange rate movements). Corporate lending rates increased by 3.6% year-on-year after falling 16% in 2015, taking into account exchange rate movements.

Banks continued to work with problem loans (write-offs, off-balance sheet transfers and restructurings), reducing the share of loans overdue by more than 90 days to 6.7% at the end of 2016, compared with 8% a year earlier. However, some banks experienced liquidity and regulatory issues at the year-end, suggesting that the banking system still has significant challenges ahead. In 2016, deposits increased by 13.7%, according to National Bank of Kazakhstan statistics. By comparison, in 2015, deposits (adjusted for exchange rate movements) decreased by 7.1% (due to the revaluation of foreign-currency deposits in 2015, deposits increased by 37% in nominal terms).

From 1 February 2016, the maximum retail deposit rates were increased to 14% in tenge and reduced to 2% in foreign currency. This brought foreign-currency deposits down by 10% and caused tenge deposits to surge by 66% in 2016. For the year, the overall share of foreign-currency deposits decreased to 54.6%, compared with 69.9% in 2015. Local-currency deposits also became more attractive due to lower devaluation expectations and the tenge's 2% overall appreciation against the US dollar.

In 2016, banking sector profitability improved from 2015 (ROAA: from 1.1% to 1.6%, ROAE: from 9.2% to 15.1%)*. The banking sector's net interest margin decreased from 5.5% in 2015 to 4.8% in 2016, due to increased funding costs at banks and lower yields on National Bank of Kazakhstan instruments used to sterilise liquidity (compared with commercial lending).

Regarding strengths, the banking system continues to enjoy sufficient liquidity, at 21.7% of total assets at the end of 2016 (compared with 20% a year earlier). The main drivers of liquidity were state spending from the budget and National Fund, the shift from foreign-currency deposits into tenge ones, and the National Bank of Kazakhstan's forex interventions (net purchases of US$3.2 billion in 2016).

*Source: National Bank of Kazakhstan statistics "Information about owned capital, liabilities and assets", Halyk Finance calculations

FINANCIAL REVIEW

In 2016, the Bank's net income increased by 9.2% year-on-year to KZT131.4 billion, driven by a rise in net interest income of 14.5% and net fee and commission income of 11.3%.

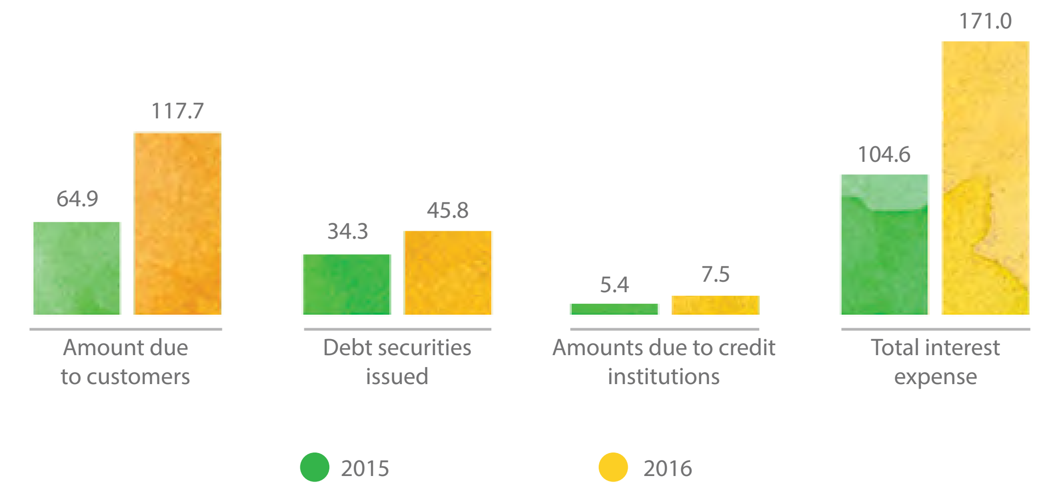
CONSOLIDATED INCOME STATEMENTS

Compared with 2015, interest income grew by 39.3%. This was due to a 38.3% increase in average balances of interest-earning assets and a rise in average interest rates on those to 10.6% from 10.5%. This was driven mainly by the Bank's purchases of National Bank of Kazakhstan notes during the second, third and fourth quarters of 2016.

Interest income by assets, KZT billion

In 2016, the interest expense grew by 63.6% year-on-year. This was due to an increase in the average balances of interest-bearing liabilities and a rise in interest rates on tenge-denominated amounts due to customers and amounts due to credit institutions. The increase in average balances of interest-bearing liabilities was a result of tenge depreciation in autumn 2015 (after the NBK allowed the tenge to move to free-float in August 2015). The rise in interest rates was a result of limited tenge funding on the market at the start of 2016 and, consequently, higher interest rates offered to the Bank's clients.

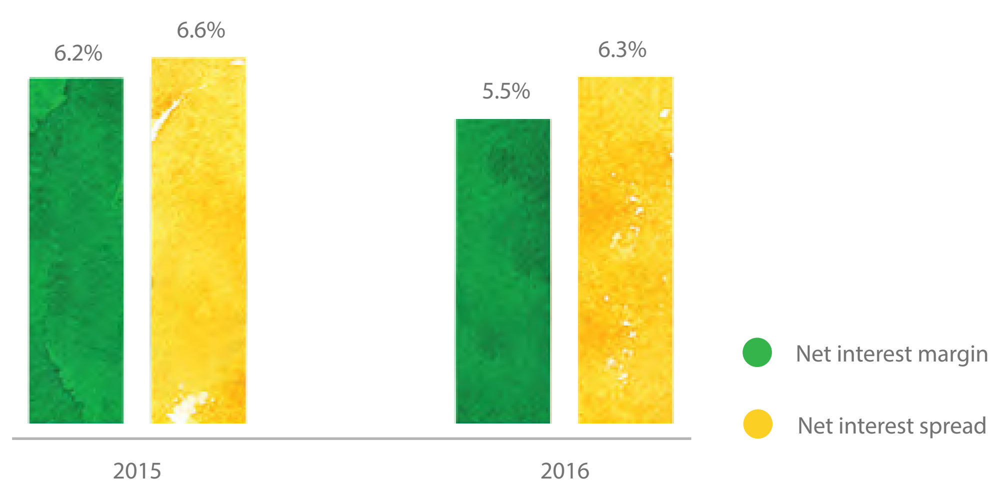
Interest expense by liabilities, KZT billion



As a result, net interest income before impairment charge increased by 22.4% year-on-year to KZT 184.0 billion.

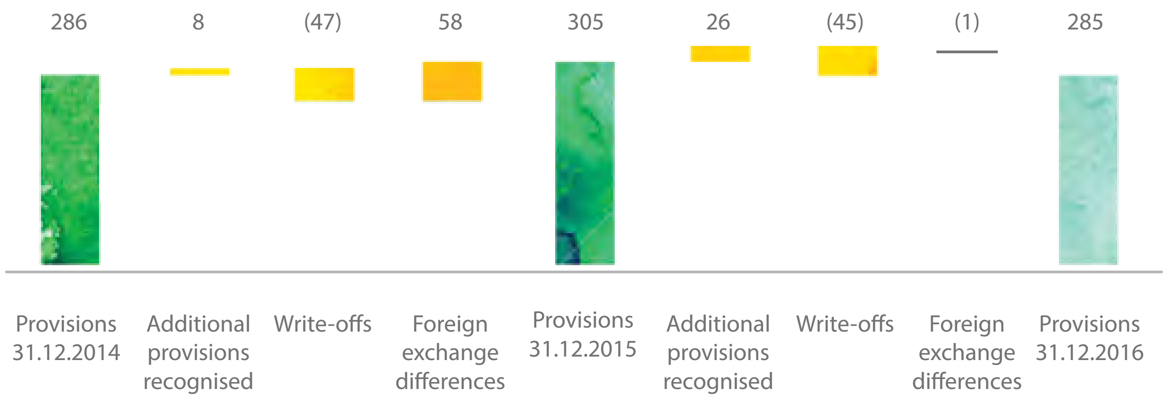
The net interest margin decreased to 5.5% for 2016 compared with 6.2% for 2015; the net interest spread declined to 6.3% for 2016 compared with 6.6% for 2015. The fall in these was caused by higher growth in the average interest rate on interest-bearing liabilities compared with growth in the average interest rate on interest-earning assets.

Net interest margin and net interest spread



The impairment charge increased to KZT 25.7 billion for 2016 compared with KZT 12.1 billion for 2015. The lower impairment charge in 2015 was due to the transfer of several problem loans to the Bank's SPV Halyk-Project and the repayment of a large-ticket impaired corporate loan, which resulted in provision recoveries.

Provisions on loans to customers, KZT billion



In 2016, the cost of risk returned to a more normalised level of 1.0% compared with 0.4% in 2015.

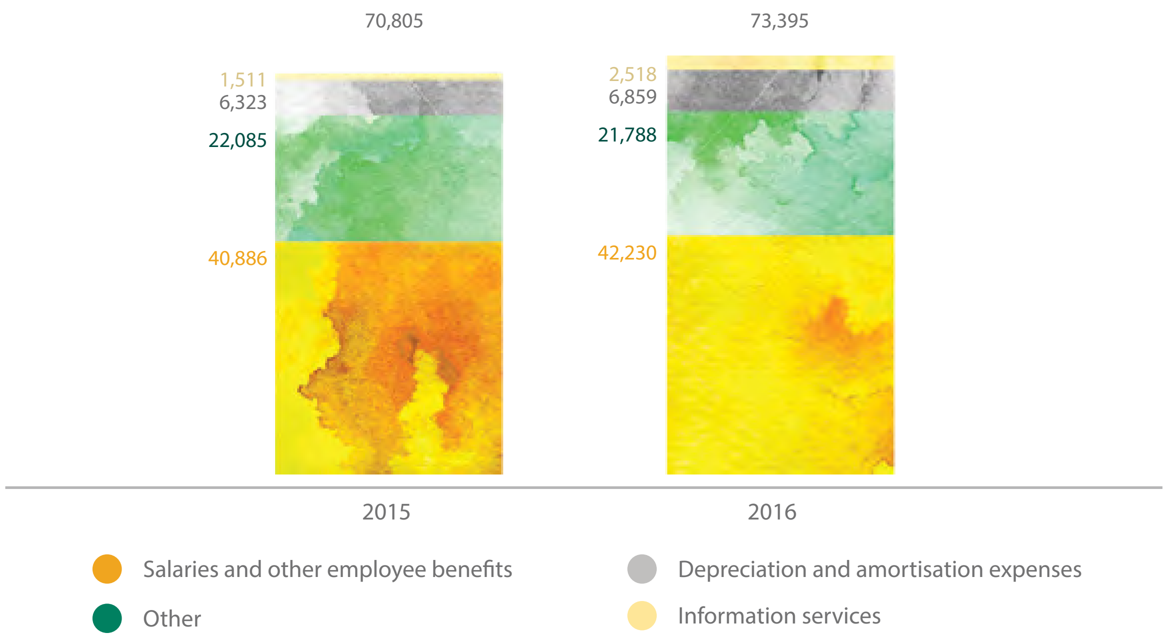
In 2016, fee and commission income rose by 11.3% year-on-year, amid growing volumes of transactional banking, mainly in payment card maintenance, cash operations and bank transfers – settlements.

	Year ended 31 December	
	2016 KZT mln	2015 KZT mln
Bank transfers – settlements	15,258	14,102
Cash operations	10,538	9,369
Payment cards maintenance	11,121	9,471
Bank transfers – salary projects	6,912	6,862
Servicing customer pension payments	6,953	5,867
Letters of credit and guarantees issued	4,135	3,363
Maintenance of customer accounts	2,178	1,684
Other	2,250	2,590
	59,345	53,308

Other non-interest income (excluding insurance) decreased to KZT 20.6 billion for 2016 down from KZT 40.1 billion in 2015. This decline was mainly attributable to a KZT 13.7 billion net loss from financial assets and liabilities at fair value through profit or loss mainly as a result of a loss on derivative operations at the Bank and one of its subsidiaries and, to a lesser extent, a revaluation loss on trading and derivative operations (US dollar/tenge swaps, off-balance sheet) on the back of tenge appreciation. The decrease was partly offset by a net foreign exchange gain, mainly as a result of the positive revaluation of a short US dollar position on the balance sheet due to tenge appreication during 2016.

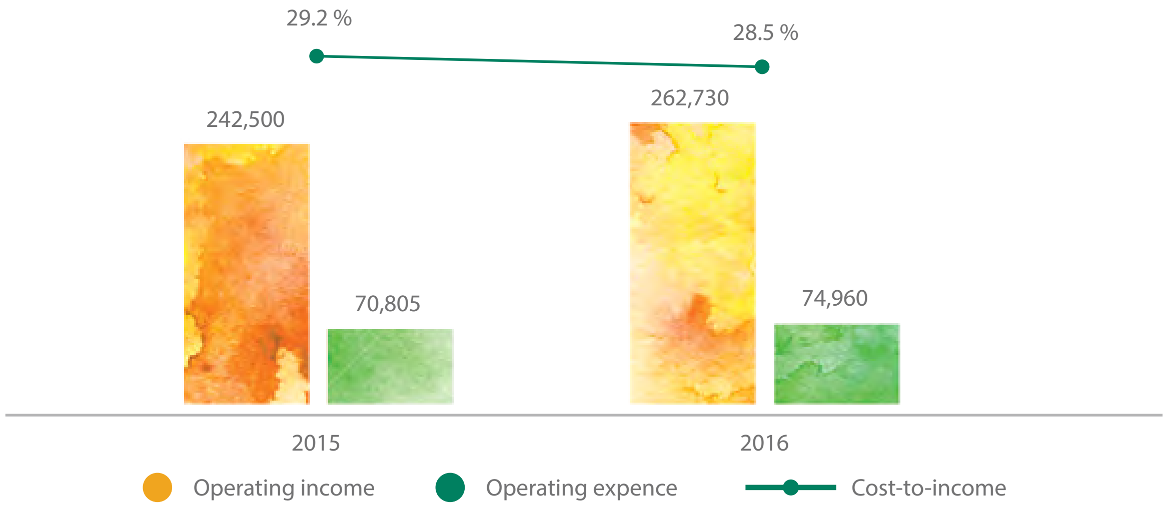
In 2016, operating expenses (excluding impairment loss of assets held for sale) grew by 3.7% year-on-year, mainly due to an increase in salaries and other employee benefits and information services. Starting from 1 January 2016 the Bank raised salaries for some categories of its employees and introduced an incentive bonus scheme instead of salary indexation. Expenses on information services grew due to additional software investments by the Bank and its subsidiaries during 2016, as well as a price increase for existing foreign-currency denominated software contracts on the back of tenge depreciation.

Operating expenses, KZT million



The Bank's cost-to-income ratio decreased to 28.5% compared with 29.2% for 2015 on the back of an increase in operating income. Operating income increased by 8.3% due to higher interest income and fee and commission income earned during 2016.

Cost-to-income ratio, KZT million

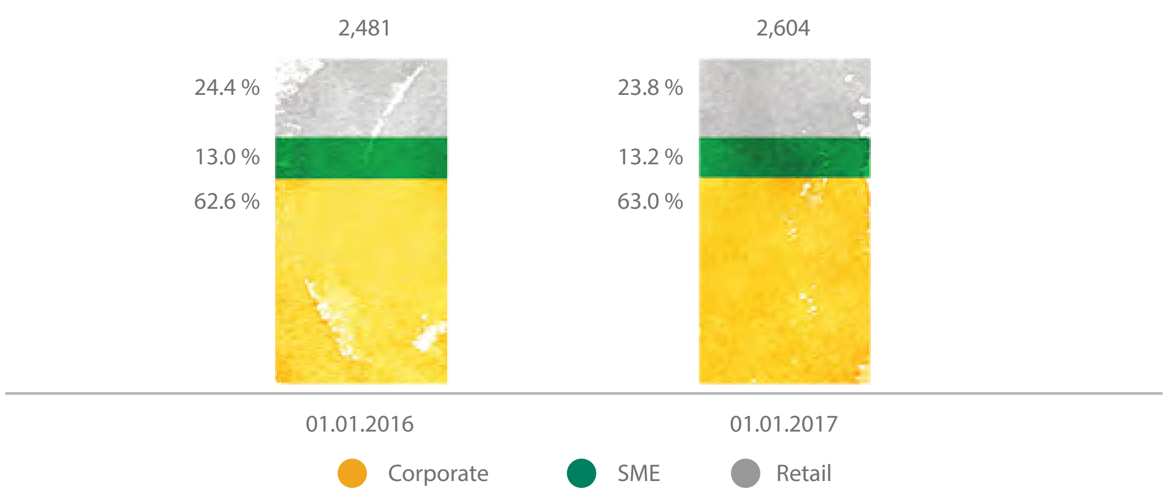


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In 2016, total assets grew by 20.1% year-on-year driven by an increase in the Bank's client deposit base.

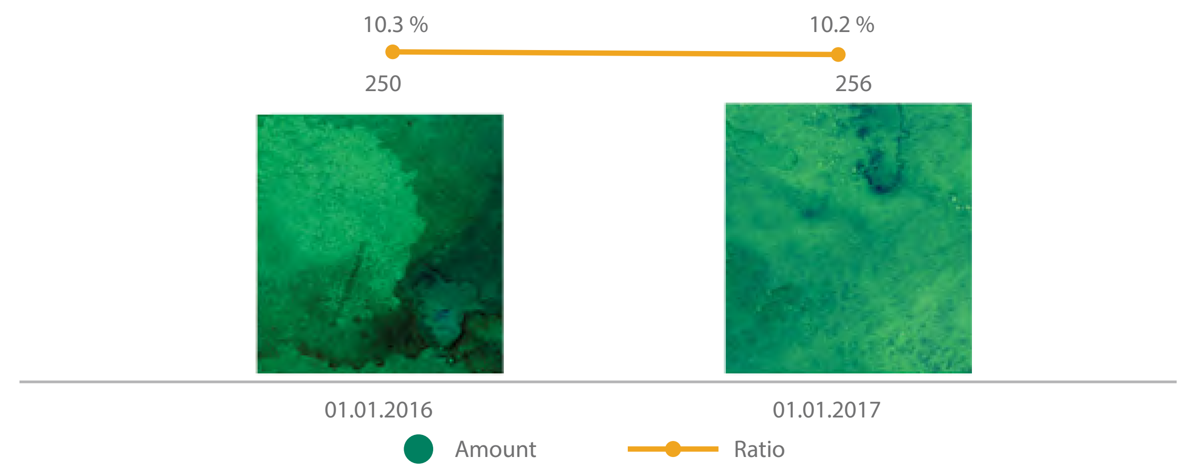
Compared with 2015, loans to customers increased by 5.0% on a gross basis and 6.6% on a net basis. Gross loan portfolio growth was attributable to an increase in corporate loans (up 5.5% on a gross basis), SME loans (up 6.6% on a gross basis) and consumer loans (up 6.2% on a gross basis), albeit partly offset by a decrease in mortgage loans (down 4.8% on a gross basis).

Loans by business segments, KZT billion



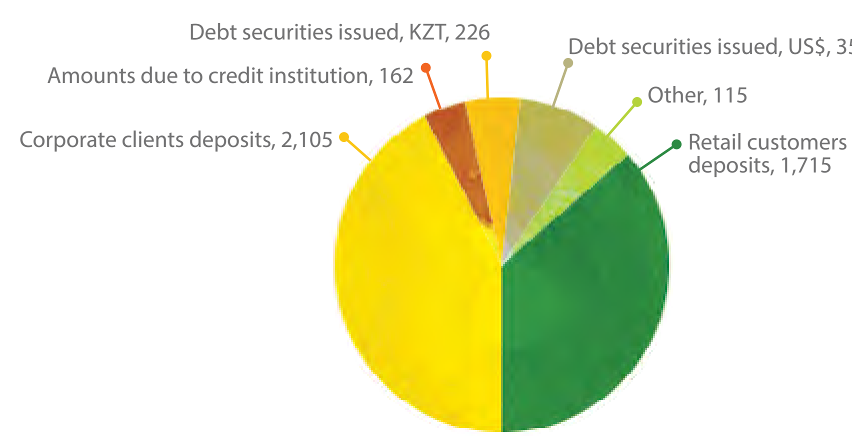
The 90-day non-performing loans (NPL) ratio decreased with 10.2% as at 31 December 2016 compared with 11.5% as at 30 September 2016, mainly due to the write-off of fully provisioned NPLs totalling KZT24.4 billion, as well as the repayment of NPLs by the Bank's corporate clients and an overall increase in the loan portfolio.

Non-performing loans 90+ days, KZT billion



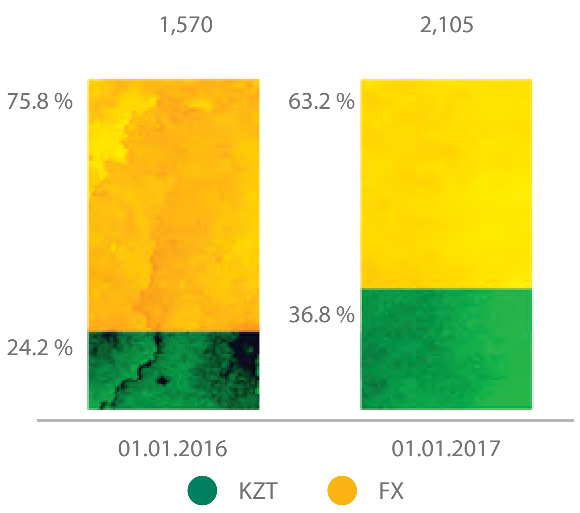
In 2016, loan impairment allowances decreased by 6.7% year-on-year, mainly as a result of loan write-offs and the repayment of impaired loans by the Bank's borrowers. Provisioning stood at 10.9% at the year-end, compared with 12.1% as at 30 September 2016 and 12.3% as at 31 December 2015.

At 31 December 2016, the breakdown of the Bank's funding was as follows: KZT billion

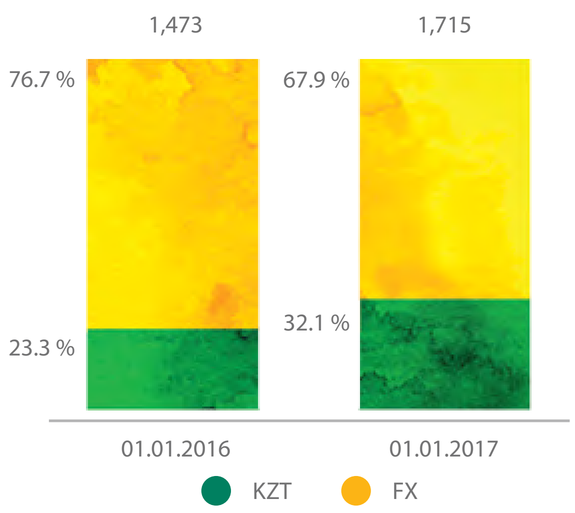


In 2016, deposits of legal entities and individuals increased by 34.1% and 16.4%, respectively, as a result of new tenge and foreign-currency deposit inflow from the Bank's corporate and retail clients during the year. As at 31 December 2016, the share of corporate tenge deposits in total corporate deposits was 36.8% compared with 24.2% as at the end of 2015, while the share of retail tenge deposits in total retail deposits was 32.1%, compared with 23.3% as at the end of 2015.

Corporate deposits by currency, KZT billion



Retail deposits by currency, KZT billion



Compared with 2015, amounts due to credit institutions decreased by 3.6% mainly due to a decrease in borrowings on the money market (T-bills REPOs) via the Kazakhstan Stock Exchange by the Bank and one of its subsidiaries during 2016. As of 31 December 2016, over one half of the Bank's obligations to financial institutions was represented by loans from KazAgro National Management Holding, the Damu Fund and Development Bank of Kazakhstan drawn in 2014 and 2015 within the framework of government programmes supporting certain sectors of the economy.

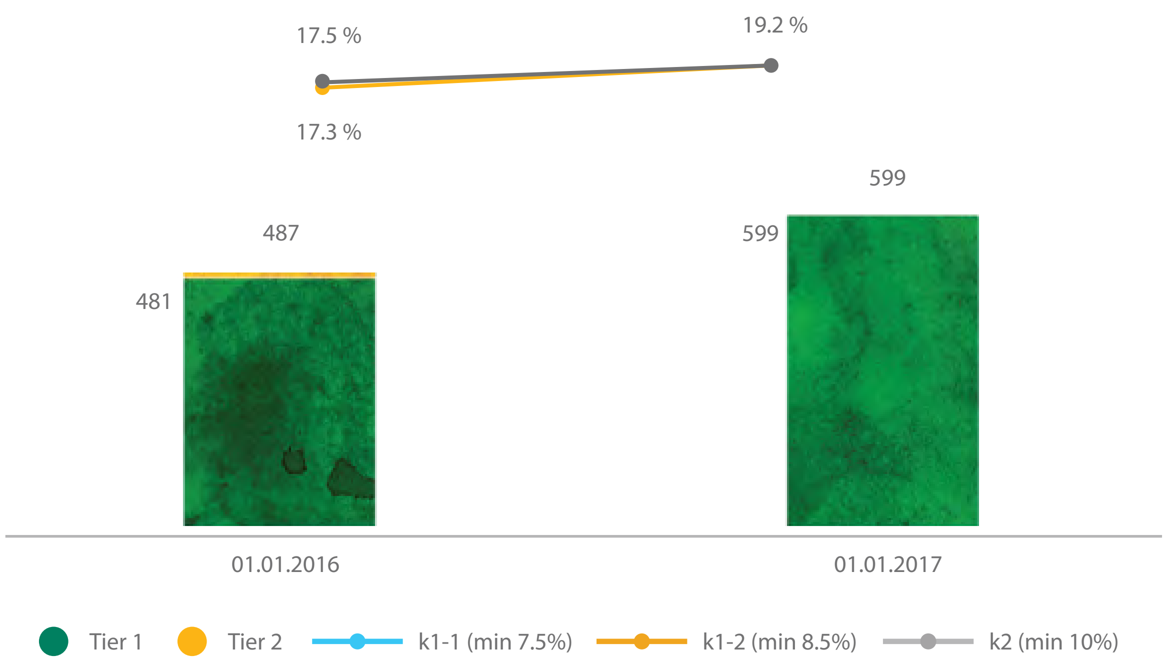
In 2016, debt securities issued decreased by 2.1% year-on-year. This was mainly due to the scheduled repayment of a 10-year KZT4 billion subordinated local bond on 25 April 2016, bearing a coupon rate of 15% minus inflation, as well as the voluntary prepayment of a KZT5 billion subordinated local bond on 9 November 2016, bearing a coupon rate of 13% with original maturity in November 2018. Therefore, as at 31 December 2016, the Bank's debt securities consisted of:

- two outstanding Eurobond issues amounting to US$638 million and US$500 million, maturing in May 2017 and January 2021, respectively, each bearing a coupon rate of 7.25%;
- local bonds amounting to KZT131.7 billion placed with the Unified Accumulative Pension Fund in 2015 at a coupon rate of 7.5% and maturing in February 2025;
- local bonds amounting to KZT100 billion with the Unified Accumulative Pension Fund in 2014 at a coupon rate of 7.5% and maturing in November 2024.

Compared with 2015, total equity increased by 25.6% due to net profit earned in 2016.

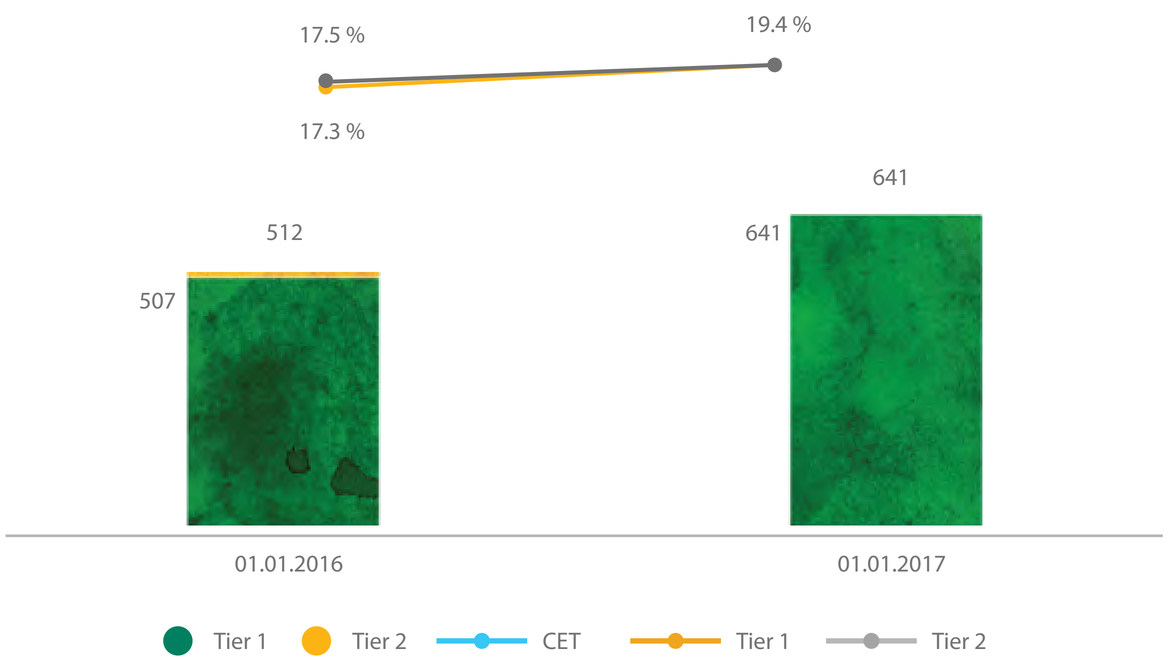
The Bank's capital adequacy ratios, unconsolidated, were 19.2% for k1-1, 19.2% for k1-2 and 19.2% for k2 as at 31 December 2016, compared with 17.3% for k1-1, 17.3% for k1-2 and 17.5% for k2 as at 31 December 2015.

Capital adequacy ratios, Bank only, KZT billion



Capital adequacy ratios, consolidated, were 19.4% for CET, 19.4% for Tier 1 capital and 19.4% for Tier 2 capital as at 31 December 2016, compared with 17.3% for CET, 17.3% for Tier 1 capital and 17.5% for Tier 2 capital as at 31 December 2015.

Capital adequacy ratios, consolidated, KZT billion



SELECTED FINANCIAL RATIOS

	31 Dec 2016	31 Dec 2015
Amounts due to customers / total liabilities	81.6%	77.5%
Loans / deposits ratio	60.7%	71.5%
Liquid assets / total assets	46.8%	36.1%
IFRS provisioning rate	10.9%	12.3%
Return on average common shareholder's equity (RoAE)	22.3%	24.4%
Return on average assets (RoAA)	2.8%	3.7%
Net interest margin	5.5%	6.2%
Net interest spread	6.3%	6.6%
Cost-to-income ratio	28.5%	29.2%
Operating expenses / average total assets	1.6%	2.2%
Cost of risk (loans to customers)	1.0%	0.4%

BUSINESS REVIEW

Halyk Bank's core business focuses on retail, corporate and SME banking. Through subsidiaries, the Bank also provides insurance, leasing, asset management and brokerage services.

RETAIL BANKING

Retail deposits

Halyk Bank holds a leading position on Kazakhstan's retail deposit market. At the end of 2016, its share of deposits held by second-tier banks was 20.7%, compared with 20.6% a year earlier. Its share of term deposits was 19.9%, compared with 19.7% at the end of 2015, while the figure for demand deposits was 28.0%, compared with 30.0% at the end of 2015.

The Bank's retail deposits expanded by KZT215.8 billion in 2016.

Halyk Bank is actively involved in government and social programmes. Additionally, in October 2016, Halyk Bank began making compensation payments to retail tenge deposit holders as part of the move to a floating exchange rate, in accordance with Resolution No. 157 of the Management Board of the National Bank of Kazakhstan, dated 9 September 2015.

A total of KZT12.7 billion has already been transferred by the National Bank of Kazakhstan to the Bank under the compensation programme, including:
- Phase 1 – KZT11 billion
- Phase 2 – KZT1.7 billion

As of the year-end, the balance of deposits under the Halyk Compensation programme totalled KZT1,327 million.

Retail lending

Halyk Bank's retail loan portfolio grew by 3.3% year-on-year in 2016. The main driver of retail lending was consumer loans, which accounted for 73% of the Bank's overall loan portfolio growth in 2016. Retail loans issued in 2016 totalled KZT 283 billion.

In 2016, the Bank's share of the retail lending market increased by 0.5 percentage points year-on-year to 16.5%.

In the reporting period, the Bank continued to play an active role in state and social programmes:
- As part of the state mortgage refinancing programme financed by the Distressed Assets Fund, which was approved by Resolution No. 69 of the Management Board of the National Bank of Kazakhstan, dated 24 April 2015, the Bank has received KZT28.6 billion, of which KZT16.3 billion has been disbursed;
- As part of the state programme to support the local automotive industry, as per the agreement with the Development Bank of Kazakhstan, for the past two years the Bank has used 100% of its KZT5.3 billion limit and has issued a total of KZT6.4 billion in loans under the programme (accounting for the re-lending of funds that have been repaid by borrowers). The Bank continues to work under this programme as additional funds are repaid.

In 2016 the Bank introduced new retail products:

- Unsecured loans/credit cards for individuals who are not a party to the Bank's payroll programme. This product aims to provide loans to Kazakh residents who are not a party to the Bank's payroll programme but receive income which is officially confirmed by the UAPF. Employees from around 200 entities approved by the Bank are eligible to receive loans under the programme.
- Salaray overdraft – represents a credit limit set on a salary card, which may be used in case of an individual's own funds shortage.

Payment cards

As of the year-end, the number of active payment cards issued by second-tier banks was 8,420 thousand. Halyk Bank remained the market leader with a share of 46% (3,881 thousand).

Starting from 1 August, the Bank updated its payment card packages for individuals. Depending on a type of payment card, package offers include accident insurance by Halyk-Life or Travel Plus insurance policy from Kazakhinstrakh, additional free payment card payment issuance, virtual card issuance in internet-banking system, connecting to sms-banking, as well as concierge service and business lounge access for premium card holders.

Payroll programmes

One of the Bank's main strategic services is payroll programmes. In 2016, the volume of payroll transfers increased by 10% year-on-year, while the number of active cards in circulation rose by 5%.

Social payments

As one of the main financial institutions that has been disbursing social payments in Kazakhstan since 1996, Halyk Bank serves more than 2 million pensioners and recipients of benefits. It accounts for 60.4% of social payments in Kazakhstan.

Premium zones

To improve its customer service quality, the Bank opened premium zones for its medium segment customers. By the end 2016, the Bank had 23 Premium zones, which serviced 10.5 thousand customers.

Remote sales channels

One of the main drives to improve customer service quality involves offering services through remote sales channels. As of the year-end, Halyk Bank had a 7% share of banking kiosks and payment terminals, 22.7% share of POS terminals and 24.7% share of ATMs.

An increasing variety of services are offered via remote channels. In 2016, the number of payments made through these rose by 286.4 thousand, up 2% year-on-year, while the overall amount increased by KZT28.4 billion, up 79% year-on-year.

In 2016, payment terminals were updated with additional functions to pay the Bank's commissions, add funds to retail deposits held with the Bank, and create notifications about accounts opened with the Bank for use at any of the State Pension Payment Centre's branches. The total number of transactions conducted via the Bank's payment terminal network doubled year-on-year to more than 10 million transactions.

In April 2016, the Bank launched an e-money service on its payment terminals, and in June 2016, one of the winning teams in the Halyk FinTech competition launched the Halyk eWallet application, which provides access to funds stored electronically and allows issuing e-money.

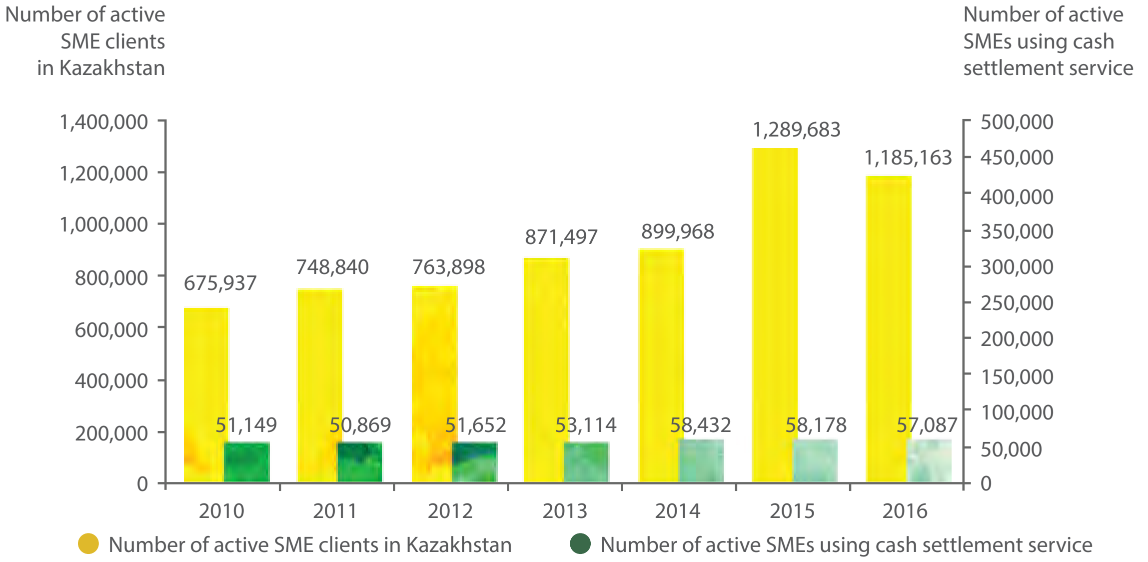
In the year, the Bank continued to expand the network of retailers that accept payment cards. The number of retail POS terminals and mobile POS terminals increased by 20.1% year-on-year.

Remote services for individuals

In 2016, the retail internet banking system was updated with a new design and additional functionality. A new system was also implemented to authenticate users and confirm transactions. A token is used to generate a one-time password for transactions requiring heightened security, such as transfers exceeding the Bank's limits. The number of service providers accepting payments via the internet banking system rose to 1,700. This helped increase the number of users by more than 31% to 918.2 thousand customers. Over the year, the internet banking service handled more than 4.5 million payments and transfers. The Bank also introduced new services for internet banking clients, including card-less cash withdrawal, resetting the PIN counter, and changing the code word.

SME BANKING

In the beginning of 2016, the SME division introduced a new client segmentation model based on such criteria as client revenues, as well as their affiliation with holdings, parent company and division servicing the client for loan products. Under the re-segmentation, 15,790 clients are classified as medium businesses and 47,368 as small businesses.



At the year-end, the Bank had 57,087 SME clients, including 5,490 borrowers, and had issued 15,621 SME loans.

Of the total number of SME clients, there were:

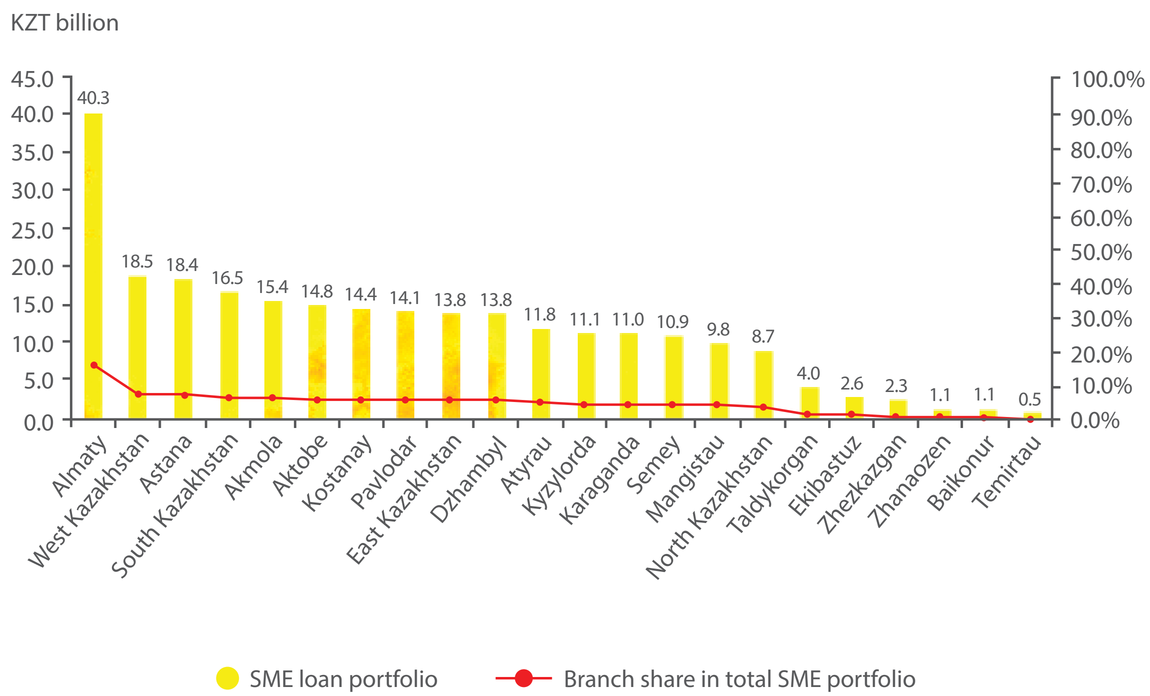
- 13,053 clients using two products
- 2,681 clients using three or more products

A total of 15,734 clients were using more than one product.

The following trends were visible in SME lending:

- The Bank's SME loan volumes are increasing steadily, up 9% year-on-year from KZT215.1 billion in 2015 to KZT234.5 billion in 2016;
- The Bank is working to improve the quality of its SME loan portfolio, which led to a significant reduction in problem SME loan portfolio (down 27% year-on-year) and an increase in the standard (non-problem) SME loan portfolio (up 12% year-on-year) since the start of the year;
- The Bank is strengthening its position on the documentary market; the number of guarantees and letters of credit increased by 12% year-on-year, and the annual average portfolio of uncovered (supported by collateral) bank guarantees issued by the Bank rose by 25% year-on-year.

By region, at the year-end, the largest shares of the SME portfolio were 15.8% for Almaty Region, 7.3% for West Kazakhstan Region, 7.2% for Astana Region, 6.5% for South Kazakhstan Region and 6% for Akmola Region.



In 2016, Halyk Bank continued to play an active role in state programmes together with the Damu Fund to support business in Kazakhstan.

As of the end of 2016, it was one of the leading second-tier banks in the "Business Roadmap – 2020" programme in terms of loan portfolio and number of borrowers that received loan approvals under the initiative. Halyk Bank's portfolio of loans subsidised under the programme equals KZT207.6 billion (including the corporate loan portfolio), or 14% of overall loans from second-tier banks subsidised under the programme, placing it second.

Of the 8,284 participants in the programme, the Bank works with 18.1%, or 1,499 projects (910 borrowers).

The Bank also provides Damu Fund guaranteed loans to private businesses under the programme. Since beginning this, the parties have signed 576 deeds of guarantee, or 22.2% of the 2,596 agreements signed with the Damu Fund. At the same time, the overall amount of guarantees allocated to the Bank by the Damu Fund is KZT7.7 billion, or 19.3% of the overall volume of guarantees provided by the fund to second-tier banks. For each of these indicators and overall, the Bank ranks second in the programme among second-tier banks.

In addition to "Business Roadmap – 2020", Halyk Bank is involved in numerous other joint programmes to finance private business with the Damu Fund:

- Since April 2014, under the KZT20 billion first tranche of the government programme to support SMEs in the processing industry, the Bank has funded 150 projects for a total of KZT29.1 billion, including funds that have been reused after repayment;
- Since April 2015, under the KZT6 billion second tranche of the government programme to support SMEs in the processing industry, the Bank has funded 43 projects for a total of KZT12.8 billion, including funds that have been reused after repayment;
- Since March 2015, under the KZT6 billion third tranche of the government programme to support SMEs in the processing industry, the Bank has funded 73 projects for a total of KZT15.2 billion, including funds that have been reused after repayment.

The Bank is among the top three in terms of funds allocated and disbursed under the initiative. In May 2016, the Bank began to help with implementing a Regional SME Financing Programme funded by the Damu Fund and the regional governments from nine of Kazakhstan's regions, as well as the city of Almaty. The Bank signed 12 agreements with the Damu Fund for a total amount of KZT3.9 billion covering the following nine regions – Almaty Region, Aktobe Region, Atyrau Region, Mangistau Region, Kyzylorda Region, West Kazakhstan Region, Kostanay Region, North Kazakhstan Region, Dzhambyl Region – and the city of Almaty. This amounts to 17% of the total programme's planned budget for 2016. The Bank is currently working actively to make the first loans using the funds allocated under this programme within the time frame set out in the agreements. As of the year-end, more than 80% of the total funds allocated within the programme had been used.

In Astana in June 2014, Halyk Bank and the National Chamber of Entrepreneurs signed memorandum of cooperation, which stipulates a number of measures to improve access to information for SME businesses and to promote state support programmes among the SMEs, and the Bank has been actively involved since. Specially trained employees are available at all branches to provide advice on a wide range of services free of charge, including about:

- how to structure financing based on the specifics of a client's business;
- tax issues, taking into account the corporate and legal structure of a client's business;
- the conditions for receiving support under state SME programmes involving second-tier banks;
- the full list of services provided by the Bank and the best terms to suit a client's needs and interests.

A total of 12,401 clients have been consulted since the memorandum was signed, of which 7,434 (60%) sought consultation regarding government programmes and 4,967 (40%) for other issues. In addition, in 2016, the Bank and the National Chamber of Entrepreneurs continued to organise seminars with representatives from regional chambers, the Damu Fund and other specialised organisations; round tables including briefings for regional media; visits by teams of consultants; and 'entrepreneur days'.

In 2016, to achieve the objectives of Halyk Group's development strategy, the following work was conducted:

- To segment customer groups and know clients better, a new client segmentation system based on revenues and holding affiliation was introduced;
- To introduce a 'client wallet' model and a new business planning process, a new business planning model was devised and KPIs were set for each SME client manager;
- To increase SME sales, the Bank developed and introduced a new SME client-product teams sales model that uses an integrated approach to offer banking products to each SME customer;
- To expand coverage of current SME clients and accelerate the application process for them, all regional offices began selling non-loan products/product packages to SME clients using BPMOnline CRM 7.6 software.

CORPORATE BANKING

Halyk Bank's Corporate Banking division offers clients traditional financing, trade finance, cash settlement, payroll and foreign-exchange risk hedging, as well as investment banking, insurance, cash collection and other services (in conjunction with the Bank's subsidiaries).

The Bank continues to focus closely on developing remote service technologies, adding new features to its internet banking for legal entities. For most corporate clients, the features of the system have been customised to companies' organisational structures and business profiles. Cash flow management and control services are available for groups of companies.

Halyk Bank's corporate clients include large national enterprises, as well as large and medium-sized companies that hold leading positions in their industries or specific niches. In terms of its scope, corporate banking remains one of the Bank's core activities. Halyk Bank supports and develops partnerships with corporate clients in various industries, focusing on attracting and servicing first-tier clients.

The Bank continues to focus on establishing, maintaining and developing long-term relationships with such clients, strengthening partnerships with existing clients and attracting large new ones. The Bank offers its clients a range of solutions that cover almost all financial matters faced by large companies of various types. This approach to corporate clients is based on partnership and was chosen to maintain the Bank's image, as well as to meet large companies' demands for customised solutions to significant matters. Halyk Bank carefully examines customers' needs, taking into account their activities, seeking a deep understanding of the specifics of their businesses, and looking to improve the structure and content of the products and services provided.

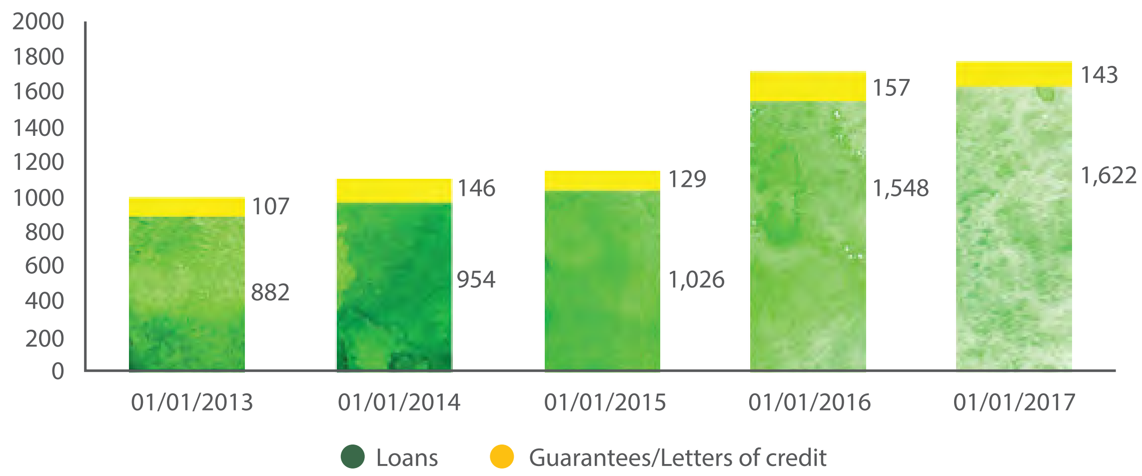
As a result of this work, Halyk Bank signed cooperation agreements with local businesses, as well as with large, well-known foreign companies operating in Kazakhstan. The latter is particularly noteworthy, as such companies previously only used the services of international banks. The Bank's close work with national companies was not limited to any particular products or services. The Bank arranged to provide financing for companies in leading state holdings. The main projects were in the energy, telecommunication and transport sectors, while the Bank also funded major infrastructure initiatives.

Halyk Bank remains actively involved in a state programme to support large enterprises, which is being implemented through the Development Bank of Kazakhstan. Overall, the Bank received KZT16 billion under the programme, while in 2016, using resources provided by the National Fund, it financed seven major enterprises in the pharmaceutical, chemical, textile and food industries, as well as the production of construction materials and lubricants.

In the reporting period, the number of corporate borrowers participating in various programmes decreased to 52, largely due to the end of the post-crisis recovery programmes. The Bank remains involved in the "Agrobusiness-2020" agricultural business support programme.

In the first quarter of 2016, the economic environment in Kazakhstan was challenging, particularly in the banking sector, which was impacted by a lack of tenge liquidity and a rise in the cost of tenge financing. As a reminder, on 20 August 2015, the National Bank of Kazakhstan decided to pursue a new monetary policy and abolish the trading corridor for the local currency and move to a freely floating exchange rate. As a result, the tenge declined sharply against major currencies. Despite these events, thanks to its own funding base, Halyk Bank's positions on the market proved superior and it was able to focus on the most attractive opportunities, which helped it to enhance its loan portfolio in terms of both volume and quality over the year.

Change in Halyk Bank's corporate portfolio (KZT bln)



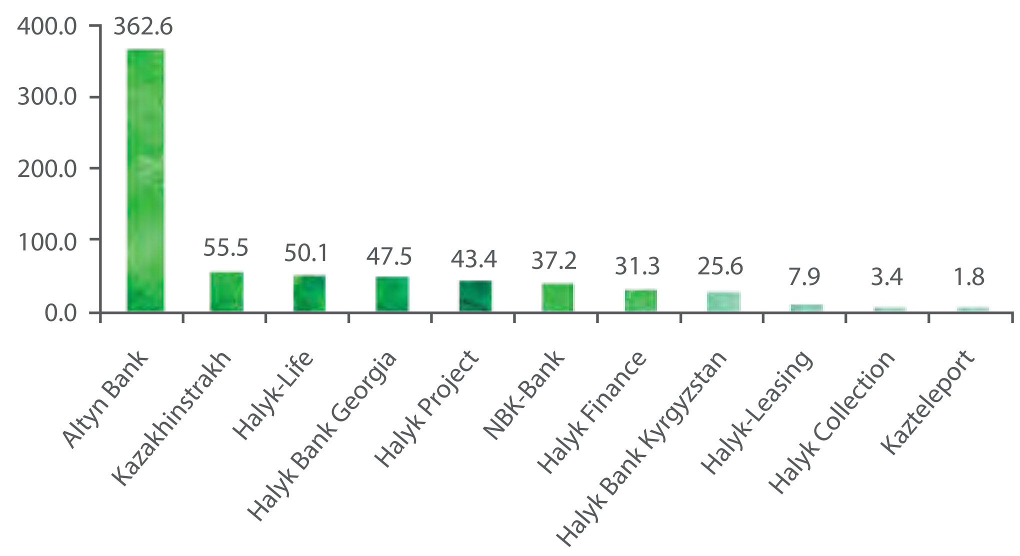
The Corporate Banking division delivered solid results overall in 2016. Halyk Bank expanded its major corporate client base, attracted new, reliable borrowers and increased its interest income by over 30%. By the year-end, the corporate client base stood at 1,621 corporate clients, including 230 borrowers. Amid volatility on the capital markets, the Bank increased its market share in the corporate business thanks to its high liquidity and strong capitalisation, as well as its comprehensive service offering and extensive regional network.

In accordance with Halyk Group's corporate banking development strategy for 2016-18, a new client segmenting system was created using client revenues, as well as their affiliation with holdings. A new client-product teams sales model was also introduced. A new approach and principles for working with large corporate clients was developed, and short- and medium-term goals were outlined to improve customer service and find optimal product and service offerings. The new sales model will provide new and existing clients with targeted banking solutions for their business, as well as comprehensive, high-quality banking services to meet all their needs.

The Mobile Business Client app allows companies' management teams to view account balances and statements online, as well as to approve payments. Direct integration of 1C Kazakhstan with the internet banking for legal entities system allows direct exchange of payments and statements. The Halyk Notify mobile app provides push notifications about five kinds of transactions: outgoing payments, incoming payments, account balances, security holds and refused payments.

SUBSIDIARIES

Assets of subsidiaries at the end of 2016, KZT billion*



*Based on audited information

Name	Market share by assets, %	Equity (share in the Group), %
Altyn Bank	1.4%	6.7%
Halyk Finance	26.1%	2.6%
Halyk-Leasing	n/a	1.2%
Kazakhinstrakh*	8.9%	4.4%
NBK-Bank	0.008%	0.5%
Halyk Bank Georgia	1.3%	1.1%
Halyk-Life**	20.6%	1.3%
Halyk Bank Kyrgyzstan	2.9%	0.2%
Kazteleport	n/a	0.2%
Halyk Collection	n/a	0.4%
Halyk Project	n/a	0.7%

* Market share by assets is based on general insurance companies
** Market share by assets is based on life insurance companies

INSURANCE

Kazakhinstrakh

Kazakhinstrakh is a non-life insurance company that provides a comprehensive range of insurance services to all types of individuals and legal entities in numerous sectors.

At the end of 2016, Kazakhinstrakh was one of the largest general insurance companies in Kazakhstan. At the year-end, gross premiums were up 22.7% to KZT35.4 billion.

As of 31 December 2016, Kazakhinstrakh had total assets of KZT55.5 billion for a market share of 8.9%, while its net income for the year was KZT4.2 billion. At the year-end, it ranked third in terms of assets among general insurance companies.

Kazakhinstrakh is the leader in voluntary insurance against other financial losses (gross premiums KZT10.9 billion, 60.2% market share of segment premiums), voluntary health insurance (gross premiums KZT6.7 billion, market share 28.2%) and voluntary aircraft insurance (gross premiums KZT1.1 billion, market share 44.4%).

In 2016, Kazakhinstrakh introduced a virtual office to develop new sales channels using an online store for mandatory and voluntary insurance products. At the strahovkatut.kz website, clients can order and pay for insurance, as well as select a date and time for free delivery. In September 2016, the customer support contact centre expanded its hours to provide round-the-clock support. The contact centre currently processes more than 4,000 client requests each month from all regions of the country.

To further expand the product offering, the Travel Plus insurance programmes have been introduced for Halyk Bank VISA Gold, VISA Platinum, VISA Infinite, MC Gold and MC World Edition cardholders. The programmes reimburse medical costs at home and abroad, as well as service charges for lost baggage, cancelled trips, lost documents, etc.

Halyk-Life

Halyk-Life offers various types of personal insurance products, including life, annuity, accident and medical insurance products. As of 31 December 2016, it had total assets of KZT50.1 billion. In 2016, it generated net income of KZT2 billion. At the year-end, its market share of life insurance premiums was 28.1%, according to the National Bank of Kazakhstan.

BANKING

Altyn Bank

Altyn Bank is a universal bank that offers a wide range of products and services to both retail customers and corporate clients. It has four branches in Astana, Almaty, Aktau and Atyrau and two sub-branches in Almaty.

At the year-end, Altyn Bank had assets of KZT362.6 billion, gross loan portfolio of KZT109.7 billion and total equity of KZT44.4 billion. In 2016, it generated net income of KZT10.2 billion.

In May 2016, Moody's Investors Service issued a deposit rating for Altyn Bank of 'Ba2', the outlook 'negative'. In November 2016, after the announcement that a memorandum of understanding had been signed regarding the sale of a 60% stake in Altyn Bank to one of China's largest financial institutions, China CITIC Bank Corporation, Fitch Ratings put Altyn Bank on Rating Watch Positive. In December 2016, Fitch Ratings confirmed its long-term issuer default rating for Altyn Bank of 'BB', in foreign and local currency, and kept Altyn Bank on Rating Watch Positive.

In 2016, the Altyn-i online banking project was launched, allowing retail clients to access banking services without visiting an office.

OVERSEAS BANKS

The Bank provides banking services in Georgia, Kyrgyzstan and Russia through subsidiaries.

Halyk Bank Georgia

Halyk Bank Georgia is a commercial bank incorporated in Georgia that focuses on corporate, SME and retail banking. As of 31 December 2016, it had total assets of GEL376.4 million (KZT47,515 million), a gross loan portfolio of GEL279 million (KZT35,218 million) and total equity of GEL59.4 million (KZT7,501 million). In 2016, it generated net income of GEL8.7 million (KZT1,270 million). Last year, it opened the new Kutaisi branch, its seventh.

In May 2016, Fitch Ratings confirmed its long-term issuer default rating for Halyk Bank Georgia of 'BB-', in foreign and local currency, the outlook 'stable'.

Halyk Bank Kyrgyzstan

Halyk Bank Kyrgyzstan is a commercial bank incorporated in Kyrgyzstan that positions itself as a universal bank. As of 31 December 2016, it had total assets of SOM5,339 million (KZT25,629 million), SOM163 million (KZT793 million) higher than a year earlier, while its total equity was SOM1,373 million (KZT6,592 million). In 2016, it reported net income of SOM87 million (KZT426 million).

NBK-Bank

NBK-Bank is a regional Russian bank with its head office in Moscow and two lending and cash settlement offices, one each in Novosibirsk and Chelyabinsk. As of 31 December 2016, it had total assets of RUB6,847 million (KZT37,180 million) and total equity of RUB625 million (KZT3,396 million). In 2016, its gross loan portfolio totalled RUB3,459 million (KZT18,784 million).

LEASING

Halyk-Leasing

Halyk-Leasing operates in both Kazakhstan and Russia, through a branch in Chelyabinsk. As of 31 December 2016, it had total assets of KZT7,898 million, while it reported total revenues for the year of KZT26.6 million.

INVESTMENT BANKING

Halyk Finance

Halyk Finance provides a full range of investment banking and asset management services, including sales and trading (with market-making on the KASE), investment portfolio management, consulting, underwriting, M&A advisory, debt restructuring and research. As of 31 December 2016, Halyk Finance had total assets of KZT31.3 billion. Its net income in 2016 was KZT3.5 billion.

As of 31 December 2016, Halyk Finance's own investment portfolio was KZT24.8 billion.

In November 2016, Halyk Finance acted as Sole Financial Advisor and Lead Bookrunner on KazAgroFinance's five-year, KZT8 billion bond placement. This was the first open-market placement in the past two years that did not rely on the UAPF or the issuer's parent company.

In April 2016, Halyk Finance acted as Bookrunner and Sole Financial Advisor on Kazakh Temir Zholy's 10-year, KZT50 billion debut local bond placement.

Halyk Finance has been recognised by the international financial community for its high service quality. In April 2016, EMEA Finance (www.emeafinance.com) named Halyk Finance "Best Investment Bank in Kazakhstan 2015", marking the sixth consecutive year that it has won this prestigious award.

Halyk Finance was also recognised at the EMEA Finance Achievement Awards for the sixth year in a row, winning two awards: "Best Sovereign Bond in EMEA", for the Ministry of Finance of the Republic of Kazakhstan's USD4 billion, 10- and 30-year dual-tranche Eurobond, in which Halyk Finance acted as the Joint Lead Manager in July 2015; and "Best Financial Institution Bond", for Halyk Bank's KZT132 billion, 10-year bond, where Halyk Finance acted as the Sole Financial Advisor and Bookrunner.

Global Finance (www.gfmag.com) named Halyk Finance "Best Investment Bank in Kazakhstan 2015", marking the fourth time that it has won this prestigious award, including in 2011, 2012 and 2014.

In January 2016, Fitch Ratings confirmed its long-term ratings for Halyk Bank and its subsidiary, Halyk Finance, at 'BB', the outlook 'stable'.

TELECOMMUNICATIONS

Kazteleport

Kazteleport provides a wide range of telecommunication and IT services for Halyk Bank and its subsidiaries, including processing services to route authorisation requests among banks connected to Kazteleport. It is the main provider of data links to the Kazakhstan Interbank Settlement Centre, KASE and the First Credit Bureau in Kazakhstan.

In 2016, Kazteleport continued to expand in various areas:
- cloud technology services;
- data centre services
- technical support for the Bank's POS terminals at cash and settlement units, retail and service outlets, and at commercial clients' sites;
- installation of video surveillance, fire protection and structured cabling systems;
- data centres infrastructure maintenance;
- supply of telecommunications and IT equipment.

At the end of 2016, on the market of processing services for financial organisations, 15 of the 27 second-tier banks providing payment card services (including KazPost) used Kazteleport.

Kazteleport launched its POS terminal support business in 2013 and currently services around 12,000 terminals in 22 cities and regions in Kazakhstan. In 2016, Halyk Bank and Kazteleport implemented a solution to remotely upload PTMS software to remotely configure and update POS terminals.

New cloud technology based infrastructure has been introduced using VMWare VSAN (Software Defined Storage) technology to launch a self-service cloud portal. The BillManager billing system was installed and configured for cloud services. The processes for providing virtual servers and other services were automated. The VMWare VSAN integration was completed. The Active Directory server was configured and launched for centralised management of the data processing centre's client account data. The Cloud 1C and Service Desk servers were connected to the domain controller.

The VMWare Data Protector backup system was configured and launched, standardising the backup of clients' virtual servers. In Astana, a system was installed and configured to copy client virtual server backups to a tape library.

In November 2016, Kazteleport became a resident of the "Park of Innovative Technologies" special economic zone.

As of 31 December 2016, Kazteleport had total assets of KZT1,755 million. Its net income in 2016 was KZT346.5 million.

CASH COLLECTION

Halyk Collection

Halyk Collection provides collection services for banknotes, coins and valuables. While it is positioned in Halyk Group as a subsidiary providing services independently, its activity is closely related to the core business in that it provides cash to sales channels of the Bank — retail banking, which is the financial and consolidating centre of Halyk Group.

Halyk Collection is one of the leading providers of cash and valuable collection in Kazakhstan. All of its vehicles are fully armoured. To track their movement, a GPS monitoring system was launched in 2014.

As of 31 December 2016, Halyk Collection had total assets of KZT3,371 million. Its net income for 2016 was KZT1,461 million. As of the year-end, its branch network included a City cash collection division (in Almaty), 18 branches and 37 outlets that offer collection services in regions, cities, towns and smaller settlements throughout Kazakhstan.

SPECIALIST ORGANISATIONS

Halyk Project

According to Resolution No. 308 of the National Bank of Kazakhstan dated 21 September 2012, Halyk Bank has been granted Permit No. 1, dated 4 October 2012, to establish a subsidiary to manage distressed assets, Halyk Project.

Halyk Project was established in accordance with the Concept on Improving the Quality of Second-Tier Bank Assets, approved by a resolution of Kazakhstan's Council for Financial Stability and Development of the Financial Market.

On 12 October 2012, Halyk Project was registered with the authorised body of the Ministry of Justice of Kazakhstan and founding documents were received. Halyk Bank was the first second-tier bank in Kazakhstan to receive the regulator's permission to establish a subsidiary to manage doubtful and bad assets.

Halyk Project's main objective is to clean up Halyk Bank's loan portfolio from the distressed assets. It aims to do this by acquiring them from Halyk Bank using borrowed funds and seeking to turn them around before selling them and repaying its loan to Halyk Bank.

In 2016, Halyk Project received 11 projects totalling KZT6.4 billion, and realised eight projects totalling KZT2.5 billion. At the year-end, its portfolio of doubtful and bad assets received from the Bank (previously collateral on the Bank's balance sheet) stood at KZT45.6 billion.

RISK MANAGEMENT

Halyk Bank's risk management policy is focused on creating an integrated risk management system in line with the scope and scale of Halyk Group's activity and accepted risk profile, as well as supporting its business development requirements. Halyk Group seeks to continuously develop its risk management system and improve the way in which it identifies, manages, assesses and controls risks.

Credit risk management

To ensure effective credit risk management, the Bank has implemented a risk management system and business processes that take into account the segregation of the sales and risk management functions. It has also created an organisational structure that facilitates credit risk management, including collegiate bodies and subdivisions that take part in the credit risk management process.

The Bank manages credit risk by:
- Adhering to the principle of "three lines of defence", namely initial analysis of credit risk by the initiating subdivision, analysis by the risk management function, and control by the internal audit function;
- Setting limits for counterparts depending on the type of (credit) transactions or products;
- Diversifying the loan portfolio to mitigate a concentration of risk related to any one borrower, sector or geographical area;
- Monitoring the loan portfolio to identify any deterioration in quality at an early stage;
- Maintaining adequate provisioning to cover potential losses.

The Bank's system of making lending decisions is based on the delegation of certain powers by the Board of Directors to appropriate collegiate bodies and the establishment of credit limits for each body. For corporate borrowers, loan applications are reviewed by the Commercial Directorate. Loan applications that exceed the limits set for Commercial Directorate, as well as transactions with related parties, require further approval by the Board of Directors. For SME borrowers, lending powers are delegated to Credit Committees in the branches and the Credit Committee of the branch network, while retail banking decisions are delegated to the Centre for Decision-Making and the Retail Credit Committee (RCC) of the Head Office. Standard loans under unsecured retail lending programmes are approved automatically after being reviewed by the programme module, which includes automated underwriting, internal and external database checks, scoring estimates of an applicant and so on. Applications for non-standard unsecured lending are subject to credit approval by the Centre for Decision-Making and/or the RCC.
Credit committees of subsidiary banks are also authorised to make lending decisions within specific limits. The Bank regularly monitors independent decision-making limits and the authority of the credit committees in subsidiary banks and revises the limits, if necessary.

In accordance with its development strategy and Kazakh legislation, the Bank has reviewed and updated its key parameters for determining acceptable risk, which the Bank then monitors. It has approved a method for calculating and monitoring the client lending limits used at regional branches to determine self-financing limits for businesses in the SME space.

To assess its exposure to adverse changes in foreign and domestic macroeconomic conditions and determine the effect of stress scenarios (provisioning level, migration of credit ratings, non-performing loan ratio), the Bank conducts regular stress tests on its loan portfolio. A stress test was conducted in 2016 using relatively conservative forecasts regarding reductions in oil prices and GDP. The stress test results indicated that the Bank's capitalisation is resilient to asset quality deterioration.

In the first half of 2016, previously introduced Risk Analyst rating model used to assess the likelihood of a default and the associated rating on corporate clients was expanded to cover all regional/sub-regional branches. It will now collect information that can be used to verify lending models for the branch network's medium-sized business clients.

In the fourth quarter of 2016, work began to optimise and increase the Bank's small business exposure. As part of this process, in late 2016, the Management Board reviewed a research report on small business in Kazakhstan that showed a need to better serve small business lending. With the help of the SME division, a phased development plan for 2017 was prepared for the segment.

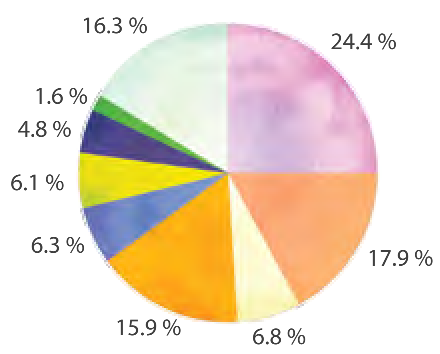
In 2016, the Bank launched an analytical CRM project and continued to implement its scoring evaluation system to measure retail lending risks. It launched loan products for clients who do not receive salaries at the Bank using a scoring model that ranges risk based on the statistical probability of default, calculates risk-based pricing and facilitates managing the retail lending policy in accordance with changes in the economic environment.

Over 2016, the drive to write off problem loans continued. In the year, the Bank wrote off KZT44.0 billion in NPLs (both with and without forgiving claims) using accumulated provisions. In addition, to manage problem loans more effectively, it transferred KZT6.3 billion in problem loans to its problem loan subsidiary. These measures reduced the volume of overdue loans.

As of 31 December 2016, retail loans represented a significant share of the loan portfolio (24%), with consumer and mortgage loans accounting for 17% and 7%, respectively. In terms of industry breakdown, the largest segments were services (16%), wholesale trade (15%), construction (7%), real estate (6%) and retail trade (6%).

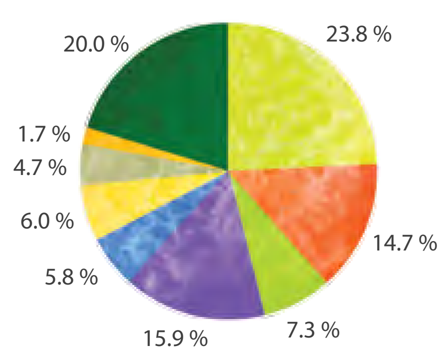
Breakdown of Halyk Group's loan portfolio by sector, %

31 December 2015



Retail loans
Wholesale trade
Construction
Service
Real estate
Retail trade
Agriculture
Financial service
Other

31 December 2016



Retail loans
Wholesale trade
Construction
Service
Real estate
Retail trade
Agriculture
Financial service
Other

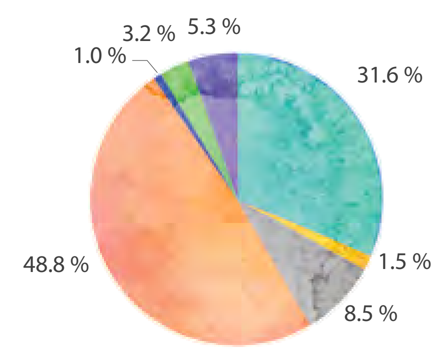
Asset/liability management

To create an optimal structure of assets that ensures a balanced approach to managing the risk-return ratio, the Group invests in a spread of domestic and overseas assets, diversified in terms of banking products, industry, currency and maturity.

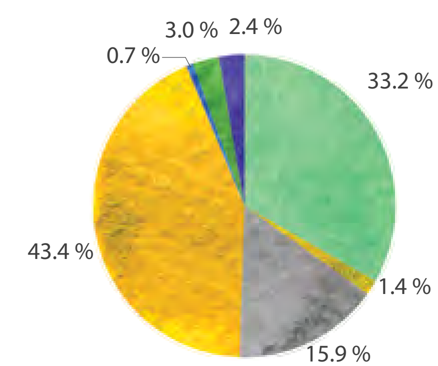
In 2016, the breakdown of the Group's assets was as follows.

Breakdown of Halyk Group's assets, %

31 December 2015



31 December 2016



Cash and cash equivavents
Obligatory reserves
Securities portfolio
Loans to customers
Amounts due from credit institutions
Goodwill, property and equipment
Other assets

Cash and cash equivavents
Obligatory reserves
Securities portfolio
Loans to customers
Amounts due from credit institutions
Goodwill, property and equipment
Other assets

In 2016, the Group's total assets climbed by 20.1%. This was mainly due to the securities portfolio increasing by KZT470.3 billion (up 123.7% year-on-year), cash and cash equivalents rising by KZT369.1 billion (up 26.2% year-on-year), and the loan portfolio expanding on a net basis by KZT143.5 billion (up 6.6% year-on-year). The loan portfolio remains the largest item among Halyk Group's assets: as of 31 December 2016, it accounted for 43.4% of the total. Other key assets are cash and cash equivalents (share of 33.2%) and investments in securities (trading and investment portfolio; share of 15.9%).

In 2016, the National Bank of Kazakhstan moved to stabilise the country's money market. As the macroeconomic environment and banking sector lending volumes deteriorated throughout the year, the regulator's monetary policy buoyed activity on the market for short-term sovereign securities. Due to this, the Bank mostly placed its tenge liquidity in short-term National Bank notes in 2016, which significantly expanded the securities portfolio.

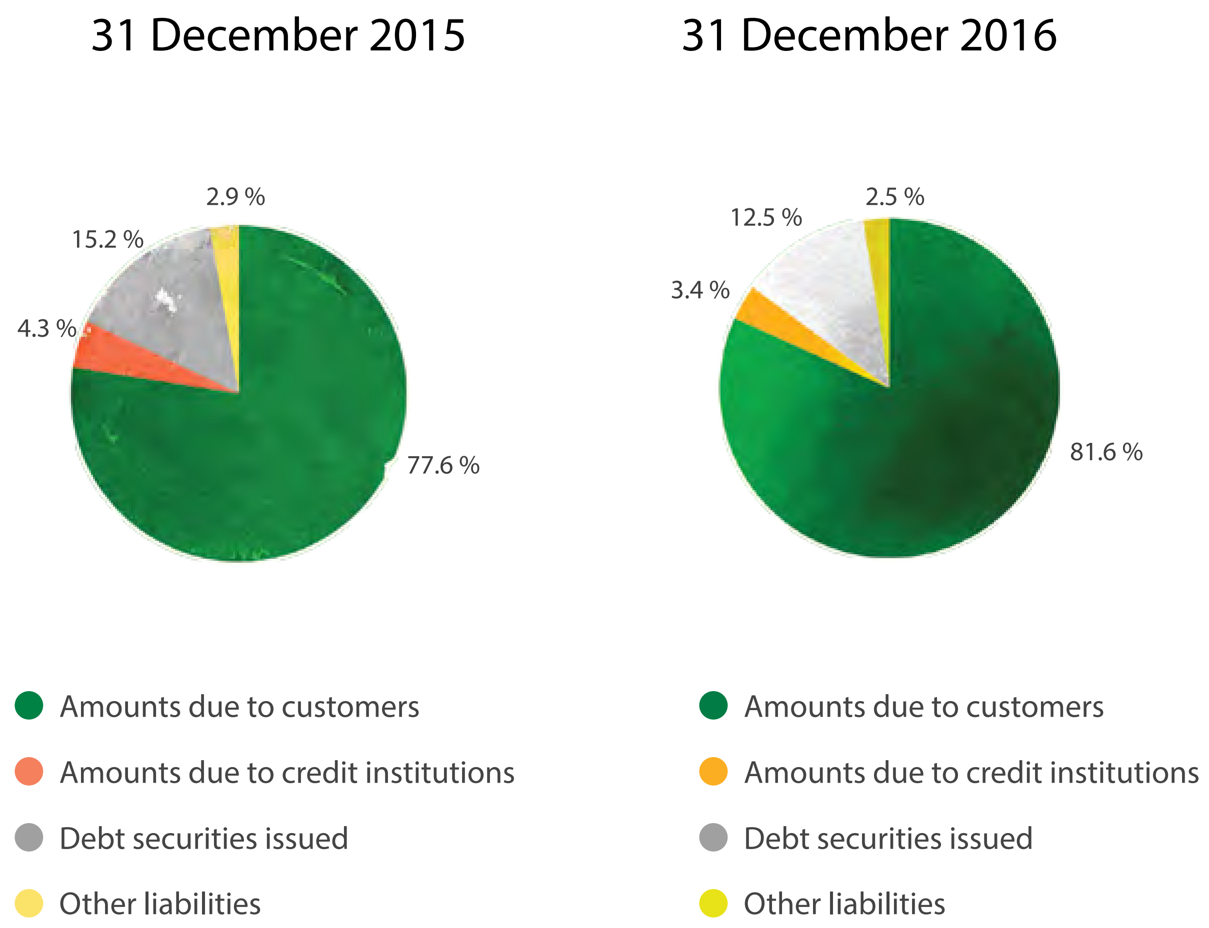
The rise in cash and equivalents was mostly due to increased volumes of short-term interbank and overnight deposits.

The Group regularly checks its limits for counterparty banks for consistency with its risk appetite. Whenever the Group identifies any negative factors affecting the operations of its counterparty banks and/or their countries of operation, it makes immediate relevant adjustments to reduce the amount and term of such limits.

For liquidity management purposes, the Bank maintains a stable and diversified structure of liabilities, which consists of borrowings and deposits with fixed maturities and liabilities payable on demand.

The breakdown of the Group's liabilities in 2015 and 2016 was as follows.

Breakdown of the Group's liabilities, %



In 2016, the main changes in the breakdown of liabilities were to amounts due to customers. At the year-end, amounts due to customers had increased by KZT776.9 billion (up 25.5%) in absolute terms and remained the largest liability item, accounting for 81.6% of total liabilities in 2016, compared with 77.6% in 2015.

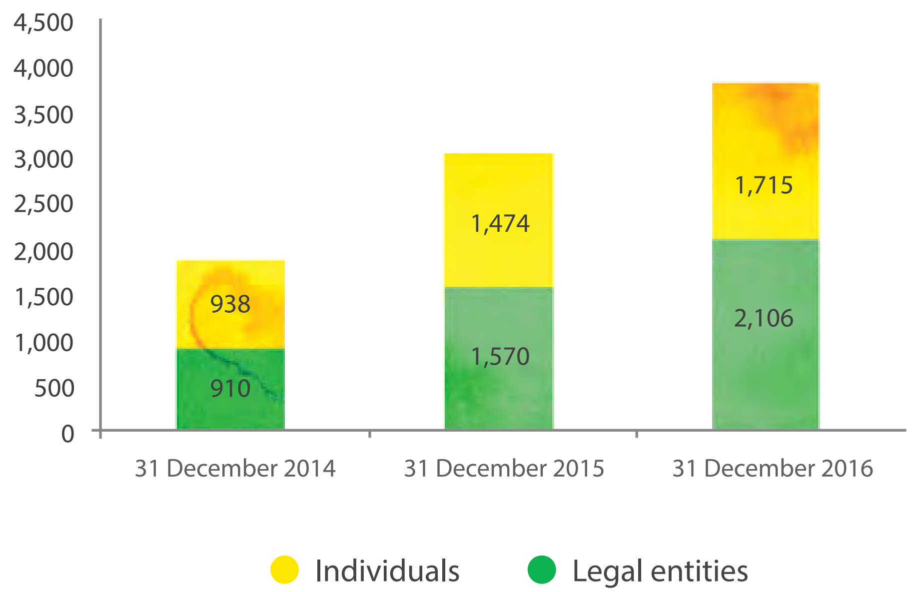
The breakdown of the deposit base was influenced primarily by tenge appreciation and the combined efforts of the government and National Bank of Kazakhstan to de-dollarise the economy and improve the population's confidence in the national currency. There was a significant change in the ratio of tenge and foreign currency deposits, mainly as a result of increase in interest rates on retail tenge deposits by the Kazakhstan Deposit Insurance Fund. This caused tenge deposits to surge by KZT600.2 billion (up 83.0% year-on-year), while foreign-currency deposits rose by just KZT176.7 billion (up 7.6% year-on-year).

The share of term deposits versus current accounts in the deposit base was little changed as of the reporting date, at 71.7% and 28.3%, respectively, compared with 70.5 and 29.5% in 2015.

In 2016, amounts due to retail customers had increased by 16.4% year-on-year and amounts due to legal entities by 34.1% year-on-year.

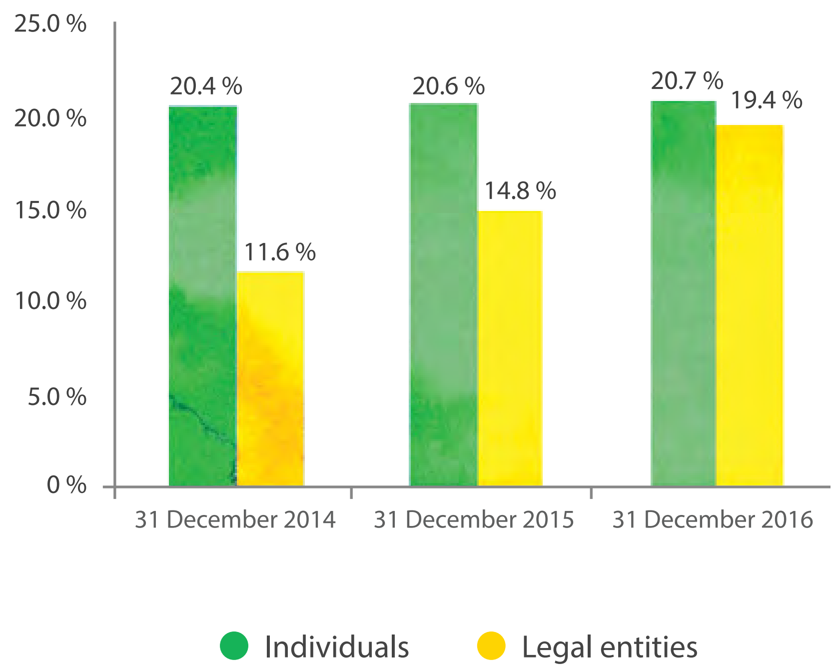
Debt securities issued decreased by KZT12.6 billion (down 2.1% year-on-year) primarily due to the revaluation of Eurobonds.

Amounts due to customers, KZT billion



The Bank's focus on raising funds in the domestic market helped it to maintain leading positions in the customer account market. The Bank is a market leader in terms both of retail deposits, with a market share of 20.7% as of 31 December 2016 (compared with 20.6% a year earlier), and of corporate deposits, with a market share of 19.4% (compared with 14.8% a year earlier).

Market share by amounts due to customers, %



To assess its exposure to liquidity risk, the Bank conducts regular stress tests showing the impact of the outflow of customers with the highest concentration on the Bank's liquidity position, as well as annual 'bottom-up' stress tests as required by the regulator.

Market risk management

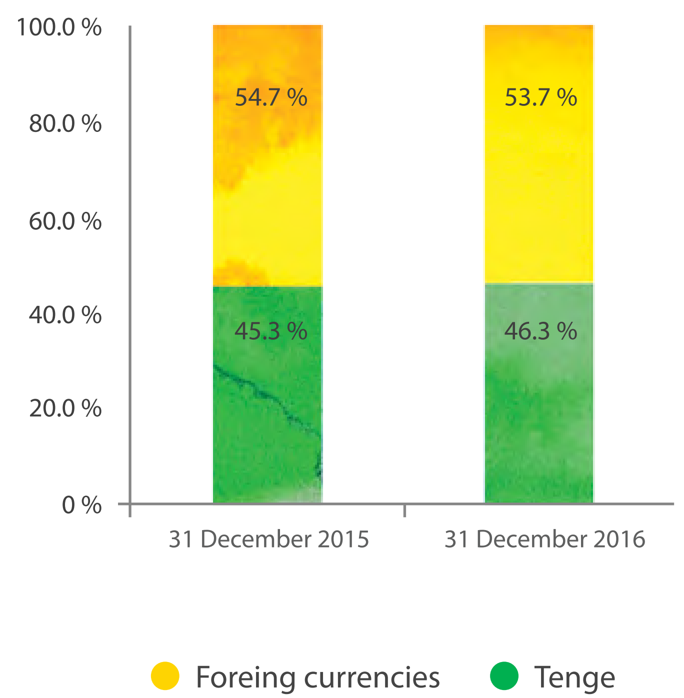
In 2016, the Bank adhered to its conservative policy on currency position management, maintaining neutral positions in all currencies, except for US dollars.

In the year, the breakdown of assets by currency was little changed amid the National Bank of Kazakhstan's efforts to de-dollarise the financial system. As a result, the Bank's assets in tenge rose by 23.4% year-on-year and assets in foreign currency by 18.6% year-on-year.

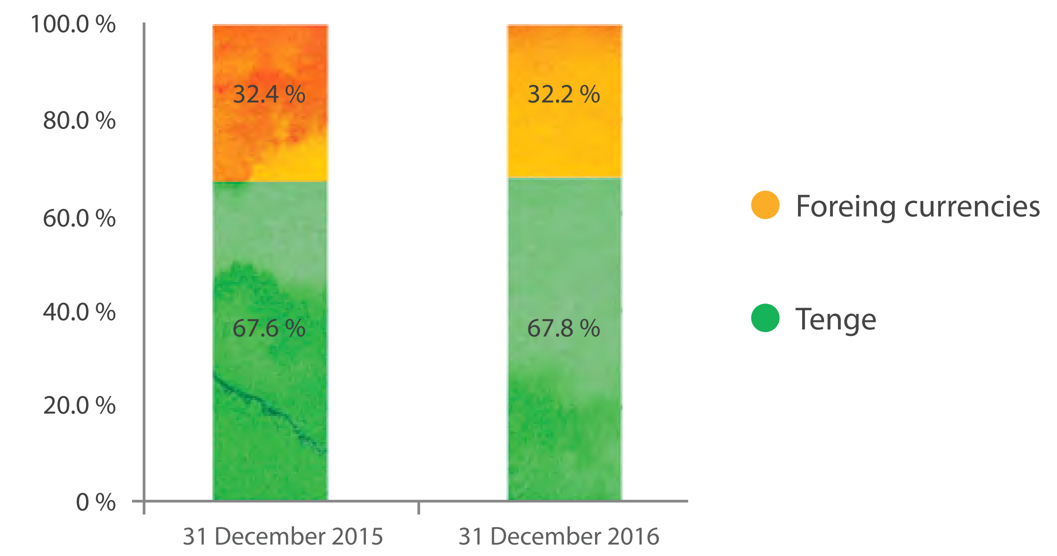
The breakdown of total assets, including the Group's loan portfolio, in tenge and foreign currency changed little in the reporting period.

Amid tenge appreciation and moves to improve the attractiveness of retail tenge deposits in 2016, the share of the Group's deposits in tenge increased from 23.8% in 2015 to 34.6% in 2016, while that in foreign currency decreased from 76.2% in 2015 to 65.4% in 2016.

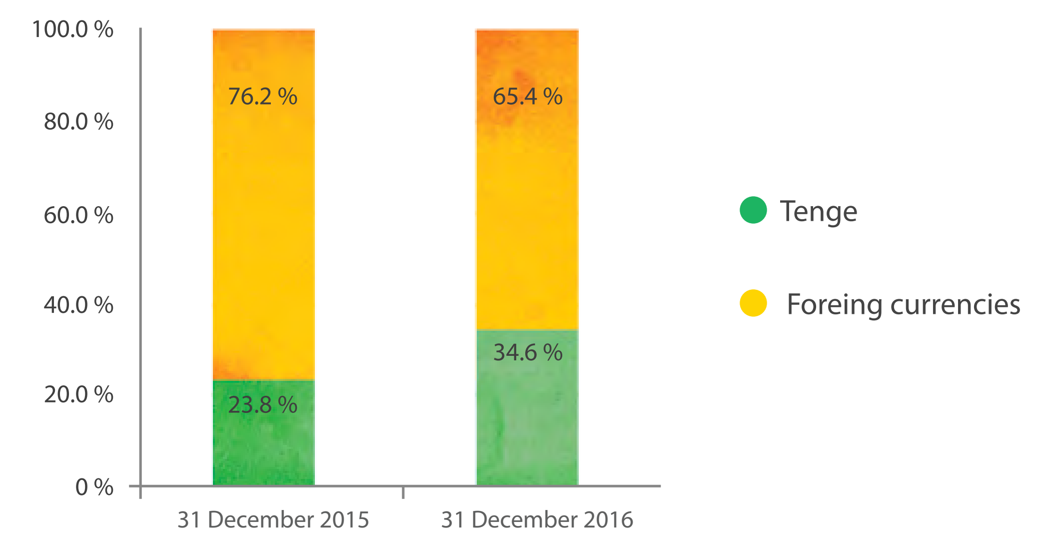
Breakdown of the Group's assets by currency, %



Breakdown of the Group's net loans by currency, %



Breakdown of amounts due to the Group's customers by currency, %



The Group has identified the following sources of interest rate risk: interest rate risk on securities portfolios and interest rate risk resulting from the mismatch of maturities (interest rate re-pricing) of assets and liabilities sensitive to interest rate changes (risk of interest rate changes). The Group manages the risks of changes in interest rates and market risk by adjusting its interest rate position and maintaining a positive interest margin.

Internal limits that restrict the level of market risk (currency, interest rate, price risks) are established by the authorised bodies within within the acceptable exposure limit, and are monitored daily. The limits are regularly reviewed for relevance and correlation with market conditions and the Group's risk appetite.

Operational risk management

In the normal course of its business, the Bank is exposed to operational risk. This is defined as the risk of losses resulting from inadequate or insufficient internal processes or systems, human factors or external events. These include legal risk (and exclude strategic and reputational risk).

The operational risk management unit within the risk management function of the Bank has developed and uses various operational risk management tools, such as:

- The Bank performs operational risk assessments when launching new products/services, systems and business processes, or implementing major changes thereto. ORAP is a fully functional and widely used tool, and it has covered the most significant areas of the Bank's operations since 2010. In 2016, ORAP covered such business areas as remote banking for individual and legal entities, new sales channels, etc.
- The Bank has conducted a project to identify and minimise transaction risks (including fraud and embezzlement risks) using one branch as an example, which led to the development of measures to manage the most significant risks more efficiently;
- The Bank regularly collects and analyses information about operational risk events, which are registered and classified as appropriate in a special database. The information collected is used to generate management reports on operational risks to support decisions about corrective actions to minimise overall operating losses. Information about operational risk events amounting to KZT100,000 or more is sent to the National Bank of Kazakhstan in a quarterly report;
- The Bank continues to develop an operational risk management tool, Key Risk Indicators (KRI). The Bank currently uses 28 KRIs in various business lines, enable to identify the most significant risks to the Bank's IT systems and critical business processes;
- The Bank has conducted "Criminal or terrorist threats" scenario analysis project". This highlighted the main shortfalls in the process and the departments involved have been provided corresponding recommendations to develop risk averting measures in the event of such a scenario occurring;
- The operational risk management unit is a permanent member of working groups on various projects at the Bank, as well as focusing on fraud elimination (the "Minimising the retail risks of internal/external fraud" project), investigating the causes of damage to the Bank, and creating commissions to analyse problems and risk areas with a view to minimising them and developing appropriate mitigation measures.

Business continuity management

To ensure that it can respond rapidly and effectively to emergency situations, the Bank maintains systems and resources to manage and support business continuity, which include legal documents, infrastructure, competent employees and other items.

The Bank's business continuity management infrastructure consists of a Disaster Recovery site in Astana and two backup facilities in Almaty, which feature all of the necessary equipment and technology for dealing with incidents.

In 2016, the Bank conducted the following business continuity work:

- a business impact analysis and an analysis of risks relating to unforeseen eventualities;
- a study (testing) of business continuity and restoration plans; transfers to IT backup systems and servers; and test restores of reserve copies from critical information systems;
- a transfer of a critical business process from the main server in Almaty to a backup server at the Disaster Recovery site in Astana to test the system against unexpected circumstances;
- a training session and follow-on test for employees involved in the business continuity and restoration process;
- the development and approval of the Bank's Business Continuity and Restoration Rules, which outline the working procedures, approaches and principles for creating an efficient business continuity management system at the Bank, as well as the business units and divisions responsible for implementing continuity processes.

IT and information security risk management

The Bank has an information technology and information security risk management system ("IT and IS RMS") in place. Since Resolution of the Management Board No. 29 of the National Bank of Kazakhstan came into force, the Bank has developed a methodology for information technology ("IT") and information security ("IS") risk management processes. In 2016, the Bank continued to implement the IT and IS RMS as follows:

- Restructured IT and IS RMS internal documents, which were used to create and/or amend the following:
  - IT and IS Risk Management Policy;
  - IT and IS Risk Management Rules;
  - IT and IS Risk Management Methodology.
- Reviewed and updated the common risk-assessment scale (CRAS) in the Bank's business processes regarding IT and IS risks;
- Based on the new internal documents, tested the full IT and IS risk management cycle (evaluating, processing, monitoring) using four of the Bank's IT systems: Way4, Internet banking for legal entities, Comply Desk (AML), and the Unified Terrorist Database. As a result, an IT and IS risk register and map was compiled, and a plan to minimise IT and IS risks was developed;
- Trained participants in the IT and IS risk management process to improve their IT and IS RMS knowledge, as well as to promote a risk management culture throughout the Bank.

Capital management

In 2016, the Bank continued to manage its capital to ensure the business continuity of all Group companies and optimise its debt-to-equity ratio. In the reporting period, the Bank ensured compliance with the capital requirements set by regulatory standards and Basel Accords.

In 2015, the implementation of Basel III began, envisaging gradual reform of capital items and capital adequacy requirements by 2019. Following the tenge devaluation and accompanying domestic liquidity issues, the National Bank of Kazakhstan adjusted its transition plan by keeping the minimal capital adequacy requirements in place for 2016, including the buffers, at the same levels as for 2015.

The Bank believes that the transition to the new standards has had little impact on its capital risk management activities. To assess its exposure to the risk of adverse changes in the macroeconomic situation, the Bank runs regular stress tests to test the sensitivity of capital adequacy ratios to changes in various macroeconomic factors, including annual 'bottom-up' stress tests required by the regulator.

Compliance risk management

Halyk Bank defines compliance risk as the threat of losses arising from non-compliance by it and its employees with Kazakh legislation, regulatory requirements, internal documents regulating services provided by the Bank and its operations on financial markets, and legislation of other countries governing the Bank's activities. An integral part of the internal risk management system, the Bank's compliance risk management is based on a four-step approach – detection, identification, evaluation and measurement – as well as risk monitoring and control.

To ensure an effective system of compliance risk management and internal control, the Bank has established a cross-functional system based on three 'lines of defence'.

- The first line identifies and monitors risks across all subdivisions and by all employees with a view to minimising compliance risk and taking corrective measures;
- The second implements compliance risk management policy, while compliance control is carried out by the Compliance Service. It consists of the Chief Compliance controller, who reports to and is elected by the Board of Directors, and the Compliance Division, which the controller oversees.
- The third is responsible for independently evaluating the performance of the compliance risk management subdivision by internal audit.

The Bank manages compliance risk by:

- Continuously monitoring Kazakh legislation and legislation of other countries governing the Bank's activities;
- Monitoring the compliance of authorised persons and employees of the Bank with legislation in Kazakhstan and other countries governing the Bank's activities;
- Ensuring that employees and subdivisions correctly understand and apply Kazakh legislation and the Bank's internal documents, as well as legislation of other countries governing the Bank's activities;
- Identifying, evaluating, monitoring and mitigating compliance risks, including when developing and structuring new banking products and services, introducing new business processes and technologies, and so on;
- Ensuring that mandatory requirements of the regulator and other official bodies are met on time and to the required standard;
- Organising compliance monitoring (checks) of subdivisions' activities by Compliance Division staff;
- Using various tools to identify and evaluate compliance risks, including appraisal and self-appraisal methods for subdivisions;
- Controlling access to insider information and preventing potentially illegal use of such information by insiders, including by maintaining an up-to-date list of people with access to such information;
- Ensuring that it complies with measures to combat money laundering and the financing of terrorism (AML/CFT);
- Ensuring that employees comply with the internal requirements on the prevention of conflicts of interest, etc.

When carrying out its duties as the main compliance channel, to minimise and prevent potential compliance risks, the Compliance Division:

- Organises and coordinates assessment/self-assessment by subdivisions of their compliance with Kazakh legislation and the Bank's internal documents. Self-assessment compliance risk reports are submitted to the Management Board and Board of Directors for review. Based on the findings, action plans to mitigate the risks identified are prepared and the Compliance Division oversees their implementation.
- Identifies and evaluates the level of compliance risk faced by the Bank, appraises the effectiveness of the Bank's control system, and evaluates the residual compliance risk. The results are sent to the Management Board and Board of Directors. To enhance control and mitigate residual compliance risks, an action plan is prepared and overseen by the Compliance Division.
- Organises regular compliance training for the Bank's employees, including in AML/CFT. New recruits and existing employees in the subdivisions responsible undergo annual training. In 2016, both face-to-face and e-learning courses were held, in accordance with the approved training plan. Their aim was to raise awareness among the employees responsible about compliance and AML/CFT procedures, which also helps to minimise compliance risk.

In addition, one of the Compliance Division's main objectives is to ensure that the Bank complies with Kazakh legislation on AML/CFT.

The Bank has implemented all of the necessary systems aimed at preventing money-laundering and the financing of terrorism, including various KYC procedures that:

- Group customers based on risk (risk-based approach), depending on which simplified, standard or enhanced due diligence (namely collecting and recording client data) will be conducted;
- Check whether potential or existing customers feature on sanctions lists (international or local);
- Check whether a potential customer is a foreign publicly exposed person;
- Analyse a customer's reputation;
- Other checks (transactions, deals, etc).

If such checks cannot be completed satisfactorily, a commercial relationship will not be established.

In accordance with Kazakh AML/CFT legislation, the Bank has a duty to inform the relevant official bodies about client transactions that are subject to financial monitoring (threshold and suspicious). The Bank has implemented all of the necessary information systems to recognise transactions that are subject to financial monitoring, based on various identified types, schemes and scenarios, and to send the respective data to the authorised body. In addition, according to the Bank's internal documents, there are subdivisions responsible for identifying suspicious non-automated transactions, that then forward the information to the Compliance Division.

SOCIAL REPORT

Halyk Bank strives to be a socially responsible company and was honoured to be recognised in local internet journal Vlast's list of Kazakhstan's top 25 charitable institutions, ranking first among commercial banks for the amount of funds donated to charity from 2013 to 2015.

In spring 2016, Halyk Group's shareholders decided to establish the Halyk charity fund to organise charitable activity on a systemic level, implement social projects and host socially significant events in support of culture, sport, healthcare and education in Kazakhstan. The fund aims to develop a social investment strategy, accumulate charitable funds, form a portfolio of charitable projects and implement them. The main task set for the fund at its establishment was maximising the effectiveness of social and charitable investments to address important social issues and support such spheres as culture, sport and education. In 2016, Halyk Bank financed the Halyk charity fund. The Board of Trustees reviews applications and takes decisions about allocating the fund's charitable donations. The members of the Halyk charity fund's Board of Trustees are Dinara Kulibayeva, Alexander Pavlov and Marat Almenov.

The Halyk charity fund's primary focus in 2016 was on supporting social projects, as well as making charitable investments in high arts and promoting a culture of sport.

Encouraging creative potential

Preserving and improving cultural heritage is one of the Halyk charity fund's key challenges. As such, it is continuing Halyk Bank's support of culture and the arts, part of the identity of the Kazakh people.

Astana Opera

Since 2013, Halyk Bank has been an annual general sponsor of the Astana Opera Theatre, which, since its inception, has served as the country's most important theatrical stage, drawing the attention and interest of audiences from both Kazakhstan and abroad.

In 2016, the Halyk charity fund was the general sponsor of the fourth theatre season of 2016-17, pledging a total of KZT100 million.

ASTANA OPERA

Anniversary edition of Tumanbay Moldagaliyev's collected works

In 2016, in an effort to popularise Kazakh literature, the Halyk charity fund helped to support the Moldagaliyev fund by donating KZT10 million to sponsor the publication of a 24-volume collection of classic Kazakh literature by Tumanbay Moldagaliyev, a renowned poet and author.

Conquering the heights of sport

Halyk Bank and the Halyk charity fund support the development of sport in Kazakhstan by providing financial aid to Kazakh athletes competing in the international arena, as well as athletes with disabilities.

Sponsoring sports competitions and creating a solid foundation for the successful development of Kazakh athletes is one of the key priorities of Halyk Bank's and the Halyk charity fund's social policy, which aims to develop and popularise sport in Kazakhstan, promote professional and amateur competitions, and encourage young athletes.

Halyk Arena

In 2016, Halyk Bank signed a three-year sponsorship agreement with the Almaty municipal administration for the city's 3,000 seat ice skating facility, which was named Halyk Arena. This was as part of a programme to support sports facilities built in the city ahead of the 28th World Winter Universiade and to promote sports for all city residents.

Special Olympics

The Halyk charity fund in 2016 continued its support of athletes with intellectual disabilities by helping to sponsor the Special Olympics Public Association. Over five years, Halyk Bank and the Halyk charity fund have pledged KZT5.5 million in financial aid to the organisation.

Free ice skating at Halyk Arena

In honour of the 25th anniversary of Kazakhstan's independence, the Halyk charity fund and Halyk Bank opened Halyk Arena for free ice skating to all city residents from 18 November to 31 December 2016.

The initiative was intended to encourage Kazakhs to enjoy winter sports and lead active lifestyles. Around 50, two-hour skating sessions were held for more than 20,000 people. A total of KZT8.5 million was donated for the project.

HALYK ARENA

Gymnastics Federation of Kazakhstan

Halyk Bank continued its sponsorship of the Gymnastics Federation of Kazakhstan in 2016. Halyk Bank Management Board chairperson Umut Shayakhmetova was re-elected as the president of the federation in January 2016 for a four-year Olympic term.

In 2016, the federation held the 14th Asian Junior Rhythmic Gymnastics Championships in Astana. Two Kazakh gymnasts, Sabina Ashirbayeva and Pirmammad Aliev, also took part in the 2016 Olympic Games in Rio de Janeiro.

The Gymnastics Federation of Kazakhstan includes 16 accredited regional sports federations from 13 of Kazakhstan's regions for artistic gymnastics, rhythmic gymnastics, sports acrobatics, jumps on a tumbling track and a trampoline. The federation oversees more than 10,000 gymnasts. Halyk Bank has donated KZT30 million to support the Gymnastics Federation of Kazakhstan.

Kazakh National Student League futsal championships

In autumn 2016, in an effort to develop and support futsal – the most popular sport among students in Kazakhstan – the Halyk charity fund became the general sponsor of the National Student League futsal championship (among Kazakhstan's leading universities). The Board of Trustees of the Halyk fund believes that the National Student League has a decent chance of creating a student sports movement throughout Kazakhstan.

The National Student League for futsal was created in spring 2014. Today, not only does it offer a platform for developing this fascinating sport, but it also provides an excellent opportunity for fostering a culture of sports among the teams of the National Student League.

A total of 48 teams from eight regions of Kazakhstan fought for the title of champion in Almaty in 2016. The winner of the National Student League in 2016 was the team from Almaty's International Information Technology University. The Halyk fund donated KZT40 million in support of the championship.

Social projects

During 2016, the Halyk charity fund and Halyk Bank implemented several social projects in support of young orphans, children with disabilities, World War II veterans and retirees.

Halyk Bank and its employees felt that it was their duty to provide financial aid to the relatives of the victims of the terrorist attack in Aktobe in June 2016, as well as to the families of the police officers killed in the terrorist attack in Almaty in August 2016.

Throughout the year, Halyk Bank employees have taken part in several charity drives aimed at helping young orphans by collecting money, toys, office supplies and clothing to donate to orphanages. Employees of the Bank's head office helped to make New Year dreams come true for 63 children from orphanages as part of the Ayala charity fund's Tree of Wishes campaign. In March 2016, the Bank helped to repair the roof of an orphanage in Almaty at a cost of KZT1.1 million.

Victory Marathon

Helping World War II veterans and homefront workers is an important way to give thanks to those heroic soldiers and officers who fought for victory on the battlefield. Victory Marathon is a traditional event organised by Halyk Bank on Victory Day each year. In 2016, more than 400 World War II veterans and homefront workers who are Halyk Bank's depositors received KZT30,000 each, or more than KZT12 million overall.

Over the past eight years, Halyk Bank has donated more than KZT87 million to veterans' organisations and World War II veterans as part of this programme.

Halyk League

Established in 2005, Halyk League is a social sport project to promote healthy lifestyle and support an active basketball movement involving young people from sponsored children's homes and boarding schools.

The project promotes passion for the sport and helps to organise children's free time, uniting 17 sponsored children's homes and boarding schools from across Kazakhstan, while at least 500 children take part in training annually. The Halyk charity fund covers the costs of basketball trainers and sports equipment. Over 11 years, around KZT300 million has been donated to the Halyk League project.

Hope Cup Championship

In May 2016, the National Basketball Federation of Kazakhstan and the Halyk charity fund held their annual basketball championship among children's homes and boarding schools: the 2016 Hope Cup.

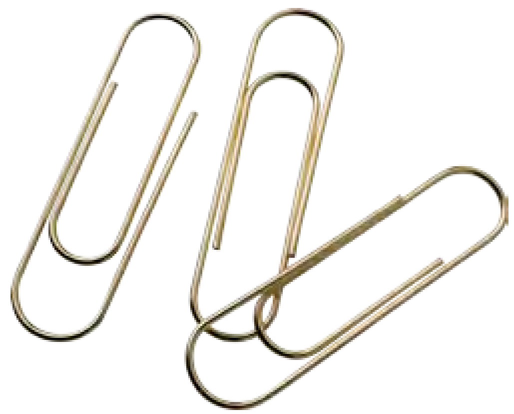
The championship took place over a week at the sports complex in the city of Shchuchinsk, and this year drew 17 teams. In accordance with tradition, the judges came from the international category of the National Basketball Federation of Kazakhstan. A total of KZT20 million was allocated for the championship, which included 190 children from 17 regions of Kazakhstan.

Road to School

The Road to School charity drive is aimed at helping children from low-income and large families and is part of a nationwide programme that the Ministry of Education and Science of Kazakhstan has run for the past nine years.

In 2016, the Halyk charity fund provided 440 children from 22 Kazakh cities with everything they need to start the school year – including backpacks, notebooks, paints and other school supplies – pledging around KZT5 million overall.

HALYK BANK'S HR SYSTEM



Halyk Bank's HR system is governed by the Kazakh Labour Code, Tax Code, and Law on Banks and Banking Activities in the Republic of Kazakhstan.

The main objectives of the Bank's HR policy are to:
- streamline the organisational structure and HR planning
- select and deploy employees
- train and develop employees and create a talent pool
- oversee productivity, employee incentivisation and salaries
- foster a positive corporate culture and provide social support for employees

Between 2007 and 2016, the Bank conducted a project to optimise and automate its business processes, which streamlined headcount by 9.9% and boosted labour productivity.

The Bank's headcount trends, 2007-2016

										Difference	
Business area	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016	2007
Branches	8,253	8,306	7,792	7,725	7,470	7,394	7,395	7,308	7,367	7,074	(14.3%)	(1,179)
Head Office	1,554	1,602	1,522	1,524	1,491	1,496	1,534	1,638	1,744	1,761	13.4%	208
Total	9,806	9,907	9,314	9,188	8,962	8,890	8,928	8,946	9,112	8,835	(9.9%)	(971)
Difference	687	101	(594)	(126)	(226)	(72)	38	18	166	(276)		
% Branches	5%	0.6%	(6.2%)	(0.9%)	(0.7%)	(3.6%)	(1.0%)	(0.7%)	0.8%	(0.9%)		
% Head Office	23%	3.1%	(5.0%)	0.2%	(1.4%)	(0.4%)	(1.0%)	6.7%	6.5%	1.0%		
Total	8%	1%	(6%)	(1%)	(2%)	(1%)	0.4%	0.2%	1.9%	(0.7%)		

In 2016, the Bank launched a major programme to update internal regulatory documents and IT in accordance with new amendments to the Kazakh Labour Code that took effect from 1 January 2016. The Bank also took part in the Ministry of Healthcare and Social Development of Kazakhstan's project to create a national classification of occupations. The migration to a self-service HR system, including employee activity and reporting, continues.

Staff recruitment is governed by the Bank's Staff Search and Recruitment Rules. To increase the efficiency of its recruitment process, the Bank has developed and is testing a new portal on its web site for job seekers. It features a friendlier user interface that seeks to automate the recruitment and induction process as much as possible. Additionally, with the aim of coming closer to clients and potential recruits, key figures from the Bank now share their personal success stories on the new Faces of the Bank section of the website. To find young, promising local talent, the Bank works with leading Kazakh higher educational institutions to offer internships and also takes part in recruitment fairs.

Staff motivation and loyalty

As part of an initiative to increase staff loyalty and encourage two-way communication between employees and the management, the Bank analyses the working environment within its units from social and psychological perspectives.

In 2016, a new, modern financial incentive system consisting of quarterly bonus payments was implemented in an effort to increase productivity of employees toward achieving the Bank's goals. For the bonus payments, an automated process has been developed and deployed to calculate and distribute performance bonuses using a personal portal tied to the SAP system. At the branch level, performance bonuses depend on net profit and rating, and performance bonuses were paid in the second, third and fourth quarters of 2016.

The Board of Directors has approved the criteria for creating structural divisions of the Head Bank and has approved Halyk Bank's organisational structure.

To motivate and encourage branches and their subdivisions, a contest has been developed and approved to determine the best division in its field of activity. The contest has two stages: quarterly and annual branch ratings. The winners will receive a monetary prize and a certificate of achievement. In 2016, a pilot contest was held among SME divisions. The winning divisions received certificates of achievement and a KZT100,000 gift card.

During the year, various bonuses were paid.

1. Bonus payments for annual performance based on reviews
2. One-off bonuses for Kazakhstan Independence Day
3. Bonuses for certain categories of staff based on the results of subdivisions and individuals.

The following benefits and compensations are also provided:

- Various types of insurance, including health and life cover;
- Financial assistance in connection with certain personal events;
- Additional paid leave in connection with certain personal events;
- Seniority bonuses;
- Compensation for employment/transfer to other regional offices of the Bank and its subsidiaries;
- Sport and recreational activities for employees, renting sports facilities, organisation of various sporting events for Group employees;
- Organisation of intramural sports tournaments for Group employees;
- Support for unemployed retirees of the Bank;

Holiday events, financial aid for holidays and in connection with certain personal events:

- Organisation of corporate activities;
- Initiative development programme;
- Parking spaces for managers of the Bank;
- Benefits for maternity leave;
- Subsidised mortgages for employees;
- Help towards paying to undergo MBA, master's and professional courses

4. There are regular induction days, at which new employees receive branded goods and materials
5. In 2016, state awards were given to the following persons: Umut Shayakhmetova, Chairperson of the Management Board was awarded with Barys III degree Order and Aliya Karpykova, Deputy Chairperson of the Management Board was awarded with Kurmet Order
6. Bank employees have access to information resources: an intranet (Halyk Info), a corporate newspaper (Halyk Janalyk) and the Bank's radio station
7. The Bank holds various contests to foster team spirit and corporate morale among employees:

- Holiday events for employees of the head office, including: International Women's Day on March 8; Nauryz; moving to the new head office; summer nature trip with families; Bank Day; New Year holiday;
- A total of nine different contests with prizes for employees of the Bank were held during the year;
- Tournaments were held among Halyk Group employees: kettlebell lifting, arm-wrestling, chess, table tennis, draughts, mini-football at the Chairman's Cup, billiards, karting and bowling;
- The Almaty financial institution employees' Olympics, in which the Bank's team took the second place;
- A total of 251 Bank employees took part in the "Courage to Win" marathon;
- As part of the "Plant a Tree in Your Town" environmental campaign, the Bank's employees collected KZT777,000, with which 200 elm saplings were bought and planted in Almaty;

8. Each year, the Bank organises numerous charitable events and initiatives.

Personnel development

The Bank's personnel training and development policy in 2016 focused on continuously improving the level of professional knowledge and refining the practical skills of the Bank's business and IT employees, as well as key employees in the staff reserve. Meanwhile, all personnel training and development initiatives were based on a structured and systematic approach to the professional development of all employees, as well as for key categories of specialists within each business line.

The most intensive corporate training was held to improve the knowledge and skills in various sales and presentation techniques for front office employees of the Bank's branch network. Separate training materials and programmes have been developed to improve personal productivity, motivation and management skills of middle and upper level managers. In 2016, the HR Department hosted large management skills training sessions for employees in the staff reserve.

In 2016, for the first time in the Bank's history, its internal business trainers used webinars for Retail business employees. This method was highly interactive, as it was conducted online in real time, allowing attendees to actively engage in the training process by asking questions and immediately clarifying areas that they did not understand. Given the significant economies of time and expense, the Bank plans to continue actively using webinars for training employees of the branch network.

In addition to training Bank employees, the branch network trained 1,212 unaffiliated people with the potential to become cashiers and retail specialists for mid-class and mass segments, as well as arranged mandatory training on the rules for conducting exchange operations involving foreign currency in cash in Kazakhstan.

The opportunities presented by the Bank's distance learning system, as well as its popularity organisation-wide and the interest of business units in initiating such training in 2016, caused the number of employees trained and training programs implemented to increase. Overall, 34,729 employees took part in distance learning/testing, which equals employee coverage of 393%. In 2016, the Bank started working to expand its distance learning system to include Halyk Group subsidiaries.

Halyk Bank continues to strengthen its staff reserve for management positions and planned development of staff in the reserve programme. The staff reserve totalled 563 bank employees in 2016 (including 139 key personnel), who are included in the reserve for 658 positions.

Despite the limits imposed on higher-cost training programmes in H1 2016, the Bank's employees took part in a number of important external training events, including forums, conferences, internships and visits to partner banks. The Bank also continued its co-financing programme for employees enrolled in MBA programmes.

As part of the approved Strategy for 2015-20, which has set ambitious goals of building an effective, transparent, stable and innovative financial institution that applies the best corporate governance practices, the Bank plans to continue developing highly professional staff.

CORPORATE GOVERNANCE

The Bank recognises that high standards of corporate governance are vital for its success on a free and competitive market. The Bank seeks to maintain modern and effective system of corporate governance that increases its capitalisation, and generates returns for investors.

Since the initial public offering (IPO) on the London Stock Exchange in 2006, the Bank has placed particular importance on corporate governance development. The IPO was more than simply a way of raising finance: it was also an indication of the Bank's commitment to pursuing the standards expected of a modern financial institution of international standing.

The Bank develops and streamlines its corporate governance system based on:

- New Kazakh legislative requirements relating to the risk management systems of second-tier banks;
- New risks that financial organisations might encounter in the current environment due to the slower economic growth in both Kazakhstan and the other member countries of the Eurasian Economic Union;
- Its ongoing efforts to build an efficient, transparent, stable and innovative financial institution that adheres to the best practices in corporate governance observed in OECD countries.

Compliance with the Bank's Code of Corporate Governance

The Bank's current Code of Corporate Governance, which was approved by the General Meeting of Shareholders in December 2006, defines the main standards and principles applied in managing the Bank, including relations between the Board of Directors and the Management Board, and between shareholders and employees, and the internal decision making procedure.

The Bank's Code of Corporate Governance has been developed in accordance with Kazakh legislation, recommendations by the regulator, the Model Code, corporate governance best practice by companies whose shares are listed internationally, ethical standards and the actual conditions of the Bank's activities at its current stage of development.

To determine key guidelines that the Bank follows when creating, operating and streamlining its corporate governance system, the Bank's Code of Corporate Governance includes the following principles:

1. Shareholders should be realistically able to exercise their rights to take part in managing the Bank;
2. Shareholders should be realistically able to take part in the distribution of the Bank's net income (receive dividends);
3. The Bank should ensure that shareholders are provided with accurate, timely and complete information regarding its financial position, economic indicators, results and management structures to ensure balanced decisions by shareholders and investors;
4. The Bank should ensure that all groups of shareholders are treated equally;
5. There should be maximum transparency regarding the actions of employees;
6. The Board of Directors should conduct the strategic management of the Bank and oversee the Management Board's activities, while Directors should report to shareholders;
7. The Management Board should be able to manage the Bank effectively and in good faith and report to the Board of Directors and shareholders;
8. Ethical standards should be set for shareholders;
9. There should be an effective system of internal control that is evaluated objectively.

The Board of Directors and the Management Board confirm that the Bank conducts its activities in accordance with the principles, resolutions and procedures set by the Code of Corporate Governance.

By accepting, streamlining and adhering strictly to the Code of Corporate Governance, the Charter and other internal documents, the Bank confirms its intention to encourage the development and improvement of corporate governance best practice.

UK Corporate Governance Code Compliance

This section has been prepared in accordance with section DTR 7.2. of the UK Financial Conduct Authority's Disclosure and Transparency Rules (corporate governance statements).

As a foreign company with global depository receipts admitted to the Official List of the London Stock Exchange, the Bank is not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council – the independent regulator of the United Kingdom. However, in accordance with DTR 7.2, the Bank is obliged to disclose information about its compliance with both the Kazakh Code of Corporate Governance and the existing corporate governance principles to which it adheres above those stipulated in Kazakh legislation.

The Bank considers the UK Corporate Governance Code a guideline for further development of corporate governance.

The Bank's existing Corporate Governance Code differs from the UK Corporate Governance Code, as disclosed below. These differences are partly caused by requirements of the Kazakh Code of Corporate Governance, legal requirements and rules of the Kazakh regulator – the National Bank of Kazakhstan – and partly by the domestic environment of the Bank's activities.

The Bank’s Code of Corporate Governance and the UK Corporate Governance Code

The Bank’s Code of Corporate Governance includes several distinctions from the UK Corporate Governance Code. Below are the main differences:

UK Corporate Governance Code	The Bank’s Code of Corporate Governance
The UK Corporate Governance Code stipulates a maximum three-year term for the re-election of Directors.	The Bank’s Code of Corporate Governance does not require a regular re-election of the Board. Instead, the scope of the General Meeting covers determining the Board’s term of authority. The General Meeting of 25 April 2014 set a three-year term for the current Board.
The UK Corporate Governance Code provides for meetings of non-executive directors at least annually, in particular, to appraise the chairman’s performance.	In 2016, non-executive directors held informal meetings, also attended by the corporate secretary, to discuss strategic issues, ways to improve corporate governance processes, the Board’s activities, and to improve the work of the corporate secretary.
The UK Corporate Governance Code stipulates that at least half of the Board, excluding the chairman, consists of independent non-executive directors.	The Bank’s Code of Corporate Governance does not directly require this due to Kazakh legal requirements, which state that at least three members of the Board must be independent directors. However, the composition of the Board, as appointed by the General Meeting on 25 April 2014, includes five independent non-executive directors out of seven.
The UK Corporate Governance Code stipulates that non-executive directors should carefully analyse to what extent the Management Board’s work fulfils the aims and objectives set, monitor its activities, and check that financial information published is complete and that financial controls and the risk management system are effective and reliable.	Under the Bank’s Code of Corporate Governance, all members of the Board of Directors are responsible for this.
The UK Corporate Governance Code stipulates that the Board of Directors should ensure that an appropriate succession plan is in place when appointing members of the Board of Directors and the senior management, in order to create an appropriate balance of skills and experience in the company and on the Board of Directors, and to continuously refresh the talent pool.	The Bank’s Code of Corporate Governance defines a procedure for creating the Board of Directors and requirements for candidates to it, the aim being to ensure an optimal balance of experience and knowledge needed for the Board of Directors to function effectively.

Kazakh Code of Corporate Governance and the Bank’s Code of Corporate Governance

The Kazakh Code of Corporate Governance means the Code of Corporate Governance approved by the Issuers Board in February 2005 and by the Council of the Financial Institutions' Association of Kazakhstan in March 2005 (amended in July 2007). When developing the Kazakh Code of Corporate Governance, extensive international and Kazakh experience was considered. This Code is typical for Kazakh companies.

The Bank’s Code of Corporate Governance was developed taking into consideration the Kazakh Code of Corporate Governance, legal requirements, recommendations of the Kazakh regulator, ethical norms and other factors. Therefore, the Bank’s Code of Corporate Governance includes more extended provisions compared with the Kazakh Code of Corporate Governance, which promotes improvement of corporate governance practice.

In addition, the Bank implements similar corporate governance practices in other companies of Halyk Group, and believes that this also helps to improve and foster a common understanding of corporate governance principles throughout the Group.

The major differences between the Bank’s Code of Corporate Governance and the Kazakh Code of Corporate Governance are:

- The Bank added restrictive criteria for candidates for the Board of Directors and Management Board in accordance with recommendations of the Kazakh regulator intended to raise the quality of the Bank's bodies and prevent conflicts of interest;
- The Bank added principles of responsibility for Directors and the Management Board;
- Description of how the activities of the Board and Management Board are organised with a clear segregation of duties;
- The Bank expanded the principles for consideration in determining the remuneration of the Directors and the Management Board.

The Bank’s Code of Corporate Governance can be found on the corporate website: http://www.halykbank.kz/ru/about/shareholders/corporate-governance.

CORPORATE GOVERNANCE EVENTS IN 2016

- There were changes in the composition of the Management Board and Board of Directors
- Changes were made to the Bank's Charter, Code of Corporate Governance and Regulations for the Board of Directors to bring them into line with the requirements of Kazakh legislation
- The auditors were chosen to conduct the audits for 2016-18
- The Bank's preferred shares and convertible preferred shares were swapped into common shares, and the terms and conditions for the swap were determined
- The number of authorised common shares was increased and unissued preferred shares were exchanged for common shares
- The number of members and terms of office for the Bank’s Ballot Committee were determined, and its members were elected
- The Bank conducted a stress test based on a general economic scenario for 2017 (through scenario analysis)

CORPORATE GOVERNANCE STRUCTURE

The Board of Directors has the following consultancy and advisory bodies: Strategic Planning Committee, Audit Committee, Nominations and Remunerations Committee, Social Responsibilities Committee. For more details on their work, please see the respective subsection below.

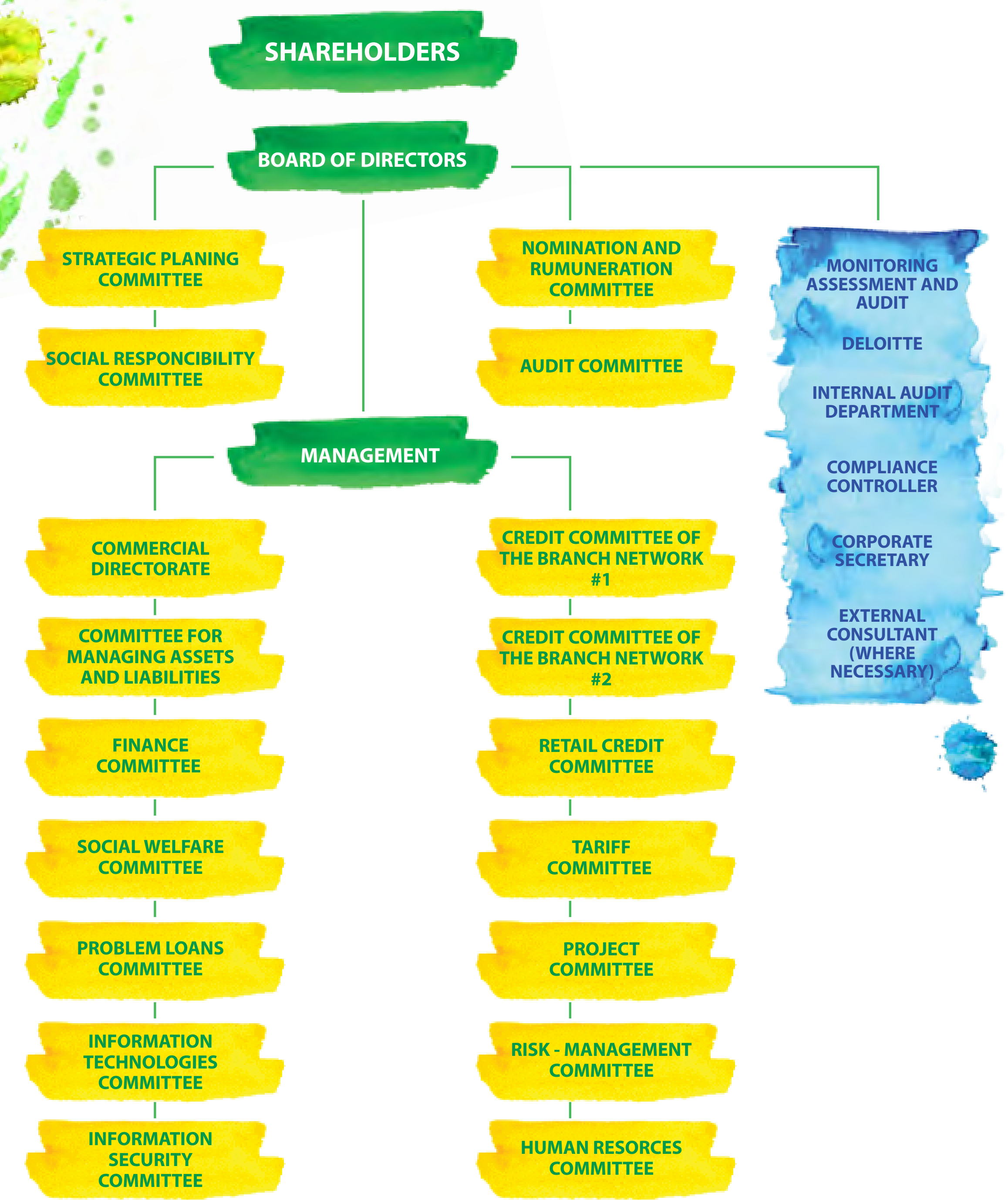
The Management has created a number of working bodies: directorates, committees and working groups. This allows it to consider major issues in detail in separate segments. Where necessary and if required by the law, decisions made by the working bodies are brought to the Management Board or Board of Directors for approval.

To ensure best practice in corporate governance, the Board is assisted by internal and external auditors, a compliance controller (who is at the same time the chief risk officer), Chief Legal Advisor, a corporate secretary, and others.

The Bank carries out internal auditing, risk management and compliance control services, while the institution of corporate secretary regulates issues of corporate governance.

The Bank engages 'Big 4' professional services firms to audit the financial statements of Halyk Group. In 2016, this was carried out by Deloitte.

The diagram below shows the structure of accountability in the corporate governance system.

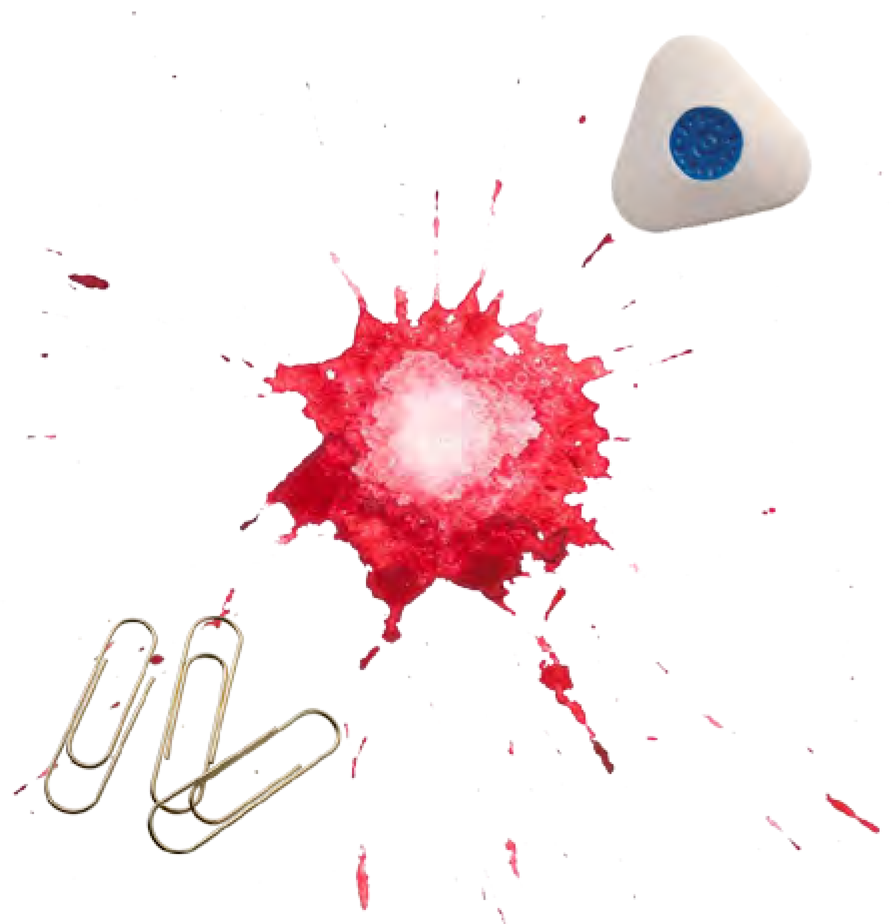


Functions between the Board and the Management are allocated in accordance with Kazakh law. For instance, the Board is responsible for the following important issues:

- Defining the priority areas of the Bank's activity; approving the Development Strategy; approving a development plan in situations stipulated in Kazakh legislation; approving the Development Strategy, setting and approving acceptable levels of risk; overseeing the fulfilment of the Development Strategy and evaluating its conformity with current market and economic conditions, the Bank's risk profile and financial potential, and Kazakh legislation; reviewing appraisals of acceptable risk levels and comparing them with existing risks;
- Ensuring that the Bank's Charter complies with Kazakh legislation and keeping it up to date;
- Preliminarily approving annual financial reports;
- Monitoring, controlling and evaluating the activities of the Management;
- Approving the Bank's organisational structure and ensuring that it corresponds to the size, structure, character and complexity of the Bank's activities;
- Approving the Bank's budget for the corresponding year and overseeing its execution;
- Establishing a transparent and efficient system of criteria and procedures for nominating Management members and employees reporting to the Board, and determining their remuneration;
- Ensuring effective risk management and internal control systems, including by: approving the corresponding internal documents set by Kazakh legislation; reviewing information and reports on monitoring and control of risk management issues; auditing; ensuring compliance with Kazakh legislation and internal documents in cases stipulated by regulations on creating a system of risk management and internal control, and complying therewith;
- Creating a system to identify and resolve conflicts of interest;
- Analysing and evaluating applications for loans exceeding 5% of the Bank's total equity and making decisions on issuing such loans;
- Approving large transactions, transactions where the Bank has an interest and related-party transactions;
- Approving acquisitions of 10% or more of shares in other legal entities;
- Maintaining an ongoing dialogue with the Bank's shareholders;
- Creating authorised collegiate bodies, in accordance with the law, to oversee the creation of a system of risk management and internal control; and approving internal documents governing their activities;
- Ensuring that regulatory reports are submitted in full, accurately and on time.

The Management Board is responsible for managing the Bank's day-to-day operations, including:

- Drafting and ensuring implementation of the Bank's development strategy;
- Approving internal documents regulating the Bank's activities, except for documents that fall under the competencies of other functions;
- Determining duties, areas of authority and responsibilities of members of the Management Board;
- Developing the Bank's budget and monitoring its execution;
- Presenting financial reports to the Board of Directors and General Shareholders Meeting in accordance with Kazakh law and the Charter;
- Taking decisions regarding acquisitions and disposals of property;
- Determining the sizes of and limits for loans, guarantees and commitments made by the Bank to third parties in accordance with its internal documents, except for situations that fall within the exclusive competencies of other functions of the Bank;
- Appointing (electing) directors of branches and heads of representative offices in accordance with Kazakh law;
- Approving the Bank's personnel, internal labour regulations, and internal rules governing the imposition of penalties and the provision of incentives within its competence;
- Developing the Bank's organisational structure;
- Reviewing and taking decisions regarding collective agreements in accordance with Kazakh law;
- Performing other functions that do not contradict Kazakh law and the Charter, and that do not fall under the competencies of other functions.



Structure Of The Board Of Directors

On 25 April 2014, the Annual General Shareholder Meeting approved the composition of the Board of seven people.

At the Annual General Shareholder Meeting on 22 April 2016, the following decisions were taken:

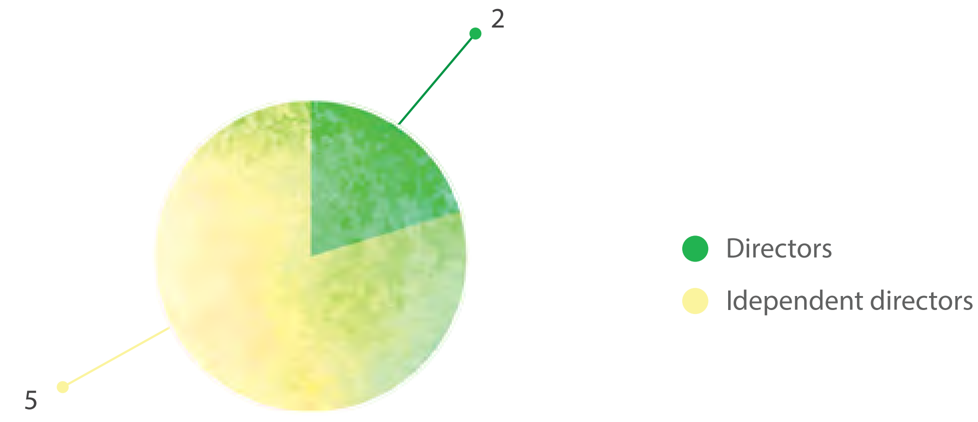
1. To end before the appointed time the powers of independent non-executive director Mr. Ulf Wokurka on the Board of Directors, effective 22 April 2016;
2. To elect Mr. Anvar Saidenov as an independent non-executive director on the Board of Directors, from his appointment to the end of the Board of Directors' current term.

As at 31 December 2016, the composition of the Board of Directors was as follows:

NAME	POSITION
ALEXANDER PAVLOV	Chairman, Independent non-executive director
ARMAN DUNAEV	Strategic Planning Committee Chairman, Independent non-executive director
FRANK KUIJLAARS	Nomination and Remuneration Committee Chairman, Chairman of Social Responsibilities Committee, Independent non-executive director
MAZHIT YESSENBAYEV	Director, Representative of Holding Group ALMEX
CHRISTOF RUEHL	Audit Committee Chairman, Independent non-executive director
ANVAR SAIDENOV	Independent non-executive director
UMUT SHAYAKHMETOVA	Chairperson of the Management Board
TOTAL	**7 DIRECTORS**

When determining the independence of the Directors, the Board of Directors uses the criteria stipulated by Kazakh law.

Composition Of The Board Of Directors



Skills and experience of the Directors

Halyk Bank seeks the best balance of experience, skills and vision in its Directors. The presence of a variety of views when discussing issues allows the Board of Directors to exercise its duties and represent the interests of shareholders most effectively.

Independent Directors contribute international experience, strategic vision, insight into the largest industries where the Bank operates, corporate governance and risk management. At the same time, all Directors possess knowledge of banking activities, finance in general and human resources management, including issues of remunerations.

Information on the skills and experience of the Board of Directors is summarised below:

Industry	Numbers of directors
Banking	6
Oil and gas and mining	4
Other industries in the real economy	5
Finance	7
Leadership	7
Risk management	4
International experience	5
Strategic vision	7
Corporate governance	7
Human resource management	7
Total	7

Structure of the Management Board

In 2016, there were several changes in the Management Board. Zhannat Satubaldina, Deputy Chairperson of the Management Board, decided to step down from 11 June 2016 and continue her working career in a different industry. Dauren Karabayev stepped down as Deputy Chairman from 15 June 2016 at his own initiative. The current composition of the Management Board is as follows:

Composition of the Management Board

NAME	POSITION
UMUT SHAYAKHMETOVA	Chairperson of the Management Board
MARAT ALMENOV	Deputy Chairman Retail Banking
AIVAR BODANOV	Deputy Chairman Security and Problem Loans
ALIYA KARPYKOVA	Deputy Chairperson Finance, Accounting and Subsidiaries
MURAT KOSHENOV	Deputy Chairman Corporate Banking and International Activities
KUAT KUSSAINBEKOV	Deputy Chairman IT
YERTAI SALIMOV	Deputy Chairman Operations and Treasury
ASKAR SMAGULOV	Deputy Chairman
ASLAN TALPAKOV	Deputy Chairman SME Banking, Marketing and PR, and Maintenance
TOTAL	**9 MEMBERS**

Activities of the Board of Directors

In general, the Board of Directors and its Committees work in accordance with the plans for respective periods.

In 2016, the Board of Directors held 210 meetings, including four in person and 206 in absentia. At the meetings in person, the Board of Directors discussed the most important strategic issues, such as:

- The results for 2015 of implementing the Group's strategy for 2013-15;
- The results for H1 2016 of implementing the Group's strategy for 2016-18;
- The results of the operations and budget execution of the Bank and Halyk Group for 2015;
- Status reports regarding the Bank's transformation programme and IT transformation programme through 2020;
- The results of the Bank's stress-testing based on a general macroeconomic scenario for 2017 (using scenario analysis);
- Major projects at the Bank;
- 2015 financial statements (preliminary approval) and quarterly performance reports of the Management Board;
- Stress-testing the loan portfolio;
- Approaches to tariff policy;
- Analysis of loan portfolio quality;
- Internal audit issues;
- Analysis of related-party and other transactions.

Absentee voting was conducted for routine issues that are legally included in the Board of Directors' duties, and most urgent issues that could not wait until the next ordinary meeting in person.

DETAILED REPORTS OF COMMITTEES

General provisions

The Committees of the Board of Directors are consulting and advisory bodies to the Board of Directors. All of their suggestions are recommendations that are made for the Board of Directors' consideration.

Under Kazakh law, Committee members are Board of Directors' members and experts. More detailed information on the composition of the Committees is provided below in the subsections on the activities of the respective Committees.

All Committees act in accordance with their Statutes.

Audit Committee

The Audit Committee was established in July 2005. It consists of three Directors who are elected by a majority of Board of Directors' votes. At least two of them should be independent non-executive directors. The members of the Committee are:

CHRISTOF RUEHL – Chairman, Independent non-executive director;

ALEXANDER PAVLOV – Member, Independent non-executive director;

ANVAR SAIDENOV – Member, Independent non-executive director.

All members of the Committee are independent non-executive directors who are knowledgeable and experienced in accounting and tax accounting, internal and external auditing, and risk management.

Committee functions

The Committee assists the Board of Directors on issues of the completeness and authenticity of financial reports, compliance of the Bank and its subsidiaries with legal requirements and internal documents (compliance control), selection and independence of the external auditor, adequacy and efficiency of internal control and risk management systems, and coordination of internal audit activities.

Committee activities

In 2016, the Committee held three meetings in person and 42 in absentia.

To ensure the completeness and reliability of financial statements, the Committee considered interim (quarterly) reports of the external auditor and letters to the Bank's management and subsidiaries in this respect, and approved and submitted the 2015 annual financial statements for consideration by the Board of Directors.

As part of this work, among other things, the Committee discussed principles of important accounting judgments, policies and procedures with the external auditor and the Bank's financial division.

In 2016, internal audits were conducted regarding various business processes and in various divisions of the Bank and its subsidiaries, and the results were reviewed by the Committee.

In addition, the Committee reviewed management reports on internal audit issues, including:
- The annual report on the Internal Audit Department's activities, including information about implementing the quality assurance and improvement programme;
- The report on the self-assessment of the Internal Audit Department's compliance with international best practices in internal audit, as defined by the Institute of Internal Auditors, as well as the code of ethics for internal auditors;
- The report on the Internal Audit Department survey;
- Summary reports about significant findings, risks and related recommendations by the Internal Audit Department, as well as decisions taken by the Bank's authorised bodies as a result of the Internal Audit Department's tasks containing assessments of internal audits on the risk management, internal control and corporate governance systems;
- The report on implementing internal audit recommendations by the Management Board of the Bank and subsidiaries.

When considering the internal audit budget and working plan for 2017 and the long-term working plan for 2018-20, prepared based on a risk assessment, the Committee assessed the resources of the Internal Audit Department. Based on this, it approved a budget and working plan, including a programme to improve the qualifications of auditors and performance of other works.

The Committee discussed a number of issues with the Internal Audit Director separately from the executive body. In particular, the Committee was satisfied that the Internal Audit Department was granted access to all of the necessary information and materials, and that its activities were not restricted in 2016.

The Committee also approved numerous methodological regulations for internal audit for further approval by the Board of Directors, to bring internal documents in line with existing Kazakh legislation, regulations and standards. It also reviewed personnel issues (hiring and dismissal) for the Internal Audit Department.

The Committee reviewed a report from the Compliance controller on the effectiveness of the compliance risk management system over the first half of 2016.

In 2016, the Committee reviewed quarterly analyst reports on the quality of the loan portfolio from the risk management team.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established in September 2007. It consists of three Directors who are elected by a majority of the Board of Directors' votes. At least two of them should be independent non-executive directors. The members of the Committee are:

FRANK KUIJLAARS – Chairman, Independent non-executive director;

ALEXANDER PAVLOV – Member, Independent non-executive director;

UMUT SHAYAKHMETOVA – Member, Chairperson of the Management Board.

The majority of the Committee is independent non-executive directors, and all Committee members have extensive experience in human resources management, including issues of remunerations.

Committee functions

The Committee makes recommendations to the Board of Directors regarding candidates for the Board of Directors, the Management Board and the boards of directors of the Bank's subsidiaries, on the remunerations system for members of the Board of Directors and the Management Board, and on salaries of the boards of directors and executive bodies of subsidiaries.

Committee activities

In 2016, the Committee held seven meetings in absentia and none in person.

Recommendations were made to the Board of Directors on the election of Anvar Saidenov to the Board of Directors as an independent non-executive director and on determining his term of office; on changes to the membership and remuneration of boards of directors of some subsidiaries; on changes to the system of compensation for the Internal Audit Department and Corporate Secretary; and on the rank of management positions and some categories of employees at the Bank's subsidiaries.

The Management Board's remuneration for 2016 was KZT1.4 billion (including annual bonuses). The Management Board remuneration is based on the following three key criteria:

- The estimate of a job position, its importance for the Group, and the contribution to the Bank's operating results by Members of the Management Board;
- Remuneration of similar positions on the job market region-wide;
- An evaluation of the working results of the Members of the Management Board, according to which annual bonuses are paid.

Strategic Planning Committee

The Strategic Planning Committee was established in April 2012. It consists of four Directors who are elected by a majority of the Board of Directors' votes and four experts, who are members of the Management Board and oversee matters regarding corporate business, international activities, SMEs, retail business, IT and PR. The members of the Committee are:

ARMAN DUNAEV – Chairman, Independent non-executive director;

ALEXANDER PAVLOV – Member, Independent non-executive director;

MAZHIT YESSENBAYEV – Member, Director;

UMUT SHAYAKHMETOVA – Member, Chairperson of the Management Board;

MARAT ALMENOV – Member, expert (silent member);

MURAT KOSHENOV – Member, expert (silent member);

KUAT KUSSAINBEKOV – Member, expert (silent member);

ASLAN TALPAKOV – Member, expert (silent member).

Committee functions

The Committee provides assistance to the Board of Directors in matters regarding Halyk Group's Strategy, analyses strategy implementation, reports and monitors the external environment and its impact on the Group's strategic plans.

Committee activities

In 2016, the Committee held four meetings in person.

The Committee reviewed the results of implementing Halyk Group's Strategy for 2013-15 in 2015, as well as the results of implementing Halyk Group's Strategy for 2016-18 in H1 2016. Analysis showed satisfactory achievement of the goals set.

In addition, the Committee analyses changes in the external environment (regulatory, economic, financial, etc.) and assesses their impact on Halyk Group's Strategy for 2016-18.

Social Responsibility Committee

The Social Responsibility Committee was established in April 2012.

The Committee consists of three Directors, who are elected by a majority of the Board of Directors' votes, and two experts, a Management Board member who oversees issues of sponsorship and charity and the head of Marketing and PR. All of the Members, apart from the experts, are independent non-executive directors. The members of the Committee are:

FRANK KUIJLAARS – Chairman, Independent non-executive director;

ANVAR SAIDENOV – Member, Independent non-executive director;

CHRISTOF RUEHL – Member, Independent non-executive director;

ASLAN TALPAKOV – Member, expert (silent member)

SAGINBEK SHUNKEYEV – Member, expert (silent member)

Committee functions

The Committee assists the Board of Directors in issues of Bank policy on corporate social responsibility and sustainable development; the Bank's compliance with legislative requirements regarding corporate social responsibility; potential risks in corporate social responsibility and the minimisation thereof; the preparation and publication of the report on corporate social responsibility; and preliminary consideration of the social expenses budget for the respective period.

Committee activities

In 2016, the Committee held one meeting in person.

The Committee reviewed and approved plans to create the Halyk charity fund and develop it further.

RELATIONS WITH MINORITY SHAREHOLDERS

The Bank strives to continuously improve its system for dealing with minority shareholders, which allows them to ask questions and receive the necessary information conveniently (in writing and/or by email).

Communications from minority shareholders and their wishes are regularly analysed, after which existing channels are improved and new ones introduced where necessary. The Bank informs shareholders of all substantial news, corporate events, changes to its activities that relate to holders of its shares and bonds, and planned events via its website, the websites of stock exchanges and financial reporting depositary websites.

RESULTS OF 2016

- On 22 April 2016, the Bank organised and held the Annual General Shareholders' Meeting, at which 16 resolutions were passed on issues under consideration, including information about shareholder inquiries regarding actions of the Bank and its officials. On 29 September 2016, the Bank held its first-ever extraordinary General Shareholders' Meeting in absentia to vote on two agenda items. The Bank held both the Annual General Shareholders' Meeting and General Shareholders' Meeting in absentia without complaints from shareholders or the regulator;
- Where necessary, employees of Head Office provide consultations to employees of branches on shareholder relations and to Bank shareholders on queries about accrued dividends, changes in banking details, conveyance of heritage rights and other matters;
- In 2016, the Bank paid dividends on preferred shares and convertible preferred shares to shareholders as of the year-end 2015 totalling KZT338.2 million, or KZT16 per preferred share and convertible preferred share;
- In accordance with the resolution of the Annual General Shareholders' Meeting on 22 April 2016, the Bank is not accruing or paying dividends on common shares for 2015; despite the difficult economic situation in the country, as well as the decision not to pay dividends on common shares, the Management Board decided to pay material aid to the Bank's shareholders in 2016;
- In 2016, as part of the events to mark the 70th anniversary of the end of World War II, the Bank finished making one-off payments to shareholders who had served in the war, workers on the front and other similar people; from March 2015, when the payments began to be made, to December 2016, a total of KZT 9.2 million was disbursed to 306 shareholders from these categories;
- The Bank continued its common share buy-back in 2016, acquiring 79,830 common shares from 18 individual shareholders for a total of KZT2.2 million in the reporting period;
- The Bank considered 11 official inquiries from shareholders and clients regarding dividend payments, the share buy-back procedure, ownership rights to the Bank's shares, other issues regarding the Bank's activities, and Kazakh securities market legislation.

DIVIDEND POLICY

Shareholders' rights to dividends and the procedure for the payment thereof are stipulated by the Bank's Charter and the Code of Corporate Governance approved by General Shareholder Meetings.

In September 2012, the Board of Directors approved the Dividend Policy of Halyk Bank. The resolution was intended to establish a clear and transparent mechanism for dividend payment, and because of the need for a separate, flexible internal regulatory document.

The main purpose of the Bank's Dividend Policy is to establish clear and transparent mechanism for decision making on dividend payments, their size, order and timelines of payment considering the following limitations:

- Maintaining (retaining) the Bank's international credit ratings;
- Complying with requirements to maintain the Bank's capital adequacy when paying dividends at a level not lower than the actual sector average for second-tier banks in Kazakhstan;
- Ensuring that the Bank has an adequate distribution of net profits;
- Ensuring that the Bank does not default on or enter a situation where the payment of dividends could cause it to default on its liabilities;
- Compliance with covenants.

Existing limitations on payments of dividends on common shares (covenants) are as follows:

- Not less than 15% and not more than 50% of net profits (as determined by audited IFRS statements) for the period for which the payment is made;
- Not more frequently than once per calendar year;
- Payment of dividends is restricted if the Bank is in default, or if such a payment may lead to a default on the Bank's liabilities.

Holders of common shares are entitled to dividends.

In accordance with the Bank's Charter, dividends on common shares may be paid to shareholders annually from net profits only after the financial statements for the relevant reporting period have been audited. Decisions on dividend payments and their size are made by the General Shareholder Meeting at the suggestion of the Board of Directors.

Dividends paid for previous financial years are as follows:

KZT billion

	2016 (for 2015)	2015 (for 2014)	2014 (for 2013)	2013 (for 2012)	2012 (for 2011)	2011 (for 2010)
Per preferred share	0,338	2.61	1.80	2.24	5.24	5.49
Per common share	-	34.26	18.55	12.22	-	-
Total	0,338	36.87	20.35	14.46	5.24	5.49

DIRECTOR AWARENESS AND TRAINING

New members of the Board of Directors are provided with an introductory package with basic information about the history and current positions of the Bank and Halyk Group, an organisational chart of the Bank, a Director's responsibilities, and the main reports from the consolidated financial statements as of the most recent reporting date.

Members of the Board of Directors are also given information about the main changes in banking law.

The Bank intends to further develop and improve the knowledge and qualifications of members of the Board of Directors.

RISK MANAGEMENT AND INTERNAL CONTROL

Roles and responsibilities

Risk management and internal control functions within the Bank are distributed as follows:

- The Board of Directors carries out strategic governance on internal control and risk management, and approves and periodically revises risk management policies. The working body of the Board of Directors for risk management and internal controls is the Audit Committee.
- The Board of Directors also considers large transactions of the Bank, transactions where the Bank has an interest, and related-party transactions, including with respect to an absence of preferential conditions.
- The Management Board is responsible for the implementation of risk management policies. The Bank has the following key committees that carry out various risk management and control functions: credit committees (Commercial Directorate (Credit Committee of the Head Office)), Credit Committee of the Branch Network, Retail Credit Committee, Bad Loans Committee, Committee for Managing Assets and Liabilities (ALCO), and Risk Committee.
- Structural divisions of the Bank are directly responsible for identifying and assessing inherent risks, the adequacy of controls and business continuity.
- Independent risk management and compliance services are responsible for organising the risk management system, which ensures identification, assessment, control and monitoring of credit, operational, market, compliance and liquidity risks. The risk management and compliance functions are headed by the Chief Risk Officer and the Chief Compliance Controller.
- The Internal Audit Service performs independent and objective checks and consultations aimed at improving Halyk Group's performance. It helps to achieve the goals set for the Group using a systematic and consistent approach to assessing and improving the efficiency of risk management, control and corporate governance systems.
- The diagram below shows the most active bodies and committees of the Bank that participate in risk management and internal control processes.

BOARD OF DIRECTORS

- Approves policies
- Sets tone “from top to bottom”
- Large transactions
- Related-party transaction

Audit Committee
- Working body of the Board
- General coordination of risk management process

Internal Audit

Independent assurance of efficiency of risk management, internal control and corporate governance systems

Management Board
- Implementation of policies
- Work out control mechanisms

Commercial Directorate

Credit Committee of Branches and of the Branch Network

Retail Credit Committees

Bad Loans Committee

Credit risk

Committee for Managing Assets and Liabilities

Operational risk and Liquidity risk

Risk Committee

Operational risk
Compliance risk
Internal Control
IT and information security risks

Structural Divisions

Operational risk
Compliance risk

Risk Management Service/Compliance Division

- Organisation of risk management system (credit, market, liquidity, operational, compliance, IT and information security)
- Ensuring identification, assessment and control over risks, developing recommendations, where necessary
- Calculation and monitoring of limits
- Ensuring compliance with regulatory requirements

'Three lines of defence' risk management system

Risk management in the Bank is based on the 'three lines of defence' system. The first includes the top management and structural divisions, the second – risk management committees/ risk management function and Compliance, and the third – internal audit.

- The first line of defence represents the controls developed to ensure correct day-to-day operations by various business divisions of the Bank. The controls are developed by the business divisions and are an integral part of business processes. Clearly delineated controls help to ensure an adequate level of risk minimisation and compliance with internal regulations, as well as compliance with external regulatory requirements. Management and monitoring of the controls is carried out by the divisions themselves, enabling them to detect risks, weaknesses of business processes and possible unforeseen events, and to react to them in a timely manner.
- The second line of defence is represented by risk management committees, the risk management function and Compliance. The committees and risk management function are responsible for managing risks within the set risk appetite. The main chain loop of the second line of defence is the risk management function. To ensure an adequate level of control, the risk management function determines procedures for assessing risks (credit, financial, operational), and risk monitoring. The risk management team carries out regular independent risk monitoring, develops control methods for efficient risk management on the first line of defence and, along with the Compliance Division, assists business divisions with regulatory requirements compliance in the respective areas.
- The third line of defence represents the function of independent assurance regarding the efficiency of the risk management, internal control and corporate governance systems. The third line of defence is represented by the internal audit function. It carries out checks of the internal control system based on the audit plan, which is, in turn, based on the risk level inherent in various divisions. The audit plan covers both the first and second lines of defence, ensuring an efficiency assessment of the Bank's overall internal control system.

The Bank acknowledges that it is impossible to totally exclude risks inherent to banking operations. However, the Bank is confident that its risk management system enables them to be minimised significantly.

CODE OF CONDUCT

The Bank builds relations with employees and clients according to the principles of law, mutual respect and trust.

In 2013, the Bank approved the Rules of Corporate Ethics, which aim to:

1. secure the mission, values, principles and standards of business ethics and behaviour;
2. develop a uniform corporate culture based on high ethical standards, support an atmosphere of trust, mutual respect and decency;
3. increase and maintain trust in the Bank from shareholders, clients, business partners, public authorities, the public and other interested parties; and strengthen its reputation as an open and honest player on the financial market;
4. assist in interacting effectively with stakeholders;
5. prevent violations of the current laws of Kazakhstan by Bank employees.

These rules cover the professional behaviour of officials and employees of the Bank in discharging their duties, and in relationships with each other and shareholders, clients, business partners, public authorities, the public and other interested parties entering into relations with the Bank. Bank executives seek to set a personal example of commitment to the Bank. They allocate time to create a talent pool for the Bank, consult and coach, and gather employees into a team united by a common mission, values and principles.

Every employee is obliged to maintain the image and business reputation of the Bank at a high level.

INTERNAL AUDIT

To ensure the independence and objectivity of the internal audit, the Internal Audit Department functionally reports to the Board of Directors. Working interaction with the Board's Directors is carried out via the Audit Committee and directly. The department has 47 employees and conducts audits and consultations on Bank subdivisions, business processes, IT systems and subsidiaries.

Selection of subjects for an audit plan is made in accordance with international standards and the requirements of the Kazakh regulator based on risk assessment, considering recommendations from the Management Board. The work plan of the Internal Audit Department is considered by the Audit Committee and approved by the Board of Directors. Where necessary, unscheduled audits may be undertaken at the request of the chairmen of the Bank's Board of Directors and Management Board.

The Internal Audit Department performs audits and consultations using automated auditing methods. During audits, an assessment is made of the efficiency of internal control, risk management and corporate governance systems. The results of audits and consultations are presented to the Management Board, Audit Committee and Board of Directors.

In addition, for each audit task, the Department makes recommendations on eliminating issues, which the Bank takes into account when undertaking appropriate measures. The Internal Audit Department periodically reports to the Audit Committee and the Board of Directors about the implementation of action plans to eliminate issues.

The Internal Audit Department also presents management accounting reports to the Audit Committee and the Board of Directors as required by the regulator and international standards.

The Department conducts an annual self-appraisal in accordance with the International Internal Audit Standards and periodically undergoes an external evaluation of compliance with them and with the Internal Audit Ethics Code.

NOMINATION AND CONTRACTING OF DIRECTORS (GENERAL INFORMATION ON PROCEDURES)

When nominated, Directors are subject to approval by the Kazakh regulator in accordance with the Rules for Granting Assent to the Appointment (Election) of Managing Persons of Financial Institutions and Bank and Insurance Holdings.

Contracts are concluded with Directors in accordance with the Bank's Policy on Management Personnel Remunerations and Reimbursements and Creating an Annual Performance Results Bonus Awards Reserve.

Decisions on payments and individual amounts of Directors' remunerations (apart from the Chairman and the Chairperson of the Management Board) are made by the Chairman based on recommendations of the Board of Directors' Nomination and Remuneration Committee.

Contracts with Directors, setting individual amounts, the frequency and the conditions for payment of remunerations and withholding of respective taxes in accordance with Kazakh law, (apart from that of the Chairperson of the Management Board) are concluded by the Chairperson of the Management Board on behalf of the Bank.

INSURANCE OF FIDUCIARY LIABILITY

The Board of Directors and the Management Board understand the risks arising from incorrect or mistaken management decisions or actions.

To safeguard shareholders from potential damage from such events, the Bank insures the liability of its Directors and officials.

CORPORATE SECRETARY

Within the Bank's organisational structure and corporate governance system, the corporate secretary reports directly to the Board of Directors.

In accordance with its status, the corporate secretary is responsible for:

1. implementing corporate governance procedures established by Kazakh law, as well as for following the best practices in corporate governance accepted by the Bank and set forth in the internal documents approved by the Board of Directors or shareholders;
2. ensuring that regular communication is maintained between the Bank and its shareholders; shareholders and the Board of Directors, Internal Audit Department, Management Board and other functions of the Bank; and the Bank and its stakeholders;
3. systematically monitoring Kazakh law on corporate governance (corporate legislation) and trends in corporate governance best practices.

KEY AREAS FOR IMPROVING CORPORATE GOVERNANCE AT THE BANK

Acknowledging the need to further develop and streamline corporate governance, the Group has identified key areas for improvement over 2017-20:

1. Expand the rights and responsibilities of the corporate secretary:

- Develop the institution of corporate secretaries within Halyk Group in a high-quality way by reviewing their roles in the organisation and encouraging them to seek additional qualifications;
- Create an integrated corporate secretarial function for all companies within Halyk Group;
- Arrange and conduct training sessions for corporate secretaries of the Bank's subsidiaries (seminars/round tables/meetings) to improve corporate governance;
- Maintain a register of corporate secretaries at all companies in Halyk Group.

2. Introduce international best practices in corporate governance to ensure the effective functioning of the Board of Directors:

- Update the Bank's internal regulatory documents (Charter, Code of Corporate Governance, and the policies governing the Board of Directors and the corporate secretary, etc) to ensure compliance with Kazakh law and international best practices in corporate governance;
- Collect information about candidates for the Board of Directors, analyse the information about each candidate for independent non-executive director, and periodically update the candidate pool for independent non-executive directors of the Bank and its subsidiaries.

3. Additional actions to develop corporate governance at the Bank:

- Develop the institution of corporate social responsibility in the Group;
- Conduct periodic appraisals of the effectiveness of the Bank's dividend policy;
- Develop the practice of insuring Directors against fiduciary liability.

RESPONSIBILITY STATEMENT

We herewith confirm that, to the best of our knowledge:

- the consolidated financial statements in this annual report are prepared in accordance with International Financial Reporting Standards and give a true and fair view of the financial position, results, cash flow and changes in equity of Halyk Bank and its subsidiaries; and
- the annual report includes a fair review of the development and performance, of the financial position of Halyk Bank and its subsidiaries included in the consolidated financial statements and taken as a whole and the principal risks and uncertainties that Halyk Bank faces.

Umut Shayakhmetova
Chairperson
of the Management Board

OUTLOOK

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Halyk Group is a rapidly expanding universal financial services group and a key player in all financial market segments. The Group has completed several projects planned for 2016 in the current 2016-18 strategic cycle, which in turn has allowed it to strengthen its financial position considerably, generate record profits and become more IT- and customer-oriented, creating the foundations for stable long-term growth.

The Group continues to actively develop with sufficient financial strength, a solid financial, resource and IT base, qualified personnel and a proven management team. It has met the challenges of 2016 with success and has not stopped implementing its planned strategic initiatives.

While new challenges pose significant risks for the Group, they also create considerable opportunities. These risks and opportunities informed the development strategy for 2016-18, which is a road map for transforming the Group qualitatively, from passive expectations to a pro-active client approach.

The Group's new vision is reflected in the following slogans:

- ***"Halyk Bank is the number one choice for customers in Kazakhstan", which incorporates four strategic priorities:***

Customer convenience

- Convenient customer-oriented solutions and services
- Prompt and attentive service
- Fair and transparent prices
- Convenient communication channels with the Bank

Strong team spirit

- Attentive, engaged and qualified employees
- Entrepreneurial spirit
- "Convenience, responsiveness and efficiency" as a part of the corporate DNA
- Employer of choice among banks

Operational efficiency

- Efficient and transparent processes and high-quality solutions
- Economic efficiency

Social responsibility

- Reliable: the number one choice among banking customers in Kazakhstan and a strong partner abroad
- Active role in society

- ***"Subsidiaries – leading players in their markets", meaning:***

- Maintaining leading positions in all of the Group's segments
- Maximising profits
- Expanding the Group's geographic coverage
- Offering more products in Kazakhstan
- Devising ways of unifying the Group's sales network
- Monitoring investment returns and minimising losses
- Making cross-selling more effective within the Group
- Maximising synergies

To achieve these objectives, the Group will need to streamline the existing business model further, eliminate any key gaps in business lines, and define concrete approaches and the order for implementing measures in 2016-18.

The Bank remains the driver of the Group's business. It is the leader in the sector in terms of net income, total equity, volume of retail current accounts, number of payment cards, portfolio of guarantees and payroll programmes.

Achievements in 2016

- 23 premium zones have been opened for retail clients
- Service packages have been launched with discounted prices for retail clients
- The loan application process has been optimised for SME clients, reducing the processing time by 31%
- Client product teams have been deployed and are working to offer a wide variety of the Group's services for legal entities
- The internet and mobile banking services for legal entities have been improved
- The transition to an updated CRM system is complete, improving service quality for all clients

Subsidiary achievements in 2016

- **Halyk-Life** is the number one life insurer in Kazakhstan in terms of insurance premiums collected
- **Kazakhinstrakh** is third among general insurance companies in terms of gross premiums collected and second in terms of net premiums collected
- **Halyk Finance** is Kazakhstan's leading investment company (three awards in the year) and the leader in terms of quoted instruments
- **Halyk Collection** is one of Kazakhstan's largest carriers of money and other valuables
- **Altyn-i** is a new-generation digital banking platform that enables retail customers to use banking services conveniently, without leaving home or the office
- **Altyn Bank** received a licence to issue VISA cards, which will allow the Bank to expand its card range to clients. "Status" clients will be offered a premium MasterCard World Elite card with a wide variety of privileges, including concierge services, insurance and a priority pass. The issuing process for Visa premium cards in the testing stage.
- **Halyk Bank Georgia** opened a new branch in Kutaisi

Introduction of new systems and processes

Implementing the new strategy will require a change in corporate culture and new systems and processes:

The Bank knows its clients – New systems allow client information to be analysed, segmented and targeted in the right way

The Bank is developing its own IT systems for the convenience of customers and employees – Advanced IT systems allow external and internal processes to be optimised and enhance work quality for customers and employees

The Bank is a united team – Most important is customer satisfaction: all functions are united by the goal of serving clients as promptly and effectively as possible

Employees at all levels are driven by the desire to succeed – The Bank's incentive system aims to achieve the maximum results, decentralise decision making and increase individual responsibility

Through this strategy, the Bank expects to:

- Be the leader in terms of convenience and responsiveness for customers by having the best network, remote channels and streamlined processes
- Understand the needs of different customers and offer targeted solutions based on these
- Be the number one bank of choice in Kazakhstan

Given that fulfilling the Bank's strategic objectives is key to the overall Group's success, to identify the main areas for development, the Bank has appointed a leading international management and strategic consultancy. It has prepared clear recommendations regarding the steps that the Bank needs to streamline the existing business model, eliminate any key gaps in business lines, and define concrete approaches and subsequent work for implementing measures in 2016-18.

In addition, given the number of IT issues to be resolved to implement the strategy, the Bank has appointed a leading international IT and information security consultancy, to devise additional recommendations.

Business objectives

Business objectives for 2017-18 are divided into the following groups:

- **Proactive sales.** Boost sales of products and services to individual clients by increasing the number of products and services offered to each client, making existing sales channels more effective and launching new ones.

- **Improved pricing.** Conduct a comprehensive review and update pricing methods.

- **Products.** New products will be introduced for retail clients, while new digital solutions will be devised for corporate clients and SMEs. The emphasis will be on promoting key strategic products, taking part in government and social programmes, developing multi-channel service and migrating most transactions to remote service channels.

- **Processes.** The main aim will be to automate and improve the system for collecting, storing and processing client information and streamlining the lending process.

- **Personnel:**

– Introduce a new incentive system that takes into account the contribution of each employee to achieving the overall objectives
– Train employees
– Devise a system for career progression

By pursuing these objectives and with the support of customers, partners and shareholders, the Group is confident that it can fulfil the goals set, demonstrate its abilities and re-confirm its reputation as one of the leaders in Kazakhstan's financial sector.

JSC HALYK BANK

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 AND 2014

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JSC Halyk Bank

Consolidated Financial Statements
and Independent Auditors' Report
For the Years Ended 31 December 2016,
2015 and 2014

Statement of Management's Responsibilities For the Preparation and Approval of the Consolidated Financial Statements For the Years Ended 31 December 2016, 2015 and 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of JSC Halyk Bank ("the Bank") and its subsidiaries (collectively – "the Group") as at 31 December 2016, 2015 and 2014, and the results of its operations, cash flows and changes in equity for the years then ended, in compliance with International Financial Reporting Standards ("IFRS").

IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS, MANAGEMENT IS RESPONSIBLE FOR:

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

MANAGEMENT IS ALSO RESPONSIBLE FOR:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining accounting records in compliance with 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 consolidated financial statements of the Group for the years ended 31 December 2016, 2015 and 2014 were approved by the Management Board on 3 March 2017.

Umut B. Shayakhmetova
Chairperson of the Board

3 March 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

3 March 2017
Almaty, Kazakhstan

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC Halyk Bank

OPINION

We have audited the consolidated financial statements of JSC Halyk Bank and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2016, 2015 and 2014, and the consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at 31 December 2016, 2015 and 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter.

Revenue recognition and calculation of the effective interest rate on individually assessed impaired loans.
As disclosed in Note 27 to the consolidated financial statements, interest income on individually assessed impaired loans for the year ended 31 December 2016 amounted to KZT 33,437 million.
The recognition of interest income using the effective interest rate method on individually assessed impaired loans, which is calculated through the banking system, is complex and reliant on the quality of underlying source data, which is subject to significant judgements.
We have identified the risk of accuracy and completeness of the source data used in the calculation of interest income on individually assessed impaired loans using the effective interest rate method.

How the matter was addressed in the audit.

We tested automated controls over the calculation of the effective interest rate in the banking system with the involvement of IT specialists.
We tested the arithmetical accuracy of the interest income accrual in accordance with the effective interest rate requirements in IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") by re-performing a sample of calculations and comparing these to accounting records.
We also tested the completeness and accuracy of the underlying source data, which are inputs into the interest income calculation, including, cash flow information, effective interest rates used and the carrying value of the impaired loan.
We found no material exceptions in these tests.

Impairment of loans to customers assessed on a collective basis.
Management is required to exercise significant judgement when determining both when and how much to record as loan impairment provisions. Because of the significance of this judgement and the volume of loans assessed on a collective basis, the audit of loan impairment provisions, assessed on a collective basis, is a key area of focus.
For loans assessed on a collective basis, there is a risk of errors in the calculation of provision rates due to the judgmental nature of source data used in the models, such as collateral values and statistics for recoveries of loans in loss given defaults estimates and inaccurate allocation of loans by days in arrears for probability of default calculations.
Refer to Notes 3 and 34 to the consolidated financial statements for the description of the Group's policy on the calculation of allowance for impairment on a collective basis and disclosure of gross carrying amounts and related allowance balances, respectively.

We critically assessed the appropriateness of the collective provisioning methodology in accordance with IAS 39 requirements as well as the key assumptions and data inputs, including probability of default and loss given default rates, used in the model, with reference to our understanding of the business and accounting standard requirements.
We have recalculated the collective loan loss provision models on a sample basis.

We have tested the accuracy and completeness of source data included within the models, such as collateral values, statistics for recoveries of loans and allocation of loans by days in arrears.
We found no material exceptions in these tests.

Classification of individually significant loans to customers as unimpaired
The amount of allowance on individually significant loans is dependent on the accuracy of the classification of these loans in the provisioning system of the Group, which is subject to significant judgement and manual processing. Due to the significance of the allowance for loans, assessed on an individual basis, we have identified a risk that impaired loans may be incorrectly classified as unimpaired and thus impact the provisioning level.
Refer to Note 34 to the consolidated financial statements for the description of impairment indicators on individually significant loans and disclosure of gross carrying amounts and related allowances for such loans.

We obtained an understanding of the loan loss provision process, particularly over the capture, monitoring and reporting of loans to customers, including its classification, along with any manual inputs as part of the process.
We examined various impairment indicators required by IAS 39, such as delinquency of interest or principal, restructuring events and certain financial performance indicators, of a sample of unimpaired loans to evaluate whether they have been appropriately classified as unimpaired.
We found no material exceptions in these tests.

Why the matter was determined to be a key audit matter.

Impairment of loans to customers assessed on an individual basis

The allowance for loan losses on loans to customers assessed on an individual basis is calculated using a discounted cash flow analysis and thus involves a high level of subjectivity and reliance on assumptions used in relation to cash flows from a borrower's business activity and sale of collateral. We have identified a risk of material misstatement related to the appropriateness of assumptions used in relation to assessing the cash flows from a borrower's business activity and cash flows from the sale of pledged collateral.

Refer to Note 34 to the consolidated financial statements for the disclosure of gross carrying values of loans to customers, assessed on an individual basis and related allowance balances.

How the matter was addressed in the audit.

We obtained an understanding of the loan loss provision process, particularly over the capture, monitoring and reporting of loans to customers, assessed on an individual basis.

For the specific loan loss provision, we selected loan exposures on a sample basis and tested the appropriateness of the specific loan loss provision as at the reporting date in accordance with IAS 39 requirements, including reviewing the Group's documented credit assessment of the borrowers, challenging assumptions around future cash flow projections and the valuation of collateral held, agreeing key assumptions to supporting documents and re-performing the calculations of impairment losses.

We found no material exceptions in these tests.

OTHER INFORMATION – ANNUAL REPORT

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

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of an assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements.

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

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

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

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

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

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

Zhangir Zhilysbayev	Mark Smith	Nurlan Bekenov
Qualified auditor of the Republic of Kazakhstan Qualification certificate No.MF-0000116 dated 22 November 2012.	Engagement partner Chartered Accountant Institute of Chartered Accountants of Scotland License № M21857 Glasgow, Scotland.	General Director Deloitte, LLP.

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

7 March 2017
Almaty, Republic of Kazakhstan

Consolidated Statements of Financial Position
As at 31 December 2016, 2015 and 2014
(millions of Kazakhstani tenge)

ASSETS	NOTES	31 December 2016	31 December 2015	31 December 2014
Cash and cash equivalents	6	1,774,519	1,404,680	540,537
Obligatory reserves	7	76,122	68,389	48,225
Financial assets at fair value through profit or loss	8	328,737	177,070	15,727
Amounts due from credit institutions	9	35,542	44,993	27,095
Available-for-sale investment securities	10	599,624	378,520	386,423
Precious metals		1,684	2,436	1,385
Loans to customers	11, 38	2,319,583	2,176,069	1,648,013
Investment property	12	30,146	24,658	5,684
Commercial property	13	10,202	9,632	-
Property and equipment	14	94,897	82,462	79,564
Assets held for sale	16	10,297	11,405	8,798
Goodwill	5	4,954	4,954	4,954
Intangible assets	15	9,179	8,659	8,664
Current income tax assets	23	3,222	16,469	530
Deferred income tax assets	23	831	1,919	447
Insurance assets	17	28,354	23,857	20,320
Other assets	18	20,590	18,766	13,416
TOTAL ASSETS		5,348,483	4,454,938	2,809,782

LIABILITIES AND EQUITY	NOTES	31 December 2016	31 December 2015	31 December 2014
Amounts due to customers	19, 38	3,820,662	3,043,731	1,848,213
Amounts due to credit institutions	20	162,134	168,258	107,192
Financial liabilities at fair value through profit or loss	8	2,841	5,593	3,131
Debt securities issued	21	584.93	597,525	311,009
Provisions	22	987	982	407
Current income tax liability	23	3,311	379	2,444
Deferred tax liability	23	23,181	37,362	10,673
Insurance liabilities	17	64,374	50,983	38,807
Other liabilities	24	20,467	20,197	12,685
TOTAL LIABILITIES		4,682,890	3,925,010	2,334,561
EQUITY				
Share capital	25	143,695	143,695	143,695
Share premium reserve		1,911	2,039	1,439
Treasury shares		(103,121)	(103,175)	(78,994)
Retained earnings and other reserves		623,108	487,369	409,081
TOTAL EQUITY		665,593	529,928	475,221
TOTAL LIABILITIES AND EQUITY		5,348,483	4,454,938	2,809,782

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
3 March 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
3 March 2017
Almaty, Kazakhstan

The notes on pages 109 to 213 form an integral part of these consolidated financial statements.

Consolidated Statements of Profit or Loss
For the Years Ended 31 December 2016, 2015 and 2014
(millions of Kazakhstani tenge, except for earnings per share which is in tenge)

	NOTES	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Interest income	27, 38	354,997	254,856	210,593
Interest expense	27, 38	(171,041)	(104,552)	(77,458)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	27	183,956	150,304	133,135
Impairment charge	22	(25,680)	(12,117)	(7,387)
NET INTEREST INCOME		158,276	138,187	125,748
Fee and commission income	28	59,345	53,308	58,638
Fee and commission expense	28	(12,091)	(10,837)	(8,559)
Fees and commissions, net		47,254	42,471	50,079
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	29	(13,662)	192,324	7,842
Net realised gain/(loss) from available-for-sale investment securities	30	5,106	(252)	(230)
Net foreign exchange gain/(loss)		22,623	(161,022)	7,086
Insurance underwriting income	31	28,071	25,574	20,678
Other income		6,491	9,037	5,366
OTHER NON-INTEREST INCOME		48,629	65,661	40,742
Operating expenses	32	(73,395)	(70,805)	(62,410)
Impairment loss of assets held for sale	16	(1,564)	-	(102)
(Provisions)/recoveries of provisions	22	(22)	(359)	4,036
Insurance claims incurred, net of reinsurance	17, S31	(24,799)	(22,793)	(16,195)

Consolidated Statements of Profit or Loss
For the Years Ended 31 December 2016, 2015 and 2014
(millions of Kazakhstani tenge, except for earnings per share which is in tenge)

	NOTES	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
NON-INTEREST EXPENSES		(99,780)	(93,957)	(74,671)
INCOME BEFORE INCOME TAX EXPENSE		154,379	152,362	141,898
Income tax expense	23	(22,967)	(32,050)	(27,521)
NET INCOME		131,412	120,312	114,377
Attributable to:				
Common shareholders		131,412	118,913	112,406
Preferred shareholders		-	1,399	1,971
		131,412	120,312	114,377
Basic earnings per share (in Kazakhstani Tenge)	33	11.96	10.79	10.32
Diluted earnings per share (in Kazakhstani Tenge)	33	11.95	10.29	9.40

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
3 March 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
3 March 2017
Almaty, Kazakhstan

The notes on pages 109 to 213 form an integral part of these consolidated financial statements.

КАЗАҚСТАН ХАЛЫҚ БАНКІ HALYK BANK НАРОДНЫЙ БАНК КАЗАХСТАНА

Consolidated Statements of Other Comprehensive Income For the Years Ended 31 December 2016, 2015 and 2014 (millions of Kazakhstani tenge)

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Net income	131,412	120,312	114,377
Other comprehensive income/(loss), net of tax			
Items that will not be subsequently reclassified to profit or loss:			
Gain resulting on revaluation of property and equipment (2016, 2015, 2014 – net of tax – KZT 192 million, KZT nil, KZT 1,168 million)	539	56	4,170
Items that may be subsequently reclassified to profit or loss: Gain/(loss) on revaluation of available-for-sale investment securities (2016, 2015, 2014 – net of tax –KZT nil)	9,614	(14,535)	(12,125)
Reclassification adjustment relating to available-for-sale investment securities disposed of in the year (2016, 2015, 2014 – net of tax – KZT nil)	(5,106)	252	230
Reclassification adjustment relating to available-for-sale investment securities impaired during the year (2016, 2015, 2014 – net of tax – KZT nil)	(783)	4,171	813
Exchange differences on translating foreign operations (2016, 2015, 2014 – net of tax – KZT nil)	402	5,540	(1,447)
Other comprehensive income/(loss) for the year	4,666	(4,516)	(8,359)
Total comprehensive income for the year	136,078	115,796	106,018
Attributable to:			
Common shareholders	136,078	114,449	104,419
Preferred shareholders	-	1,347	1,599
	136,078	115,796	106,018

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
3 March 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
3 March 2017
Almaty, Kazakhstan

The notes on pages 109 to 213 form an integral part of these consolidated financial statements.

КАЗАҚСТАН ХАЛЫҚ БАНКІ HALYK BANK НАРОДНЫЙ БАНК КАЗАХСТАНА

Consolidated Statements of Changes in Equity
For the Years Ended 31 December 2016, 2015 and 2014 (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	-	-	-	-	-	-	-	-	-	131,412	131,412
Other comprehensive income	-	-	-	-	-	-	402	3,725	539	-	4,666
Total comprehensive income	-	-	-	-	-	-	402	3,725	539	131.412	136,078
	-	-	-	(32)	(427)	-	-	-	-	-	(459)
Treasury shares purchased	-	-	-	-	481	-	-	-	-	-	481
Treasury shares sold											
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(333)	(333)
Exchange of preferred shares to common shares	60,124	(46,891)	(13,233)	(96)	(63,201)	63,201	-	-	-	-	(96)
	-	-	-	-	-	-	-	-	-	(6)	(6)
Insurance bonuses to the insured											
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(346)	346	-
31 December 2016	143,695	-	-	1,911	(103,121)	-	5,097	(15,679)	16,609	617,081	665,593

Consolidated Statements of Changes in Equity
For the Years Ended 31 December 2016, 2015 and 2014 (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 2014	83,571	46,891	13,233	1,439	(39,973)	(39,021)	(845)	(9,292)	17,341	401,877	475,221
Net income	-	-	-	-	-	-	-	-	-	120,312	120,312
Other comprehensive income/(loss)	-	-	-	-	-	-	5,540	(10,112)	46	10	(4,516)
Total comprehensive income/(loss)	-	-	-	-	-	-	5,540	(10,112)	46	120,322	115,796
Treasury shares purchased	-	-	-	(319)	(9)	(24,180)	-	-	-	-	(24,508)
Treasury shares sold	-	-	-	919	8	8	-	-	-	(708)	219
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(2,543)	(2,543)
Dividends – common shares	-	-	-	-	-	-	-	-	-	(34,257)	(34,257)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(971)	971	-
31 December 2015	83,571	46,891	13,233	13,233	(39,974)	(63,201)	4,695	(19,404)	16,416	485,662	529,928

Consolidated Statements of Changes in Equity
For the Years Ended 31 December 2016, 2015 and 2014 (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	Non controlling interest	TOTAL EQUITY
31 December 2013	83,571	46,891	13,233	1,415	(39,974)	(37,560)	602	1,790	13,808	307,470	391,246	933	392,179
Net income	-	-	-	-	-	-	-	-	-	114,377	114,377	-	114,377
Other comprehensive (loss)/income	-	-	-	-	-	-	(1,447)	(11,082)	4,170	-	(8,359)	-	(8,359)
Total comprehensive (loss)/income	-	-	-	-	-	-	(1,447)	(11,082)	4,170	114,377	106,018	-	106,018
Treasury shares purchased	-	-	-	(273)	(7)	(1,461)	-	-	-	-	(1,741)	-	(1,741)
Treasury shares sold	-	-	-	297	8	-	-	-	-	-	305	-	305
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(1,757)	(1,757)	-	(1,757)
Dividends – common shares	-	-	-	-	-	-	-	-	-	(18,547)	(18,547)	-	(18,547)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(530)	(530)
Decrease in non-controlling interest due to buy-back of JSC Accumulated Pension Fund of Halyk Bank of Kazakhstan shares	-	-	-	-	-	-	-	-	-	-	-	(403)	(403)
Loss from buy-back of JSC Accumulated Pension Fund of Halyk Bank of Kazakhstan shares	-	-	-	-	-	-	-	-	-	(303)	(303)	-	(303)

Consolidated Statements of Changes in Equity
For the Years Ended 31 December 2016, 2015 and 2014 (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	Non controlling interest	TOTAL EQUITY
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(637)	637	-	-	-
31 December 2014	83,571	46,891	13,233	1,439	(39,973)	(39,021)	(845)	(9,292)	17,341	401,877	475,221	-	475,221

* These amounts are included within Retained earnings and other reserves in the consolidated statement of financial position.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
3 March 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
3 March 2017
Almaty, Kazakhstan

The notes on pages 109 to 213 form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows (Continued)
For the Years Ended 31 December 2016, 2015 and 2014 (Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
CASH FLOWS FROM OPERATING ACTIVITIES:				
Interest received from financial assets at fair value through profit or loss		124	109	55
Interest received from cash equivalents and amounts due from credit institutions		13,732	5,972	5,426
Interest received on available-for-sale investment securities		17,684	23,378	18,862
Interest received on investments held to maturity		1,201	-	-
Interest received from loans to customers		255,539	199,298	179,127
Interest paid on amounts due to customers		(116,406)	(63,712)	(62,332)
Interest paid on amounts due to credit institutions		(7,596)	(5,081)	(2,284)
Interest paid on debt securities issued		(47,828)	(26,113)	(15,377)
Fee and commission received		58,498	53,280	59,822
Fee and commission paid		(12,009)	(10,837)	(8,559)
Insurance underwriting income received		23,994	21,636	16,369
Ceded reinsurance share paid		(2,660)	(2,439)	(2,996)
(Payments for)/receipts from financial derivatives		(10,592)	39,122	6,383
Other income received		6,384	8,595	3,385
Operating expenses paid		(67,580)	(62,789)	(65,766)
Insurance claims paid		(16,602)	(8,834)	(9,745)
Cash flows from operating activities before changes in net operating assets		95,883	171,585	122,370
Changes in operating assets and liabilities:				
(Increase)/decrease in operating assets:				
Obligatory reserves		(7,733)	(20,164)	(3,949)
Financial assets at fair value through profit or loss		(127,891)	(7,589)	(16,866)
Amounts due from credit institutions		9,082	(7,481)	(344)
Precious metals		997	(483)	16,203
Loans to customers		(126,924)	(216,366)	7,273
Assets held for sale		-	(2,607)	(6,083)
Insurance assets		(1,100)	(245)	(4,909)
Other assets		(6,269)	7,401	(407)

Consolidated Statements of Cash Flows (Continued)
For the Years Ended 31 December 2016, 2015 and 2014
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Increase/(decrease) in operating liabilities:				
Amounts due to customers		750,365	287,505	(181,428)
Amounts due to credit institutions		(9,224)	50,928	(8,392)
Financial liabilities at fair value through profit or loss		(2,755)	10,923	3,060
Insurance liabilities		7,944	1,832	7,915
Other liabilities		(133)	4,307	2,903
Cash inflow/(outflow) from operating activities before income tax		582,242	279,546	(62,654)
Income tax paid		(20,331)	(25,222)	(22,586)
Net cash inflow/(outflow) from operating activities		561,911	254,324	(85,240)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from purchase of subsidiary	5	-	901	66,450
Purchase and prepayments for property and equipment and intangible assets		(15,386)	(17,131)	(13,628)
Proceeds on sale of property and equipment		2,859	4,438	4,292
Proceeds on sale of investment property		1,695	-	-
Capital expenditures on commercial property		(2,817)	-	-
Proceeds on sale of commercial property		2,247	-	-
Proceeds on sale of available-for-sale investment securities		34,196	175,365	139,125
Purchase of available-for-sale investment securities		(186,905)	(76,157)	(153,026)
Purchase of investments held to maturity		(43,601)	-	-
Net cash (outflow)/inflow from investing activities		(207,712)	87,416	43,213

Consolidated Statements of Cash Fows (Continued)
For the Years Ended 31 December 2016, 2015 and 2014 (Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payment of compensation for exchange of preferred shares to common shares		(96)	-	-
Proceeds on sale of treasury shares		481	927	305
Purchase of treasury shares		(459)	(24,508)	(1,741)
Dividends paid – preferred shares		(333)	(2,543)	(1,757)
Dividends paid – common shares		-	(34,257)	(18,547)
Dividends paid – subsidiaries		-	-	(530)
Buy-back of JSC Accumulated Pension Fund of Halyk Bank shares		-	(708)	(706)
Proceeds on debt securities issued		25,888	115,852	89,602
Redemption and repayment of debt securities issued		(43,561)	(7,627)	(4,075)
Net cash (outflow)/inflow from financing activities		(18,080)	47,136	62,551
Effect of changes in foreign exchange rates on cash and cash equivalents		33,720	475,267	33,700
Net change in cash and cash equivalents		369,839	864,143	54,224
CASH AND CASH EQUIVALENTS, beginning of the year		1,404,680	540,537	486,313
CASH AND CASH EQUIVALENTS, end of the year		1,774,519	1,404,680	540,537

During the years ended 31 December 2016, 2015 and 2014 there were non-cash transfers, which were excluded from the consolidated statements of cash flows and disclosed in Notes 12, 13, 16 and 25.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
3 March 2017
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
3 March 2017
Almaty, Kazakhstan

The notes on pages 109 to 213 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements For the Years Ended 31 December 2016, 2015 and 2014 (millions of Kazakhstani tenge)

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 Eurobonds issued are primarily listed on the London Stock Exchange. The Bank also allocated Global Depository Receipts ("GDRs") on the London Stock Exchange.

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

As at 31 December 2016, the Bank operated through its head office in Almaty and its 22 regional branches, 122 sub-regional offices sand 365 cash settlement units (31 December 2015 – 22, 122, 377, respectively, 31 December 2014 – 22, 122, 393, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 40 Al-Farabi Avenue, Almaty, 050059, Republic of Kazakhstan.

As at 31 December 2016, the number of the Group's full-time equivalent employees was 11,402 (31 December 2015 – 11,827, 31 December 2014 - 11,477).

The consolidated financial statements of the Group for the years ended 31 December 2016, 2015, and 2014 were authorised for issue by the Management Board on 3 March 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 these consolidated financial statements.

Operating environment

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

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014 and 2015, 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 December 2016, the base rate was 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.

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.

As at 31 December 2016, 2015 and 2014, the Group was owned by the following shareholders, which own individually more than 5% of the issued shares of the Group:

31 December 2016

	Total shares	Stake in total shares in circulation	Common shares	Stake in total shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred 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%	-	-

31 December 2015

	Total shares	Stake in total shares in circulation	Common shares	Stake in total shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	8,024,149,068	73.4%	8,003,381,500	73.4%	20,767,568	99.8%
Unified Accumulative Pension Fund Joint Stock Company*	716,281,746	6.6%	716,281,746	6.5%	-	-
GDR holders	1,840,058,240	16.8%	1,840,058,240	16.9%	-	-
Other	349,774,984	3.2%	349,729,065	3.2%	45,919	0.2%
Total shares in circulation (on consolidated basis)	10,930,264,038	100%	10,909,450,551	100%	20,813,487	100%

*The name was changed from JSC Single Accumulative Pension Fund to JSC Unified Accumulative Pension Fund according to changes in the Charter dated 19 August 2015.

31 December 2014

	Total shares	Stake in total shares in circulation	Common shares	Stake in total shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	8,024,149,068	72.3%	8,003,381,500	73.4%	20,767,568	11.0%
JSC Single Accumulative Pension Fund	869,738,261	7.8%	710,233,299	6.5%	159,504,962	84.3%
GDR holders	1,848,929,480	16.7%	1,848,929,480	16.9%	-	0.0%
Other	356,244,249	3.2%	347,354,434	3.2%	8,889,815	4.7%
Total shares in circulation (on consolidated basis)	11,099,061,058	100%	10,909,898,713	100%	189,162,345	100%

2. BASIS OF PRESENTATION

Statement of compliance

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

These consolidated financial statements have been prepared assuming that the Group is a going concern, as the Group have the resources to continue in operation for the foreseeable future. In making this assessment, the management have considered a wide range of information in relation to present and future economic conditions, including projections of cash flows, profit and capital resources.

These consolidated financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

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

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

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the date of the consolidated statement of financial position (current) and more than 12 months after the date of the consolidated statement of financial position (non-current) is presented in Note 34.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is KZT. The presentation currency of the consolidated financial statements is KZT.

These consolidated financial statements include the following subsidiaries:

SUBSIDIARIES	HOLDING %			COUNTRY	INDUSTRY
	31 December 2016	31 December 2015	31 December 2014		
Halyk-Leasing JSC	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	Banking
Halyk Finance JSC	100	100	100	Kazakhstan	Broker and dealer activities
LLC Halyk Collection	100	100	100	Kazakhstan	Cash collection services
JSC Halyk-Life	100	100	100	Kazakhstan	Life insurance
Kazakhinstrakh JSC	100	100	100	Kazakhstan	Insurance
JSC APF of Halyk Bank of Kazakhstan ("APF")*	n/a	n/a	100	Kazakhstan	Pension assets accumulation and management
OJSC NBK-Bank	100	100	100	Russia	Banking
JSC Halyk Bank Georgia	100	100	100	Georgia	Banking
LLC Halyk Project	100	100	100	Kazakhstan	Management of doubtful and loss assets
JSC Altyn Bank (SB of JSC Halyk Bank)	100	100	100	Kazakhstan	Banking

*During the third quarter of 2014, APF performed the buy-back of its shares. The holding percentage of the Bank in APF changed accordingly in 2014. In 2015, APF was liquidated in accordance with the Decision of Board of Directors #353 dated 20 November 2015. In 2014, APF transferred all pension assets to JSC Unified Accumulated Pension Fund due to changes in Kazakhstan legislation on pension assets management. Subsequently, the Group stopped carrying out pension asset management and trust activities.

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% of the 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 middle 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 December 2016, JSC Altyn Bank should not be recognised as an asset held for sale in accordance with IFRS 5, as no approvals were obtained through year-end and 3 March 2017, the date when the consolidated financial statements of the Group were authorised for issue by the Management Board.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and any non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amounts by which any non-controlling interests are adjusted is recognised directly in equity.

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

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 "Income Taxes";
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

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

Goodwill

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reverse repo agreements with original maturities within three months.

Obligatory reserves

Obligatory reserves represent funds in correspondent accounts with the National Banks of Kazakhstan, Kyrgyzstan, Georgia and the Central Bank of the Russian Federation and cash which are not available to finance the Group's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Precious metals

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

Amounts due from credit institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Recognition and measurement of financial instruments

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

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

Financial assets

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets depending on the nature and purpose of the financial assets, which is determined at the time of initial recognition.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities are classified as at fair value through profit or loss where the financial asset or financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or financial liability other than a financial asset or financial liability held for trading, may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset or financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in net (loss)/gain on financial assets and liabilities at fair value through profit or loss. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to customers granted by the Group are initially recognised at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Subsequently, loans are carried at amortised cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Loans and receivables are included within amounts due to customers, amounts due from credit institutions and other assets in the consolidated statement of financial position.

Collateral

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

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortised cost using the effective interest method, less any allowance for impairment. Amortised discounts and premiums are recognised in interest income over the period to maturity using the effective interest method. Due to the reclassification of investments held to maturity in 2016, as disclosed in Note 10, the Group will not be able to classify any financial assets as investments held to maturity for two financial years following the 2016 year.

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or investments held to maturity, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition, available-for sale investment securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of profit or loss. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognised in the consolidated statement of profit or loss. Dividends declared are included in other income in the consolidated statement of profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at the close of business on the reporting date.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be classified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When the financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the statement of profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Repurchase and reverse repurchase agreements and securities lending

The Group enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilised by the Group as an element of its treasury management.

Repos are treated as secured financing transactions. Securities sold under repos are retained in the consolidated statement of financial position and, in case the transferee has the right, by contract or custom, to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions.

Securities purchased under reverse repos are recorded as amounts due from credit institutions, amounts due customers or cash and cash equivalents as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of the repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the consolidated statement of profit or loss. The obligation to return securities borrowed is recorded at fair value as a trading liability.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in Kazakhstan and other Commonwealth of Independent States (“CIS”), the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Derivative financial instruments

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

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in the consolidated statement of profit or loss. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. Additionally, derivative instruments expose the Group to counterparty non-performance risk. Certain instruments also pose liquidity risk due to the absence of net-settlement provisions between counterparties.

Forwards

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating interest rate in return for paying or receiving, respectively, a fixed interest rate. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. The Group's currency swaps are mostly gross-settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market, credit, and liquidity risks (see also Note 34).

Amounts due to customers and credit institutions

Amounts due to customers and credit institutions are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit or loss.

Debt securities issued

Debt securities issued represent bonds issued by the Group, which are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Allowances for impairment of financial assets

At each reporting date, the Group assesses whether a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated statement of profit or loss.

The factors the Group evaluates in determining the presence of objective evidence of an occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of an impairment loss on the financial asset or group of financial assets.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will likely be recognised from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial assets are written off against the allowance for impairment losses, where such items are determined to be uncollectible, including through repossession of collateral. The Group requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held with banks, government securities and other assets. When the borrowers do not repay as scheduled, the Group can take possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against the allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of profit or loss.

Loans and receivables are assessed individually for impairment, except for insignificant loans and receivables that have been assessed collectively. Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether impairment should be recognised due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account data from the loan portfolio (such as levels of arrears, loan utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and receivables is disclosed in more detail in Notes 11, 22 and 34.

Available-for-sale investment securities

For listed and unlisted equity investments classified as available-for-sale ("AFS"), a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. If an AFS investment security is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss, is transferred from equity to the consolidated statement of profit or loss. In respect to AFS equity securities, impairment losses previously recognised in the consolidated statement of profit or loss are not reversed through the consolidated statement of profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and is accumulated under the heading of revaluation reserve of AFS investment securities. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously monitors renegotiated loans to ensure that they are performing and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. Renegotiated terms are evidence of impairment for loans assessed for impairment on an individual basis, for which deterioration of the financial position is observed.

Write off of loans and advances

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or a part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Financial liabilities

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan and other countries where the Group operates.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Kazakhstan and other countries where the Group operates also have various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment, except for any buildings and construction which are carried at revalued amount, being the fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and construction	20-100
Vehicles	5-7
Computers and banking equipment	5-10
Other	7-10

Leasehold improvements are amortised over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses, unless they qualify for capitalisation.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognised in the respective year and is included in operating expenses.

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

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

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

Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Intangible assets

Intangible assets acquired separately.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful life and amortisation method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not subject to amortisation.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is recognised on a straight-line basis over the following estimated useful lives:

	Years
Customer deposit intangibles	5
Software	10
Licensing agreements for the right to use the software	10
Other	10

Assets held for sale

Non-current assets and the liabilities directly associated with non-current assets are classified as held for sale ("disposal group") if it is highly probable that the net asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.
Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognised in profit or loss. Any subsequent increase in an asset's fair value less costs to sell is recognised to the extent of the cumulative impairment loss that was previously recognised in profit or loss in relation to that specific asset.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the year in which they arise.

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

Commercial property

In certain circumstances, the Group may foreclose commercial properties as part of the settlement of loan agreements with customers. The Group intends to sell these properties in the normal course of business and therefore these are initially measured at fair value including transaction costs and subsequently measured at the lower of cost or net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the commercial property is expected to be realised for. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the year to the extent that such events confirm conditions existing at the end of the year.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Recorded amounts as at the consolidated statement of financial position date represent the Group's best estimate of the expenditure required to settle the liability. The expense relating to any provision is presented in the consolidated statement of profit or loss net of any recoveries.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan and other countries where the Group operates, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the year the related salaries are earned and included in operating expenses in the consolidated statement of profit or loss. The Group contributes social tax to the budget of Kazakhstan and other countries where the Group operates for its employees. In addition, the Group has no post-retirement benefits.

Equity

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group, after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity instruments as appropriate.

Share capital

External costs directly attributable to the issue of new shares, other than in a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognised as share premium reserve. Effective 13 May 2003, upon a change in the law concerning "Joint Stock Companies", the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares

When the Group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the Group are cancelled. Repurchased shares are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

Dividends

Dividends are recognised as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include:

- Revaluation reserve of available-for-sale investment securities which comprises changes in fair value of available-for-sale investment securities;
- Cumulative translation reserve which is used to record foreign exchange differences arising from the translation of the net investment in foreign operations;
- Property revaluation reserve which comprises revaluation reserve of land and buildings.

Contingencies

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

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting years, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation recognised in accordance with IAS "18 Revenue".

Recognition of income and expense

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

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

Loan origination fees for loans issued to customers are (together with related direct costs) recognised as an adjustment to the effective yield of the loans. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting n a loan, the loan commitment fee is recognised in profit or loss on expiry.

Fees, commissions, including pension asset management fees, and other income and expense items are generally recorded on an accrual basis when the service has been provided.

Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody services that are continuously provided over an extended period of time are recorded over the period the service is provided.

Foreign currency translation

The consolidated financial statements are presented in KZT, which is the functional currency of the Bank and each of its subsidiaries, except for foreign subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions into functional currency are recognised in the consolidated statement of profit or loss as net foreign exchange gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into the Group's presentation currency at the exchange rates as at the consolidated statement of financial position date, and their statements of profit or loss are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net foreign exchange gain or loss. The market exchange rate at 31 December 2016 was – KZT 333.29 to USD 1 (at 31 December 2015 – KZT 340.01; at 31 December 2014 – KZT 182.35).

Insurance

Insurance contracts are those contracts which transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Group utilises accounting policies determined by NBRK for insurance companies of Kazakhstan.

In accordance with the Kazakhstan regulations, when insurance contracts contain a discretionary participation feature with no guaranteed element, such additional payments to the insured are contingent on a decision reached at the annual general shareholders' meeting and should be presented as an allocation of retained earnings and not as an expense.
The Group offers various insurance products in property and casualty, liability, personal, and life insurance.

Underwriting income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance, reduced by the net change in the unearned premium reserve.
Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned insurance premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within insurance liabilities in the consolidated statement of financial position.

Losses and loss adjustments are charged to the statement of profit or loss as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within insurance claims incurred, net of reinsurance in the consolidated statement of profit or loss.
Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

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

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses is included in insurance liabilities in the consolidated statement of financial position and is based on the estimated amount payable on claims reported prior to the reporting date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting year.

The incurred but not reported reserve ("IBNR") for motor, hull and liability insurance is actuarially determined and is based upon statistical claim data for the year typical for loss development of the classes and sub-classes of business and the Group's previous experience.

Due to the lack of historical company specific data and comparable industry data for other lines of business, the reserve for IBNR claims is determined by applying current government guidance as provided by NBRK. Under this guidance, the IBNR reserve is calculated in an amount of 5% of the insurance premiums written during the last twelve months preceding the settlement date in this class of insurance.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss in the year in which they are determined.

Reinsurance

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

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Payables to reinsurers for ceded premium are recorded gross when due, unless a right of offset exists against commission receivable from the reinsurer and are included in the consolidated statement of financial position within insurance assets.

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

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

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Financial guarantee contracts and letters of credit issued

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

Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the following new and revised Standards and Interpretations that were relevant to the Group's activities have been adopted and have affected the amounts reported in these consolidated financial statements:

- Amendments to IAS 1 Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation;
- Annual Improvements to IFRSs 2012-2014 Cycle

Amendments to IAS 1 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The Group has applied these amendments for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a. when the intangible asset is expressed as a measure of revenue; or
b. when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The application of these amendments has not resulted in any impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs – 2012-2014 Cycle

The Group has applied these amendments for the first time in the current year. The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting year on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting year on government bonds denominated in that currency should be used instead.

The application of these amendments has not resulted in any impact on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

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

- IFRS 9 Financial Instruments2;
- IFRS 15 Revenue from Contracts with Customers (and the related Clarifications)2;
- IFRS 16 Leases3
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions2;
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture4;
- Amendments to IAS 7 – Disclosure Initiative1;
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses1;
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts2;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration2;
- Amendments to IAS 40 – Transfers of Investment Property2;
- Annual Improvements to IFRSs 2014-2016 Cycle.

1 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

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IFRS 9 Financial Instruments

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

The key requirements of IFRS 9 are:

- Classification and measurement of financial assets. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- Classification and measurement of financial liabilities. With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- Impairment. In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- Hedge accounting. The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group expects that the adoption of IFRS 9 will result in an increase in the allowance for loan losses, however it is not yet possible to provide a reasonable quantitative estimate. Regarding the classification and measurement principles of IFRS 9, management do not expect any significant reclassifications between amortised cost and fair value financial assets. The effect of transition will be recognized prospectively as an adjustment to the retained earnings as of 1 January 2018. The Group have established a working group with members from Risk, Finance, IT and other relevant functions and, according to its plan, it is expected that a working methodology and a reasonable quantitative estimate will be available in the fourth quarter of 2017.

IFRS 15 Revenue from Contracts with Customers (and the related Clarifications)

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

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a five-step approach to revenue recognition:

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

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

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

The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on the amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet), except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Furthermore, the classification of cash flows will also be affected, as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The management of the Group anticipates that the application of IFRS 16 in the future may have a significant impact on the amounts recognised in the Group's consolidated financial statements and the management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until management completes their review.

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

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (i.e. the share-based payment arrangement has a 'net settlement feature'), such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

a. the original liability is derecognised;
b. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
c. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted. Specific transition provisions apply.

The management of the Group does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017, with earlier application permitted. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

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

The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be offset against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits, excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017, with earlier application permitted.

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

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

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

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration (i.e. when the prepayment or liability in respect of the income received in advance was recognised). If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018, with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively.

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

Amendments to IAS 40 Transfers of Investment Property

The amendments are intended to clarify that an entity can only reclassify a property to/ from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments emphasise that a change in management's intentions alone would not be enough to support a transfer of property. The standard has a list of circumstances that evidence a change in use, which is perceived by some as being exhaustive, the amendments make it clear that they are only examples. The amendments apply to annual periods beginning on or after 1 January 2018, with earlier application permitted. Entities may elect to apply them either retrospectively (if it is possible without the use of hindsight) or prospectively.

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

Annual Improvements to IFRSs 2014-2016 Cycle

This annual improvements package amended three standards:

The amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarised financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

In accordance with IAS 28, a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at FVTPL. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

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

4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting year. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to the allowance for the impairment of loans and receivables as a key source of estimation uncertainty because (i) they are highly susceptible to change from year to year as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses will require the Group to make provisions which, if significantly different, could have a material impact on its future consolidated statement of profit or loss and its consolidated statement of financial position.

The Group uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables.

Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience.

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

The carrying amount of the allowance for impairment losses of loans to customers as at 31 December 2016 is KZT 284,752 million (31 December 2015 is KZT 305,114 million, 31 December 2014: KZT 286,018 million).

Valuation of financial instruments

As described in Note 37, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 37 provides detailed information about the key assumptions used in the determination of the fair value of the Group's financial instruments. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of the Group's financial instruments.

Property and equipment carried at revalued amounts

Buildings and construction are measured at revalued amounts. The latest appraisal was in November 2016. Details of the valuation techniques used are set out in Note 14.

Taxation

Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

As at 31 December 2016, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group's reported net income.

Claims liability and reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. For certain lines of business, IBNR claims form the majority of insurance liabilities in the consolidated statement of financial position. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull, property, accident and liability insurance, the Group actuarially determines the liability using past claims settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance, as provided by NBRK, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money.

The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered.

Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the year in which the necessary adjustments become known and estimable.

Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management's judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. Difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortised but is tested annually or more frequently for impairment if events or changes in circumstances indicate that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or a group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable and willing parties.

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

5. ACQUISITION

In 2014, the Group acquired the following subsidiary:

	Principal activity	Acquisition date	Proportion of shares acquired (%)	Consideration transferred
JSC Altyn Bank	Banking	28 November 2014	100%	31,869

During 2014, the Bank acquired Subsidiary Bank, JSC HSBC Bank Kazakhstan, and renamed it JSC Altyn Bank. JSC Altyn Bank was consolidated from 28 November 2014, on which date the control was transferred to the Group. The assets and liabilities of JSC Altyn Bank were recognised at fair value. The statement of profit or loss of JSC Altyn Bank up to acquisition date was not recognised.

Assets acquired and liabilities recognised at the date of acquisition:

	28 November 2014 Fair value
Assets	
Cash and cash equivalents	98,319
Trading securities	2,483
Loans to customers	59,793
Other accounts receivable	934
Equipment and intangibles	587
Non-current assets held for sale	38
	162,154

Liabilities	
Amounts due to credit institutions	(3,792)
Amounts due to customers	(129,478)
Other account payables	(1,566)
	(134,836)
Net assets	27,318

Goodwill arising on acquisition of JSC Altyn Bank:

	28 November 2014 Fair value
Consideration transferred	31,869
Less: Fair value of identifiable net assets acquired	(27,318)
Less: Customer deposit intangible (hereinafter – "CDI") (Note 15)	(2,226)
Plus: Deferred tax on CDI	445
Less: Accounts receivable from HSBC Bank Plc.	(901)
Goodwill	1,869

Goodwill arising upon businesses acquisitions is as follows:

	Carrying amount
31 December 2012 and 2013	3,085
Additions	1,869
31 December 2014 and 2015	4,954
Including:	
JSC Kazakhinstrakh	3,055
JSC Altyn Bank	1,869
OJSC Halyk Bank Kyrgyzstan	30
	4,954

Net cash inflow on acquisition of the subsidiary:

	2014
Consideration paid in cash	(31,869)
Plus: Cash and cash equivalents acquired	98,319
	66,450

Impact of acquisition on the results of the Group

Upon the acquisition of JSC Altyn Bank, the Bank developed a price allocation model, based on which it determined the pro-forma net income. Had this acquisition been effected on 1 January 2014, the net income of the Group for the year ended 31 December 2014 would have been KZT 115,909 million. The Group management considers these pro-forma numbers to represent an approximate performance measure of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2016	31 December 2015	31 December 2014
Cash on hand	149,124	118,891	130,413
Recorded as loans and receivables in accordance with IAS 39:			
Correspondent accounts with Organisation for Economic Co-operation and Development countries (the "OECD") based banks	181,144	116,478	90,574
Short-term deposits with OECD based banks	428,526	125,808	14,595
Overnight deposits with OECD based banks	79,992	-	31,000
Correspondent accounts with NBRK	915,675	1,019,059	260,070
Short-term deposits with NBRK	4,002	310	-
Short-term deposits with Kazakhstan banks (incl. loans under reverse repurchase agreements)	2,592	11,518	3,803
Correspondent accounts with non-OECD based banks	11,459	12,206	8,553
Short-term deposits with non-OECD based banks	2,005	410	1,529
	1,774,519	1,404,680	540,537

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

	31 December 2016		31 December 2015		31 December 2014	
	KZT	Foreign currencies	KZT	Foreign currencies	KZT	Foreign currencies
Short-term deposits with OECD based banks	-	0.7%-1.5%	-	0.3%-0.9%	-	0.3%
Overnight deposits with OECD based banks	-	0.5%-0.7%	-	-	-	0.08%
Short-term deposits with NBRK	11.0%	-	-	4.0%	-	-
Short-term deposits with Kazakhstan banks	12.5%	-	10%-150%	0.3%-2.5%	30%	-
Short-term deposits with non-OECD based banks	-	6.6%-7.0%	-	3.0%	-	2.0%- 3.3%

Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2016, 2015 and 2014, are as follows:

	31 December 2016		31 December 2015		31 December 2014	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Treasury bills of the Ministry of Finance of Kazakhstan	1,591	1,519	8,320	10,012	3,803	4,103
	1,591	1,519	8,320	10,012	3,803	4,103

As at 31 December 2016, 2015 and 2014, maturities of loans under reverse repurchase agreements are less than one month.

7. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2016	31 December 2015	31 December 2014
Recorded as loans and receivables in accordance with IAS 39:			
Cash and due from banks allocated to obligatory reserves	76,122	68,389	48,225
	76,122	68,389	48,225

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the National Banks of Kazakhstan, Kyrgyzstan, Georgia and the Central Bank of the Russian Federation and are used for the calculation of the minimum reserve requirement. As at 31 December 2016, obligatory reserves of JSC Altyn Bank, OJSC Halyk Bank Kyrgyzstan, OJSC NBK-Bank and JSC Halyk Bank Georgia comprised KZT 12,767 million (31 December 2015 – KZT 9,340 million, 31 December 2014 – KZT 4,464 million).

8. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2016	31 December 2015	31 December 2014
Financial assets held for trading:			
Notes of NBRK	249,574	-	-
Derivative financial instruments	77,776	175,313	12,094
Corporate bonds	743	909	751
Bonds of JSC Development Bank of Kazakhstan	215	199	152
Bonds of Kazakhstan banks	137	293	164
Bonds of foreign organisations	102	124	174
Equity securities of foreign organisations	102	78	56
Equity securities of Kazakhstan corporations	88	106	261
Equity securities of Kazakhstan banks	-	48	49
Treasury bills of the Ministry of Finance of Kazakhstan	-	-	2,026
	328,737	177,070	15,727

Financial liabilities at fair value through profit or loss comprise:

	31 December 2016	31 December 2015	31 December 2014
Financial liabilities held for trading:			
Derivative financial instruments	2,841	5,593	3,131

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 December 2016	31 December 2015	31 December 2014
Notes of NBRK	13.2%	-	-
Corporate bonds	6.6%	6.6%	6.3%
Bonds of JSC Development Bank of Kazakhstan	5.9%	5.3%	5.2%
Bonds of Kazakhstan banks	9.7%	10.5%	11.4%
Bonds of foreign organisations	6.9%	6.3%	6.3%
Treasury bills of the Ministry of Finance of Kazakhstan	-	-	4.4%

Derivative financial instruments comprise:

	31 December 2016			31 December 2015			31 December 2014		
	Notional amount	Fair value Liability	Fair value Liability	Notional amount	Fair value Liability	Fair value Liability	Notional amount	Fair value Liability	Fair value Liability
Foreign currency contracts									
Swaps	228,905	77,655	2,833	454,075	175,308	1,043	305,163	9,380	2,232
Forwards	4,644	107	-	14,546	-	4,285	63,716	2,714	899
Spots and options	3,583	14	8	28,627	5	265	-	-	-
		77,776	2,841		175,313	5,593		12,094	3,131

As at 31 December 2016, 2015 and 2014, the Group used quoted market prices from independent information sources for all of its financial assets recorded at fair value through profit or loss, except for derivative financial instruments, which are valued using valuation models based on observable market data.

During 2015 and 2014, in order to increase tenge liquidity, the Group concluded swaps and non-deliverable forwards with the NBRK.

9. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2016	31 December 2015	31 December 2014
Recorded as loans and receivables in accordance with IAS 39:			
Loans to credit institutions	18,678	14,307	14,303
Term deposits	11,256	25,584	10,058
Deposit pledged as collateral for derivative financial instruments	5,608	5,109	2,734
	35,542	45,000	27,095
Less - Allowance for loan impairment (Note 22)	-	(7)	-
	35,542	44,993	27,095

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

	31 December 2016		31 December 2015		31 December 2014	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Loans to credit institutions	8.2%-10.3%	2017	8.2%	2017	8.2%	2017
Term deposits	0.5%-18.0%	2017-2018	1.0%-27.0%	2016-2017	1.0%-9.0%	2015-2017
Deposit pledged as collateral for derivative financial instruments	0.2%-1.8%	2018	0.2%-1.8%	2016	0.2%-1.8%	2015

10. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2016	31 December 2015	31 December 2014
Notes of NBRK	199,390	-	-
Treasury bills of the Ministry of Finance of Kazakhstan	138,018	165,040	149,640
Corporate bonds	103,464	141,428	120,780
Treasury bills of the USA	91,534	-	-
Bonds of JSC Development Bank of Kazakhstan	37,640	35,976	18,209
Bonds of Kazakhstan banks	10,223	17,606	12,422
Treasury bills of Hungary	7,762	-	-
Equity securities of Kazakhstan corporations	4,719	3,024	5,000
Bonds of foreign organisations	3,138	9,336	48,968
Treasury bills of Georgia	2,116	2,755	1,562
Treasury bills of the Russian Federation	820	653	6,618
Treasury bills of the Kyrgyz Republic	705	208	-
Equity securities of foreign corporations	95	2,140	1,713
Notes of National Bank of Kyrgyz Republic	-	354	-
Treasury bills of Republic of Poland	-	-	17,536
Local municipal bonds	-	-	3,913
Equity securities of Kazakhstan banks	-	-	62
	599,624	378,520	386,423

As at 31 December 2016, 2015 and 2014, available-for-sale investment securities included treasury bills of the Ministry of Finance of Kazakhstan at fair value of KZT 15,201 million, KZT 51,763 million and KZT 12,575 million, respectively, pledged under repurchase agreements with the other banks (see Note 20). All repurchase agreements as at 31 December 2016, 2015 and 2014 mature before 4 January 2017, 5 January 2016, and 5 January 2015, 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 December 2016		31 December 2015		31 December 2014	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Notes of NBRK	13.4%	2017	-	-	-	-
Treasury bills of the Ministry of Finance of Kazakhstan	5.7%	2017-2031	5.6%	2016-2045	5.5%	2015-2031
Corporate bonds	5.8%	2017-2031	6.9%	2016-2029	7.0%	2015-2023
Treasuty bills of the USA	0.4%	2017	-	-	-	-
Bonds of JSC Development Bank of Kazakhstan	4.5%	2022-2026	4.5%	2022-2026	4.7%	2022-2026
Bonds of Kazakhstan banks	11.2%	2017-2049	12.1%	2016-2049	10.5%	2015-2023
Treasury bills of Hungary	3.2%	2023	-	-	-	-
Bonds of foreign organisations	6.3%	2017-2024	5.0%	2016-2022	4.0%	2015-2022
Treasury bills of Georgia	10.4%	2017-2024	10.1%	2016-2024	11.9%	2016-2024
Treasury bills of the Russian Federation	8.1%	2021	9.8%	2021	2.7%	2018-2021
Treasury bills of the Kyrgyz Republic	10.2%	2017	12.4%	2016	-	-
Notes of National Bank of Kyrgyz Republic	-	-	10.5%	2016	-	-
Treasury bills of Republic of Poland	-	-	-	-	2.2%	2019
Local municipal bonds	-	-	-	-	4.9%	2015

Reclassifications to investments available-for-sale

During 2016, after the completion of the two-year moratorium, the Group acquired investments held to maturity, however, on 21 July 2016, the management of the Group decided to reclassify Eurobonds of the Ministry of Finance of the Republic of Kazakhstan for a total amount of KZT 4,963 million (USD 14.6 million) maturing in 2045 from the held to maturity investment portfolio to the available-for-sale investment portfolio and sold these investments subsequently. As a result the Group's portfolio was tainted within 2016 and remaining held to maturity investments were reclassified to the available-for-sale investment portfolio.

11. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2016	31 December 2015	31 December 2014
Recorded as loans and receivables in accordance with IAS 39:			
Originated loans to customers	2,602,381	2,477,685	1,931,218
Overdrafts	1,954	3,498	2,813
	2,604,335	2,481,183	1,934,031
Less – Allowance for loan impairment losses (Note 22)	(284,752)	(305,114)	(286,018)
Loans to customers	2,319,583	2,176,069	1,648,013

The average interest rate on loans to customers is calculated as interest income from loans to customers divided by the monthly average balances of loans to customers. For the year ended 31 December 2016, the average interest rate on the loans to customers was 13.0% (31 December 2015 – 12.5%, 31 December 2014 – 12.1%).

As at 31 December 2016, the Group's loan concentration to the ten largest borrowers was KZT 494,953 million, which comprised 19% of the Group's total gross loan portfolio (31 December 2015 – KZT 512,128 million, 21%; 31 December 2014 – KZT 356,266 million, 18%) and 74% of the Group's total equity (31 December 2015 – 97%, 31 December 2014 – 75%).

As at 31 December 2016, an allowance for impairment of KZT 49,762 million for those loans was recognised (31 December 2015 – KZT 60,965 million, 31 December 2014 – KZT 58,214 million).

The table below summarises the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2016	31 December 2015	31 December 2014
Loans collateralised by pledge of real estate or rights thereon	895,955	940,171	738,450
Loans collateralised by guarantees	646,702	511,561	414,847
Consumer loans issued within the framework of payroll projects*	405,196	373,211	330,158
Loans collateralised by cash	223,675	192,185	162,195
Loans collateralised by pledge of corporate shares	133,988	144,541	115,320
Loans collateralised by pledge of inventories	48,790	48,313	51,501
Loans collateralised by pledge of vehicles	42,997	70,227	28,958
Loans collateralised by mixed types of collateral	39,617	48,490	12,279
Loans collateralised by pledge of equipment	8,849	10,865	9,834
Loans collateralised by pledge of agricultural products	6,311	5,742	1,502
Unsecured loans	152,255	135,877	68,987
	2,604,335	2,481,183	1,934,031
Less - Allowance for loan impairment losses (Note 22)	(284,752)	(305,114)	(286,018)
Loans to customers	2,319,583	2,176,069	1,648,013

*These loans are collateralised by cash to be received in the future from the employees of companies within the framework of salary projects.

Loans are granted to the following sectors:

	31 December 2016	%	31 December 2015	%	31 December 2014	%
Retail loans:						
- consumer loans	433,291	17%	407,905	16%	352,028	18%
- mortgage loans	187,772	7%	197,165	8%	138,615	7%
	621,063		605,070		490,643	
Services	413,150	16%	394,027	16%	229,741	12%
Wholesale trade	383,261	15%	442,797	18%	386,201	20%
Construction	191,171	7%	168,393	7%	159,975	8%
Retail trade	157,146	6%	150,353	6%	112,497	7%
Real estate	150,662	6%	157,413	6%	130,622	7%
Agriculture	121,368	5%	118,948	5%	103,836	6%
Transportation	101,965	4%	59,415	2%	66,045	4%
Mining	78,528	3%	54,936	2%	39,782	2%
Energy	69,690	3%	28,628	1%	9,264	0%
Communication	61,461	2%	60,483	2%	27,959	1%
Financial services	44,645	2%	39,394	2%	37,960	2%
Food industry	34,797	1%	31,897	1%	28,327	1%
Hotel industry	34,706	1%	32,581	1%	29,969	2%
Oil and gas	33,815	1%	36,777	2%	9,059	0%
Chemical industry	28,051	1%	14,678	1%	8,793	0%
Metallurgy	23,290	1%	25,610	1%	22,026	1%
Machinery	22,559	1%	15,499	1%	5,250	0%
Light industry	8,911	0%	7,004	0%	4,171	0%
Other	24,096	1%	37,280	2%	31,911	2%
	2,604,335	100%	2,481,183	100%	1,934,031	100%

As at 31 December 2016, accrued interest on loans comprised KZT 142,046 million (31 December 2015 – KZT 138,495 million, 31 December 2014 – KZT 103,757 million).

During the years ended 31 December 2016, 2015 and 2014, the Group received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 2016, 2015 and 2014, such assets of KZT 2,726 million, KZT 7,401 million, and KZT 8,029 million, respectively, are included in assets held for sale.

As at 31 December 2016, 2015 and 2014, loans to customers included loans of KZT 149,024 million, KZT 188,582 million and KZT 150,382 million, respectively, which terms were renegotiated. Otherwise, these loans would be past due or impaired.

12. INVESTMENT PROPERTY

	31 December 2016	31 December 2015	31 December 2014
As at 1 January	24,658	5,684	906
Additions	5,924	18,861	1,912
Disposals	(1,499)	(2)	-
Transferred from property and equipment	976	58	2,129
Gain on revaluation of investment property	56	57	361
Capitalised expenses	22	-	141
Translation differences	9	-	-
Transferred from non-current assets held for sale	-	-	235
As at 31 December	30,146	24,658	5,684

During the years ended 31 December 2016, 2015 and 2014, the Group foreclosed collateral it held as a security for loans to customers. As a result, the Group received investment property of KZT 5,924 million, KZT 18,861 million, and KZT 1,912 million respectively.

As at 31 December 2016, 2015 and 2014, there was no investment property that was pledged as collateral for liabilities.

Investment property rental income is included in other income in the statement of profit or loss. For the years ended 31 December 2016, 2015 and 2014, investment property rental income earned was KZT 1,571 million, KZT 1,120 million and KZT 175 million, respectively.

Operating expenses arising from the investment property that generated rental income during the years ended 31 December 2016, 2015 and 2014 were KZT 861 million, KZT 497 million and KZT 64 million, respectively.

Investment property owned by the Group was revalued by independent appraisers as at 31 December 2016, 2015 and 2014. The fair value of the investment property was estimated based on the income approach and the comparative approach. When estimating the fair value of the properties, their current use is considered the best use and the most effective. There has been no change to the valuation technique during the year. This revaluation resulted in recognition of a revaluation gain in the consolidated statements of profit or loss for the years ended 31 December 2016, 2015 and 2014 of KZT 56 million, KZT 57 million and KZT 361 million, respectively.

As at 31 December 2016, 2015 and 2014, the fair value measurements of the Group's investment property are categorised into Level 3 in an amount of KZT 30,146 million, KZT 24,658 million and KZT 5,684 million, respectively (description of measurement hierarchy is disclosed in Note 37).

13. COMMERCIAL PROPERTY

During the year ended 31 December 2015, the Group took possession of collateral it held as a security for a loan and received land and construction in progress for KZT 1,241 million and KZT 6,245 million, respectively. The Group continued the construction and, in 2016 and 2015, it recognised capitalised expenses of KZT 2,818 million and KZT 2,146 million, respectively. During 2016, the Group transferred completed property to original investors for KZT 1,615 million and sold property for KZT 632 million. As at 31 December 2016, the carrying amount of construction in progress and finished construction was KZT 2,825 million and KZT 7,377 million, respectively.

14. PROPERTY AND EQUIPMENT

The movements in property and equipment are as follows:

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2015	56,423	2,587	22,400	14,066	15,356	110,832
Additions	3,844	320	4,334	6,114	3,677	18,289
Disposals	(1,241)	(155)	(2,045)	(70)	(2,746)	(6,257)
Write-off at revaluation	(1,761)	-	(2)	-	(4)	(1,767)
Revaluation	1,272	-	-	-	-	1,272
Transfers*	19,610	(3)	54	(20,109)	448	-
Impairment	(464)	-	-	-	(3)	(467)
Translation differences	171	5	32	-	(34)	174
31 December 2016	77,854	2,754	24,773	1	16,694	122,076
Accumulated depreciation:						
31 December 2015	1,098	1,530	17,100	-	8,642	28,370
Charge	1,009	268	1,710	-	1,212	4,199
Disposals	(27)	(155)	(1,763)	-	(1,718)	(3,663)
Write-off at revaluation	(1,761)	-	(2)	-	(4)	(1,767)
Translation differences	165	2	(4)	-	(123)	40
31 December 2016	484	1,645	17,041	-	8,009	27,179
Net book value:						
31 December 2016	77,370	1,109	7,732	1	8,685	94,897

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2014	54,374	2,557	22,648	12,596	13,990	106,165
Additions	240	267	2,583	3,471	2,425	8,986
Disposals	(1,710)	(285)	(3,027)	(142)	(1,307)	(6,471)
Transfers	1,717	-	-	(1,860)	143	-
Translation differences	1,802	48	196	1	105	2,152
31 December 2015	56,423	2,587	22,400	14,066	15,356	110,832
Accumulated depreciation:						
31 December 2014	382	1,419	16,434	-	8,366	26,601
Charge	858	300	1,734	-	1,443	4,335
Disposals	(219)	(222)	(1,195)	-	(1,214)	(2,850)
Translation differences	77	33	127	-	47	284
31 December 2015	1,098	1,530	17,100	-	8,642	28,370
Net book value:						
31 December 2015	55,325	1,057	5,300	14,066	6,714	82,462

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2013	51,903	2,531	22,471	1,107	13,489	91,501
Additions	883	347	2,898	13,722	773	18,623
Disposals	(3,567)	(263)	(2,750)	(578)	(442)	(7,600)
Additions through acquisition of subsidiary	-	9	75	-	473	557
Transfers	1,740	-	114	(1,655)	(199)	-
Write-off at revaluation	(1,654)	-	-	-	-	(1,654)
Revaluation	6,676	-	-	-	-	6,676
Impairment	(831)	(64)	(150)	-	(96)	(1,141)
Translation differences	(776)	(3)	(10)	-	(8)	(797)
31 December 2014	54,374	2.557	22,648	12,596	13,990	106,165
Accumulated depreciation:						
31 December 2013	1,265	1,386	17,326	-	7,910	27,887
Charge	809	330	1,335	-	1,256	3,730
Disposals	(12)	(294)	(2,212)	-	(790)	(3,308)
Write-off at revaluation	(1,654)	-	-	-	-	(1,654)
Translation differences	(26)	(3)	(15)	-	(10)	(54)
31 December 2014	382	1,419	16,434	-	8,366	26,601
Net book value:						
31 December 2014	53,992	1,138	6,214	12,596	5,624	79,564

*During 2016, the Bank finished the construction of its property and moved its Head Office to 40 Al-Farabi Avenue, Almaty.

The Group's revaluation policy requires the entire asset class of buildings and construction to be revalued every three years. In the event of significant changes in specific market or property indicators, the Group may opt to perform revaluations more regularly.

The Group had its buildings and properties revalued during 2016 by independent appraisers. The independent appraisers used three approaches to identify the fair value of the property and equipment - the income approach with the income capitalisation method, the comparative approach, using market information to identify the fair value of buildings and structures under active market conditions, and the cost approach when no active market existed for items subject to revaluation.

As at 31 December 2016, the fair value measurements of the Group's buildings and construction, are categorised into Level 2 and Level 3, in amount of KZT 77,256 million and KZT 114 million, respectively (31 December 2015: KZT 55,249 million and KZT 76 million, respectively; 31 December 2014: KZT 53,917 million and KZT 75 million, respectively). A description of the measurement hierarchy is disclosed in Note 37.

As at 31 December 2016, the total fair value of buildings and construction was KZT 77,370 million. As at 31 December 2016, the carrying amount of property and equipment that would have been recognised had the assets been carried under the cost model is KZT 69,003 million.

15. INTANGIBLE ASSETS

The movements in intangible assets are as follows:

Cost:	Software	Licensing agreements for the right to use the software	Customer deposit intangibles*	Other intangible assets	Total
31 December 2013	8,675	2,983	-	123	11,781
Additions	1,296	765	-	254	2,315
Additions through acquisition of subsidiary	30	-	2,226	-	2,256
Disposals	(234)	(4)	-	(178)	(416)
Translation differences	(47)	-	-	-	(47)
31 December 2014	9,720	3,744	2,226	199	15,889
Additions	1,779	303	-	144	2,226
Disposals	(338)	(7)	-	(273)	(618)
Translation differences	187	120	-	-	307
31 December 2015	11,348	4,160	2,226	70	17,804
Additions	1,879	1,221		334	3,434
Disposals	(92)	(13)	-	(243)	(348)
Translation differences	(16)	35	-	-	19
31 December 2016	13,119	5,403	2,226	161	20,909

Cost:	Software	Licensing agreements for the right to use the software	Customer deposit intangibles*	Other intangible assets	Total
Accumulated depreciation:					
31 December 2013	4,732	1,425	-	7	6,164
Charge	997	252	41	3	1,293
Disposals	(192)	(3)	-	-	(195)
Translation differences	(37)	-	-	-	(37)
31 December 2014	5,500	1,674	41	10	7,225
Charge	1,523	19	445	1	1,988
Disposals	(254)	-	-	-	(254)
Translation differences	163	23	-	-	186
31 December 2015	6,932	1,716	486	11	9,145
Charge	1,675	540	445	-	2,660
Disposals	(84)	-	-	-	(84)
Translation differences	4	5	-	-	9
31 December 2016	8,527	2,261	931	11	11,730
Net book value:					
31 December 2014	4,220	2,070	2,185	189	8,664
31 December 2015	4,416	2,444	1,740	59	8,659
31 December 2016	4,592	3,142	1,295	150	9,179

*The customer deposit intangibles originated from the acquisition of a subsidiary and were calculated based on a stable level of deposits

16. ASSETS HELD FOR SALE

After the default of certain counterparties on loans to customers, the Group recognised the property pledged as collateral for the loans as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less disposal costs or the carrying value, as the Group's management of the appropriate level committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan was initiated.

Assets held for sale comprised the following:

	31 December 2016	31 December 2015	31 December 2014
Land plots	8,962	10,432	8,044
Real estate	1,335	973	754
	10,297	11,405	8,798

In November 2016, the Group performed an independent valuation of its assets held for sale and based on the results recognised an impairment loss of KZT 1,564 million.

Despite the Group actively marketing these assets for sale, the majority have not been sold within a short timeframe. However, the management remains committed to the sale of these assets. As the assets are carried at a price not exceeding the current fair value less costs to sell, they continued to be classified as held for sale at the end of 2016, 2015 and 2014.

The fair value of the Group's non-current assets held for sale was determined by independent appraisers. The following methods were used for the estimation of its fair value: income approach, comparative approach and cost based method. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Details of the Group's assets held for sale and information about the fair value hierarchy as at 31 December 2016, 2015 and 2014 are as follows:

	Level 2	Level 3
31 December 2014		
Land plots	-	8,044
Real estate	645	109
31 December 2015		
Land plots	-	10,432
Real estate	968	5
31 December 2016		
Land plots	-	8,962
Real estate	507	828

17. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

	31 December 2016	31 December 2015	31 December 2014
Unearned reinsurance premium	15,519	12,859	10,420
Reinsurance amounts	2,294	1,557	2,221
	17,813	14,416	12,641
Premiums receivable	10,541	9,441	7,679
Insurance assets	28,354	23,857	20,320

Insurance liabilities comprised the following:

	31 December 2016	31 December 2015	31 December 2014
Reserves for insurance claims	33,731	24,797	18,360
Gross unearned insurance premium reserve	23,120	19,043	15,105
	56,851	43,840	33,465
Payables to reinsurers and agents	7,523	7,143	5,342
Insurance liabilities	64,374	50,983	38,807

Insurance risk

The Company establishes underwriting guidelines and limits, which stipulate the approval process for risks and their limits. These limits are being continuously monitored. The Company's direct insurance business is spread throughout the Republic of Kazakhstan. The Company's reinsurance portfolio is diversified in terms of geographical spread and in terms of lines of business.

Claims management risk

The risk that claims are handled or paid inappropriately is managed using a range of IT system controls and manual processes conducted by experienced staff. These, together with a range of detailed policies and procedures, ensure that all claims are handled in a timely, appropriate and accurate manner.

Reinsurance risk

Reinsurance is used to protect against the impact of major catastrophic events or unforeseen volumes of, or adverse trends in, large individual claims and to transfer risk that is outside the Group's current risk appetite.

Reinsurance of risk above the Group's appetite is only effective if the reinsurance premium is economic and the counterparty is financially secure.

The Group evaluates the financial strengths of its reinsurers and monitors the concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimise its exposure to significant losses from reinsurer insolvencies.

Reserving risk

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

Credit risk in respect to insurance

The Group is exposed to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one debtor, or groups of debtors and geographical segments. Limits on the level of credit risk by a debtor and reinsurer are approved by the NBRK on a regular basis. Such risks are monitored continuously and are subject to an annual or more frequent reassessment.

The movements on claims reserves for the years ended 31 December 2016, 2015 and 2014, were as follows:

	2016	2015	2014
Reserves for claims, beginning of the year	24,797	18,360	16,209
Reserves for claims, reinsurance share, beginning of the year	(1,557)	(2,221)	(3,185)
Net reserves for claims, beginning of the year	23,240	16,139	13,024
Plus claims incurred	24,799	22,793	16,195
Less claims paid	(16,602)	(15,692)	(13,080)
Net reserves for claims, end of the year	31,437	23,240	16,139
Reserves for claims, reinsurance share, end of the year	2,294	1,557	2,221
Reserves for claims, end of the year	33,731	24,797	18,360

The movements on unearned insurance premium reserve for the years ended 31 December 2016, 2015 and 2014, were as follows:

	2016	2015	2014
Gross unearned insurance premium reserve, beginning of the year	19,043	15,105	10,796
Unearned insurance premium reserve, reinsurance share, beginning of the year	(12,859)	(10,420)	(7,424)
Net unearned insurance premium reserve, beginning of the year	6,184	4,685	3,372
Change in unearned insurance premium reserve	4,077	3,938	4,309
Change in unearned insurance premium reserve, reinsurance share	(2,660)	(2,439)	(2,996)
Net change in unearned insurance premium reserve	1,417	1,499	1,313
Net unearned insurance premium reserve, end of the year	7,601	6,184	4,685
Unearned insurance premium reserve, reinsurance share, end of the year	15,519	12,859	10,420
Gross unearned insurance premium reserve, end of the year	23,120	19,043	15,105

18. OTHER ASSETS

Other assets comprise:

	31 December 2016	31 December 2015	31 December 2014
Other financial assets recorded as loans and receivables in accordance with IAS 39:			
Debtors on banking activities	8,397	8,171	9,788
Accrued commission income	1,652	806	778
Debtors on non-banking activities	1,212	1,802	2,204
Other	12	15	20
	11,273	10,794	12,790
Less – Allowance for impairment (Note 22)	(4,516)	(4,568)	(4,297)
	6,757	6,226	8,493
Other non-financial assets:			
Prepayments for investment property	7,559	-	-
Inventory	1,323	1,039	1,161
Prepayments for property and equipment	1,263	7,601	1,682
Advances for taxes other than income tax	1,077	753	615
Other investments	168	65	30
Other	2,443	3,082	1,435
	13,833	12,540	4,923
	20,590	18,766	13,416

19. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2016	31 December 2015	31 December 2014
Recorded at amortised cost:			
Term deposits:			
Individuals	1,470,536	1,276,609	764,935
Legal entities	1,267,589	868,833	380,810
	2,738,125	2,145,442	1,145,745
Current accounts:			
Legal entities	837,625	701,468	529,204
Individuals	244,912	196,821	173,264
	1,082,537	898,289	702,468
	3,820,662	3,043,731	1,848,213

As at 31 December 2016, the Group's ten largest groups of related customers accounted for approximately 32% of the total amounts due to customers (31 December 2015 – 28%; 31 December 2014 – 26%), 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 realise its liquid assets to enable repayment.

An analysis of customer accounts by sector is as follows:

	31 December 2016	%	31 December 2015	%	31 December 2014	%
Individuals and entrepreneurs	1,715,448	45%	1,473,430	48%	938,199	51%
Oil and gas	743,744	19%	604,738	20%	296,546	16%
Financial sector	215,936	6%	112,462	4%	43,796	2%
Transportation	185,039	5%	131,926	4%	108,663	6%
Other consumer services	171,245	4%	142,768	5%	72,918	4%
Wholesale trade	166,918	4%	151,395	5%	77,060	4%
Government	86,162	2%	20,309	1%	25,139	1%
Construction	81,113	2%	82,841	3%	66,379	4%
Metallurgy	77,103	2%	48,406	1%	29,383	2%
Healthcare and social services	61,184	2%	65,434	2%	31,213	2%
Communication	52,550	1%	15,714	1%	15,045	1%
Education	35,723	1%	23,547	1%	18,291	1%
Energy	33,729	1%	45,280	1%	14,195	1%
Insurance and pension funds activity	13,281	0%	8,368	0%	22,284	1%
Other	181,487	5%	117,113	4%	89,102	4%
	3,820,662	100%	3,043,731	100%	1,848,213	100%

20. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2016	31 December 2015	31 December 2014
Recorded at amortised cost:			
Loans from JSC National Managing Holding KazAgro	38,534	41,866	47,846
Loans from JSC Entrepreneurship Development Fund DAMU	36,552	32,882	21,127
Correspondent accounts	27,882	8,420	5,646
Loans and deposits from Kazakhstan banks	21,924	53,945	17,678
Loans from JSC Development Bank of Kazakhstan	21,372	19,365	8,009
Loans and deposits from non-OECD based banks	7,109	8	1,749
Loans and deposits from OECD based banks	5,858	6,976	3,963
Loans from other financial institutions	2,903	1,791	1,174
Overnight deposits	-	3,005	-
	162,134	168,258	107,192

As at 31 December 2016, loans from JSC National Managing Holding KazAgro ("KazAgro") included a long-term loan of KZT 38,483 million at a 3.0% interest rate maturing in 2022 (31 December 2015 – KZT 41,810 million, 31 December 2014 – KZT 47,783 million). The loan was received for restructuring/refinancing of loan/leasing debts of the Bank's borrowers operating in the agricultural sector, originating before 1 January 2014 in connection with working capital loans, loans for the purchase of fixed assets, loans for construction-and-assembling works and loans for leasing of agriculture and technology equipment. Restructuring/refinancing of loan/leasing obligations is provided at an interest rate of 6.0% - 7.0% for the period not later than 31 December 2022.

As at 31 December 2016, loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") included a long-term loan of KZT 36,367 million at a 2.0% interest rate maturing in 2034-2035 with an early recall option (31 December 2015 – KZT 32,721 million, 31 December 2014 – KZT 20,000 million). The loan was 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 a 6.0% interest rate.

As at 31 December 2016, loans from JSC Development Bank of Kazakhstan ("DBK") included long-term loans of KZT 16,000 million (31 December 2015 – KZT 16,000 million, 31 December 2014 – KZT 8,000 million) at a 2.0% interest rate maturing in 2034-2035, to finance corporate enterprises operating in manufacturing industries, as well as a long-term loan of KZT 5,300 million (31 December 2015 – KZT 3,300 million, 31 December 2014 – KZT nil) at a 1.0% 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 a 6.0% interest rate, and to retail borrowers – up to 5 years at a 4.0% interest rate.

The management of the Group believes that there are no other similar financial instruments and due to their specific nature, the loans from DAMU, KazAgro and DBK represent separate segments in corporate, SME and retail lending. As a result, the loans from DAMU, KazAgro and DBK were received in an orderly transaction and as such have been recorded at fair value at the recognition date, which was determined to be the cash consideration transferred to the customers.

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

	31 December 2016		31 December 2015		31 December 2014	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Loans from JSC National Managing Holding KazAgro	3.0%	2019-2022	3.0%	2019-2022	3.0%	2019-2022
Loans from JSC Entrepreneurship Development Fund DAMU	2.0%	2017-2035	2.0%	2016-2035	2.0%	2015-2034
Loans and deposits from Kazakhstan banks	8.8%-11.1%	2017	3.2%-11.4%	2016	3.3%-3.5%	2015-2034
Loans from JSC Development Bank of Kazakhstan	1.0%-2.0%	2034-2035	1.0%-2.0%	2016-2035	1.0%-2.0%	2015-2034
Loans and deposits from non-OECD based banks	1.0%-10.0%	2017-2021	0.7%-7.0%	2016-2017	0.7%-7.0%	2015-2017
Loans and deposits from OECD based banks	2.6%-6.5%	2017-2023	1.1%-6.5%	2016-2023	0.9%-6.5%	2016-2023
Loans from other financial institutions	5.0%-10.0%	2017-2023	4.8%-6.2%	2016	4.8%-6.2%	2015-2016
Overnight deposits	-	-	60%	2016	-	-

The fair value of assets pledged (Note 10) and the carrying value of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 December 2016, 2015 and 2014, are as follows:

	31 December 2016		31 December 2015		31 December 2014	
	Fair value of collateral	Carrying amount of loans	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	15,201	15,009	51,763	45,242	12,575	12,017
	15,201	15,009	51,763	45,242	12,575	12,017

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2016, 2015 and 2014 are disclosed below.

Loans under repurchase agreements are used by the Group to provide current cash flows in KZT within the Group's operating activities. The Group regularly uses this type of instrument to attract short-term liquidity and plans to continue raising funds through loans under repurchase agreements when 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 December 2016:	
Carrying amount of transferred assets	15,201
Carrying amount of associated liabilities	15,009
As at 31 December 2015:	
Carrying amount of transferred assets	51,763
Carrying amount of associated liabilities	45,242
As at 31 December 2014:	
Carrying amount of transferred assets	12,575
Carrying amount of associated liabilities	12,017

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. Certain 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.

The Group's management believes that as at 31 December 2016, 2015 and 2014, the Group was in compliance with the covenants of the agreements the Group has with the trustees and holders of the notes.

21. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2016	31 December 2015	31 December 2014
Recorded at amortised cost:			
Subordinated debt securities issued:			
Fixed rate KZT denominated bonds	-	4,989	7,815
Reverse inflation indexed KZT denominated bonds	-	4,051	8,470
Inflation indexed KZT denominated bonds	-	-	3,944
Total subordinated debt securities outstanding	-	9,040	20,229
Unsubordinated debt securities issued:			
USD denominated bonds	359,355	363,829	195,255
KZT denominated bonds	225,578	224,656	95,525
Total unsubordinated debt securities outstanding	584,933	588,485	290,780
Total debt securities outstanding	584,933	597,525	311,009

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.

In 2015 and in 2014, the Bank placed unsubordinated bonds for KZT 131,652 million and KZT 100,000. Both bonds are issued as per Kazakhstan legislation, bear a coupon of 7.5% and mature in February 2025 and November 2024, respectively. The Group plans to utilise the raised funds to diversify its liabilities and for customer lending.

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

	31 December 2016		31 December 2015		31 December 2014	
	Coupon rate, %	Maturity, year	Coupon rate, %	Carrying amount of loans	Coupon rate, %	Maturity, year
Subordinated debt securities issued:						
Fixed rate KZT denominated bonds	-	-	13%	2018	7.5%-13.0%	2015-2018
Reverse inflation indexed KZT denominated bonds	-	-	15% less inflation rate	2016	15% less inflation rate	2015-2016
Inflation indexed KZT denominated bonds	-	-	-	-	inflation rate plus 1%	2015
Unsubordinated debt securities issued:						
USD denominated bonds	7.3%	2017-2021	7.3%	2017-2021	7.3%	2017-2021
KZT denominated bonds	7.5%	2024-2025	7.5%	2024-2025	7.5%	2024

As at 31 December 2016, accrued interest on debt securities issued was KZT 11,894 million (as at 31 December 2015 – KZT 11,990 million, as at 31 December 2014 – KZT 4,829 million).

Subordinated securities are unsecured obligations of the Group and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Group. Coupon payments on debt securities issued are payable on a semi-annual and an annual basis.

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 December 2016, 2015 and 2014, the Group was in compliance with the covenants of the agreements the Group has with trustees and holders of the notes.

22. ALLOWANCES FOR IMPAIRMENT LOSSES AND PROVISIONS

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

	Loans to customers (Note 11)	Amounts due from credit institutions (Note 9)	Available-for-sale investment securities (Note 10)	Other Assets (Note 18)	Total
31 December 2013	(323,311)	(5)	(1,040)	(5,176)	(329,532)
Additional provisions recognised	(253,896)	-	(842)	(13,975)	(268,713)
Recoveries of provisions	246,672	-	29	14,625	261,326
Write-offs	73,028	-	-	189	73,217
Foreign exchange differences	(28,511)	5	(14)	40	(28,480)
31 December 2014	(286,018)	-	(1,867)	(4,297)	(292,182)
Additional provisions recognised	(155,285)	(7)	(4,311)	-	(159,603)
Recoveries of provisions	147,346	-	140	-	147,486
Write-offs	46,584	-	594	133	47,311
Foreign exchange differences	(57,741)	-	(72)	(404)	(58,217)
31 December 2015	(305,114)	(7)	(5,516)	(4,568)	(315,205)
Additional provisions recognised	(156,489)	(18)	(740)	(6,248)	(163,495)
Recoveries of provisions	130,616	25	1,523	5,651	137,815
Write-offs	44,793	-	866	351	46,010
Foreign exchange differences	1,442	-	(17)	298	1,723
31 December 2016	(284,752)	-	(3,884)	(4,516)	(293,152)

During the years ended 31 December 2016, 2015 and 2014, the Group has written-off loans of KZT 44,793 million, KZT 46,584 million and KZT 73,028 million, respectively, without this being considered as forgiveness of the loan, therefore, for tax purposes, such write-offs are not subject to corporate income tax.

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

	2016	2015	2014
At the beginning of the year	(982)	(407)	(4,163)
Provisions	(878)	(999)	(172)
Recoveries of provisions	856	640	4,208
Additions through the acquisition of subsidiary	-	-	(353)
Foreign exchange differences	17	(216)	73
At the end of the year	(987)	(982)	(407)

23. TAXATION

The Bank and its subsidiaries, other than OJSC NBK-Bank, OJSC Halyk Bank Kyrgyzstan and JSC Halyk Bank Georgia, 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.

The income tax expense comprises:

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Current tax charge	36,510	7,181	20,791
Deferred income tax (benefit)/expense relating to origination and reversal of temporary differences	(13,543)	24,869	3,942
Adjustments recognised in the current year for deferred tax of prior years	-	-	2,788
Income tax expense	22,967	32,050	27,521

During the year ended 31 December 2014, due to changes in the Tax Code of the Republic of Kazakhstan related to the deduction of accrued interest expense, the Group adjusted its deferred tax assets correspondingly.

Deferred income tax (benefit)/expense relating to temporary differences is as follows:

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Unused tax losses of the prior year recognised in the current year	3,531	-	-
Property and equipment, accrued depreciation	3,132	(671)	1,045
Fair value of derivatives and investments available for sale	(17,951)	29,103	185
Loans to customers, allowance for impairment losses	(1,975)	513	2,242
Tax loss carry forward	(408)	(3,531)	-
Other	128	(545)	470
Deferred income tax (benefit)/expense	(13,543)	24,869	3,942

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2016, 2015 and 2014. Income on state and other qualifying securities is tax exempt. The tax rates in the Russian Federation, the Republic of Kyrgyzstan and Georgia are 20%, 10% and 15%, respectively.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on the Kazakhstan statutory rate of 20% with the reported income tax expense is as follows:

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Income before income tax expense	154,379	152,362	141,898
Statutory tax rate	20%	20%	20%
Income tax expense at the statutory rate	30,876	30,472	28,380
Tax-exempt interest income and other related income on state and other qualifying securities	(10,354)	(2,915)	(2,370)
Income of subsidiaries taxed at different rates	(93)	(30)	(45)
Tax-exempt interest income on financial lease	(61)	(35)	(161)
Income on dividends taxed at emitter	(56)	(72)	(105)
Non-deductible expenditures:			
- general and administrative expenses	127	197	150
- charity	127	100	114
- other provisions	118	2,459	130
Other	2,283	1,874	1,428
Income tax expense	22,967	32,050	27,521

Deferred tax assets and liabilities comprise:

	31 December 2016	31 December 2015	31 December 2014
Tax effect of deductible temporary differences:			
Bonuses accrued	1,821	1,936	1,453
Fair value of derivatives	1,737	1,305	-
Tax loss carry forward	408	3,531	-
Vacation pay accrual	361	349	265
Other	19	113	162
Deferred tax asset	4,346	7,234	1,880
Tax effect of taxable temporary differences:			
Fair value of derivatives and investments available-for-sale	(13,929)	(31,260)	(578)
Property and equipment, accrued depreciation	(8,400)	(5,054)	(5,725)
Allowance for loans to customers	(3,895)	(3,966)	(3,769)
Core deposit intangible	(259)	(348)	(445)
Other	(213)	(2,049)	(1,589)
Deferred tax liability	(26,696)	(42,677)	(12,106)
Net deferred tax liability	(22,350)	(35,443)	(10,226)

Current income tax assets and liabilities comprise:

	31 December 2016	31 December 2015	31 December 2014
Current income tax refund receivable	3,222	16,469	530
Current income tax payable	(3,311)	(379)	(2,444)
Current income tax (liability)/asset	(89)	16,090	(1,914)

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

	31 December 2016	31 December 2015	31 December 2014
Deferred tax asset	831	1,919	447
Deferred tax liability	(23,181)	(37,362)	(10,673)
Net deferred tax liability	(22,350)	(35,443)	(10,226)

Kazakhstan and other countries where the Group operates currently have a number of laws related to various taxes imposed by both state and regional government authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implemented regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create substantially more significant tax risks in Kazakhstan than typically found in countries with more developed tax systems.

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

Such uncertainty may relate to the valuation of financial instruments and the market pricing of deals. Additionally, such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

In Kazakhstan, tax years remain open for review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

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

Movements in net deferred tax liability:

	2016	2015	2014
Net deferred tax liability at the beginning of the year	35,443	10,226	4,219
Deferred tax (benefit)/expense	(13,543)	24,869	3,942
Deferred tax on core deposit intangible	258	348	445
Adjustments recognised in the current year for deferred tax of prior years	-	-	2,788
Credited to other comprehensive income at the date of property and equipment revaluation	192	-	(1,168)
Net deferred tax liability at the end of the year	22,350	35,443	10,226

24. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2016	31 December 2015	31 December 2014
Other financial liabilities:			
Salary payable	11,205	10,790	8,263
Creditors on bank activities	800	488	822
Creditors on non-banking activities	782	299	282
Payable for general and administrative expenses	612	779	489
Other	583	375	497
	13,982	12,731	10,353
Other non-financial liabilities:			
Taxes payable other than income tax	2,832	2,183	1,413
Amounts due to original investors on commercial property	2,271	4,050	-
Other prepayments received	1,382	1,233	919
	6,485	7,466	2,332
Total other liabilities	20,467	20,197	12,685

25. EQUITY

The number of shares authorised, issued and fully paid as at 31 December 2016, 2015 and 2014, were as follows:

	Share capital authorised	Share capital authorised and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
31 December 2016					
Common	25,000,000,000	(12,311,142,941)	12,688,857,059	(1,695,237,728)	10,993,619,331
31 December 2015					
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(219,067,900)	10,909,450,551
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(289,415,498)	20,443,932
Convertible preferred	80,225,222	-	80,225,222	(79,855,667)	369,555
31 December 2014					
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(218,619,738)	10,909,898,713
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(200,558,485)	109,300,945
Convertible preferred	80,225,222	-	80,225,222	(363,822)	79,861,400

All shares are KZT denominated. Movements of 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 2013	10,908,700,519	115,533,834	79,997,250	43,597	9,331	13,233
Purchase of treasury shares from Samruk-Kazyna (including the cost of the call option)	-	(6,232,399)	-	-	(1,461)	-
Purchase of treasury shares	(6,420,528)	(521)	(135,850)	(7)	-	-
Sale of treasury shares	7,618,722	31	-	8	-	-
31 December 2014	10,909,898,713	109,300,945	79,861,400	43,598	7,870	13,233
Purchase of treasury shares	(8,746,220)	(93,050,844)	(79,740,576)	(9)	(13,024)	(11,156)
Sale of treasury shares	8,298,058	4,193,831	248,731	8	-	-
31 December 2015	10,909,450,551	20,443,932	369,555	43,597	(5,154)	2,077
Purchase of treasury shares	(10,713,210)	-	-	(427)	-	-
Sale of treasury shares	10,328,198	-	-	481	-	-
Exchange of preferred shares to common shares	84,553,792	(20,443,932)	(369,555)	(3,077)	5,154	(2,077)
31 December 2016	10,993,619,331	-	-	40,574	-	-

On 22 April 2016, at the Bank's General Shareholders Meeting, the Bank's shareholders decided to exchange the non-convertible preferred shares and the convertible preferred shares for common shares of the Group. The exchange was performed in accordance with the terms and conditions approved by the General Shareholders on 22 April 2016, as well as, in accordance with the Bank's Charter and changes to the Bank's Common Share Issuance Prospectus registered by the NBRK on 16 May 2016. The exchange aimed to optimise the Group's capital structure within the framework of the current Kazakhstan legislation.

Common shares

As at 31 December 2016, 2015 and 2014, share capital comprised KZT 143,695 million. As at 31 December 2016, the Group held 1,695,237,728 shares of the Group's common shares as treasury shares at KZT 103,121 million (31 December 2015 – 219,067,900 at KZT 39,974 million; 31 December 2014 – 218,619,738 at KZT 39,973 million).

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

Dividends paid for the previous financial years were as follows:

	Paid in 2016 for the year ended 31 December 2015	Paid in 2015 for the year ended 31 December 2014	Paid in 2014 for the year ended 31 December 2013
Dividend paid per one preferred share, (convertible and non-convertible), tenge	16.00	13.44	9.28
Dividend paid per one common share	n/a	3.14	1.70

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

26. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

	31 December 2016	31 December 2015	31 December 2014
Guarantees issued	173,226	186,306	155,639
Commercial letters of credit	27,026	17,064	6,657
Commitments to extend credit	15,445	35,178	20,525
Financial commitments and contingencies	215,697	238,548	182,821
Less: cash collateral against letters of credit	(10,034)	(18,675)	(3,427)
Less: provisions (Note 22)	(987)	(982)	(407)
Financial commitments and contingencies, net	204,676	218,891	178,987

Guarantees issued represent bank guarantees issued by the Group by order of its clients, and which are in effect as at the reporting date. As at 31 December 2016, the ten largest guarantees accounted for 70% of the Group's total financial guarantees (31 December 2015 – 74%; 31 December 2014 – 76%) and represented 18% of the Group's total equity (31 December 2015 – 26%; 31 December 2014 – 25%).

Commercial letters of credit represent letters of credit issued by the Group by order of its clients, and under which, as at the reporting date, the payment has not yet been made. As at 31 December 2016, the ten largest unsecured letters of credit accounted for 61% of the Group's total commercial letters of credit (31 December 2015 – 93%; 31 December 2014 –73%) and represented 2% of the Group's total equity (31 December 2015 – 3%; 31 December 2014 – 1%).

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 a review of the credit risk of the borrower or an analysis of other deposit accounts held by the Group. Collateral held varies, but may include deposits held with banks, government securities and other assets.

Capital commitments

As at 31 December 2016, the Group had capital expenditures commitments in respect of construction in progress for KZT 157 million (31 December 2015 – KZT 7,861 million; 31 December 2014 – KZT nil).

Operating lease commitments

There were no material operating lease commitments under irrevocable operating leases outstanding as at 31 December 2016, 2015 and 2014.

27. NET INTEREST INCOME

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Interest income comprises:			
Interest income on financial assets recorded at amortised cost:			
- interest income on individually assessed unimpaired assets	150,377	107,574	94,391
- interest income on individually assessed impaired assets	33,437	27,914	23,794
- interest income on collectively assessed assets	115,956	98,183	72,363
Interest income on available-for-sale investment securities	29,221	21,089	19,959
Interest income on financial assets at fair value through profit or loss	26,006	96	86
Total interest income	354,997	254,856	210,593
Interest income on loans to customers	285,656	228,775	185,585
Interest income on cash and cash equivalents and amounts due from credit institutions	12,913	4,896	4,963
Interest income on held to maturity investments*	1,201	-	-
Total interest income on financial assets recorded at amortised cost	299,770	233,671	190,548
Interest income on financial assets at fair value through profit or loss:			
Interest income on financial assets held for trading	26,006	96	86
Total interest income on financial assets at fair value through profit or loss	26,006	96	86
Interest income on available-for-sale investment securities	29,221	21,089	19,959
Total interest income	354,997	254,856	210,593
Interest expense comprises:			
Interest expense on financial liabilities recorded at amortised cost	(171,041)	(104,552)	(77,458)
Total interest expense	(171,041)	(104,552)	(77,458)
Interest expense on financial liabilities recorded at amortised cost comprise:			
Interest expense on amounts due to customers	(117,711)	(64,927)	(57,799)
Interest expense on amounts due to credit institutions	(7,508)	(5,369)	(2,403)
Interest expense on debt securities issued	(45,822)	(34,256)	(17,256)
Total interest expense on financial liabilities recorded at amortised cost	(171,041)	(104,552)	(77,458)
Net interest income before impairment charge	183,956	150,304	133,135

*During 2016, the Group acquired investments held to maturity that were subsequently reclassified to investments available-for-sale, as disclosed in Note 10.

28. FEES AND COMMISSIONS

Fee and commission income is derived from the following sources:

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Bank transfers – settlements	15,258	14,102	11,165
Payment cards maintenance	11,121	9,471	7,934
Cash operations	10,538	9,369	8,757
Servicing customers' pension payments	6,953	5,867	5,047
Bank transfers – salary projects	6,912	6,862	6,456
Letters of credit and guarantees issued	4,135	3,363	3,183
Maintenance of customer accounts	2,178	1,684	1,327
Other	2,250	2,590	2,904
Pension fund and asset management	-	-	11,865
	59,345	53,308	58,638

For the year ended 31 December 2014, fee and commission income from pension fund and asset management represents investment income from pension assets management of KZT 10,259 million and income from pension assets administration of KZT 1,606 million.

On 26 March 2014, APF transferred all pension assets to JSC Unified Accumulated Pension Fund. Subsequently, the Group stopped carrying out pension asset management activities.

Fee and commission expense is derived from the following sources:

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Deposit insurance	(5,497)	(4,796)	(4,016)
Payment cards	(4,321)	(2,943)	(2,201)
Bank transfers	(728)	(517)	(335)
Foreign currency operations	(557)	(919)	(778)
Commission paid to collectors	(427)	(437)	(495)
Other	(561)	(1,225)	(734)
	(12,091)	(10,837)	(8,559)

29. NET (LOSS)/GAIN ON 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:

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Net (loss)/gain on operations with financial assets and liabilities classified as held for trading:			
Unrealised net (loss)/gain on derivative and trading operations	(3,070)	153,169	1,291
Realised net (loss)/gain on derivative operations	(10,705)	39,122	6,383
Realised net gain on trading operations	113	33	168
Total net (loss)/gain on operations with financial assets and liabilities classified as held for trading	(13,662)	192,324	7,842

The unrealised gain on derivative and trading operations in 2015 refers mainly to swap agreements with NBRK for which the fair value increased significantly due to the depreciation of the USD to KZT exchange rate.

30. NET FOREIGN EXCHANGE GAIN/(LOSS)

Net foreign exchange gain/(loss) comprises:

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Dealing, net	15,911	8,463	10,527
Translation differences, net	6,712	(169,485)	(3,441)
Total net foreign exchange gain/(loss)	22,623	(161,022)	7,086

The net foreign exchange loss in 2015 is associated with the announcement by the Kazakhstan Government and the NBRK on a transition to a new monetary policy based on a free-floating KZT exchange rate, and cancellation of the currency corridor.

31. INSURANCE UNDERWRITING INCOME AND EXPENSES

Insurance underwriting income and expenses comprises:

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Insurance premiums written, gross	58,906	47,151	38,887
Change in unearned insurance premiums, net	(1,933)	(1,731)	(1,869)
Ceded reinsurance share	(28,902)	(19,846)	(16,340)
Total insurance underwriting income	28,071	25,574	20,678
Insurance payments	(9,907)	(10,081)	(8,528)
Commissions to agents	(7,319)	(5,855)	(4,332)
Insurance reserves	(7,573)	(6,857)	(3,335)
Total insurance claims incurred, net of reinsurance	(24,799)	(22,793)	(16,195)
	3,272	2,781	4,483

32. OPERATING EXPENSES

Operating expenses comprises:

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and other employee benefits	42,230	40,886	35,767
Depreciation and amortisation expenses	6,859	6,323	5,023
Taxes other than income tax	3,692	3,607	2,734
Information services	2,518	1,511	1,247
Rent	2,497	2,511	1,379
Repair and maintenance	2,039	1,867	1,855
Security	2,006	1,933	1,494
Utilities	1,848	1,515	1,095
Communication	1,629	1,621	1,574
Stationery and office supplies	904	719	620
Advertisement	865	1,359	1,154
Write-off and impairment of property and equipment, intangible assets and investment property	693	57	1,141
Professional services	664	671	1,343
Charity	640	509	577
Business trip expenses	611	738	736
Transportation	513	475	488
Insurance agents fees	489	569	700
Hospitality expenses	84	119	104
Social events	78	84	208
Other	2,536	3,731	3,171
	73,395	70,805	62,410

33. EARNINGS PER SHARE

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

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 year. Therefore, net profit for the year is allocated to the ordinary shares and the preferred shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
Basic earnings per share			
Net income for the year attributable to equity holders of the parent	131,412	120,312	114,377
Less: Dividends paid on preferred shares	(333)	(2,543)	(1,757)
Earnings attributable to common shareholders	131,079	117,769	112,620
Weighted average number of common shares for the purposes of basic earnings per share	10,960,026,244	10,910,049,314	10,910,233,188
Basic earnings per share (in Kazakhstani Tenge)	11.96	10.79	10.32
Diluted earnings per share			
Earnings used in the calculation of basic earnings per share	131,079	117,769	112,620
Add: Dividends paid on convertible preferred shares	9	1,078	744
Less: Amounts payable to convertible preferred shareholders upon conversion*	(96)	(6,091)	(10,102)
Earnings used in the calculation of total diluted earnings per share	130,992	112,756	103,262
Weighted average number of common shares for the purposes of basic earnings per share	10,960,026,244	10,910,049,314	10,910,233,188
Weighted average number of common shares that would be issued for the convertible preferred shares*	160,984	51,401,960	79,971,439
Weighted average number of common shares for the purposes of diluted earnings per share	10,960,187,228	10,961,451,274	10,990,204,627
Diluted earnings per share (in Kazakhstani Tenge)	11.95	10.29	9.40

*In 2016, the Group performed an exchange of preferred shares and preferred shares convertible into common shares to common shares (Note 25).

As required by KASE rules for listed companies, the book value of one share per each class of shares as at 31 December 2016, 2015 and 2014, is disclosed as follows:

31 December 2016

Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share, in KZT
Common	10,993,619,331	656,414	59.71
		656,414	

31 December 2015

Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share, in KZT
Common	10,909,450,551	523,109	47.95
Non-convertible preferred	20,443,932	(3,975)	(194.43)
Convertible preferred	369,555	2,135	5,777.22
		521,269	

31 December 2014

Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share, in KZT
Common	10,909,898,713	444,217	40.72
Non-convertible preferred	109,300,945	9,049	82.79
Convertible preferred	79,861,400	13,291	166.43
		466,557	

Equity attributable to non-convertible preferred shares is calculated as the sum of the non-convertible shares carrying amount and the share premium reserve attributable to the non-convertible preferred shares. Equity attributable to convertible preferred shares is calculated as the carrying amount of the convertible preferred shares. Equity attributable to common shares is calculated as the difference between total equity, total net book value of intangible assets, and amounts attributable to preferred shares.

The management of the Group believes that it fully complies with the requirement of KASE as at the reporting dates.

34. 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 recognises 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 a counterparty is unable to meet its contractual obligations on time or in full.

The 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 the consideration of internal rules, regulations and loan programs. In addition, the division provides independent recommendations concerning credit exposure minimisation 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 (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 the 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 a 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 policy 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, as longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Structure and authorities of credit committees

Credit committees, the ALMC, the Management Board and the Board of Directors are credit authorities responsible for the implementation of the Bank's Credit Policy and credit decision making process.

Head Office Credit Committee ("CC")

The primary goal of the CC is the implementation of the Bank's Credit Policy in terms of credit operations and credit applications from corporate customers.

Branch Credit Committee and Branch Network Credit Committee ("BCC", "BNCC")

The primary goal of the BCC and the BNCC is the implementation of the Bank's Credit Policy in terms of granting financial instruments via branches to SME customers.

Delegated credit authority limits for the BCC and the BNCC are established by the Management Board. The BCC makes credit decisions within its limits. If the loan application exceeds the relevant credit limit or the authorities of the BCC, the final decision has to be taken by the BNCC. The procedure of the decision making by the BNCC involves consideration of a package of documents, including complex analysis and assessments of the potential borrowers conducted by the Bank's experts.

Retail Branch Credit Committee of the Head Office ("RCCHO") and Decision Making Center ("DMC")

The primary goal of the RCCHO and the DMC, which are credit authorities, is the implementation of the Bank's Credit Policy in terms of granting retail financial instruments via branches.

The DMC is comprised of credit underwriters with delegated credit authorities based on a four eyes principle. The DMC makes credit decisions within their authorities and limits established by the Management Board and the RCCHO. The RCCHO is authorised to consider loan applications that exceed relevant credit limits or the authorities of the DMC, as well as other matters within the authorities established by the Management Board.

Along with the process of decision making via the credit decision authorities mentioned above, there is an automated approach of decision making process for potential borrowers whose income can be confirmed by the Independent Government body. This approach takes into account the risk profile of the potential borrower and allows minimising the credit risk exposure in the decision making process.

Problem loans committee of the Head Office, branches

The primary goal of the problem loans committee of the Head Office, branches is the implementation of the Bank's Credit Policy in terms of management, servicing and maintaining the repayment of the problem loans.

Authorised credit authorities of the Bank's subsidiaries

Consideration and approval of the loan applications in the subsidiaries are performed by the authorised credit authorities in accordance with the internal rules and regulations of the subsidiary. Loan applications exceeding the established limits and authorities have to be approved by the Board of Directors of the subsidiaries with the preliminary consideration by the relevant credit committee, according to the Bank's internal rules and regulations.

ALMC

The primary goal of the ALMC is profit maximisation and to limit the risks of banking activities related to raising and allocating funds. The main tasks of the ALMC are: liquidity management, interest rate risk management, price risk and other banking risk management.

The ALMC is also responsible for establishing country and counterparty-bank limits. The ALMC reports to the Board of Directors.

The Management Board

For loan applications exceeding the authorities of the Head Office Credit Committee, the BNCC and the RCCHO, or exceeding the relevant limits of the BNCC and the RCCHO, have to be considered by the Management Board.

The Board of Directors

If the loan applications exceed 5% of the Bank's equity capital or the potential borrower is a related party, such applications have to be considered by the Board of Directors.

Maximum Exposure

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

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets, the maximum exposure equals the carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on, or in the case of commitments, if the loan amount was called on (Note 26). The collateral pledged is represented by the carrying amount of a financial instrument for which the collateral was received as security.

31 December 2016

	Maximum exposure	Net exposure after offset	Collateral pledged
Cash equivalents*	1,625,395	1,625,395	1,591
Obligatory reserves	76,122	76,122	-
Financial assets at fair value through profit or loss (less equity securities)	328,547	328,547	-
Amounts due from credit institutions	35,542	35,542	-
Available-for-sale investment securities	594,810	594,810	-
(less equity securities)	2,319,583	2,319,583	2,167,328
Loans to customers	6,757	6,757	-
Other financial assets	4,986,756	4,986,756	2,168,919
Commitments and contingencies	214,710	214,710	10,034

31 December 2015

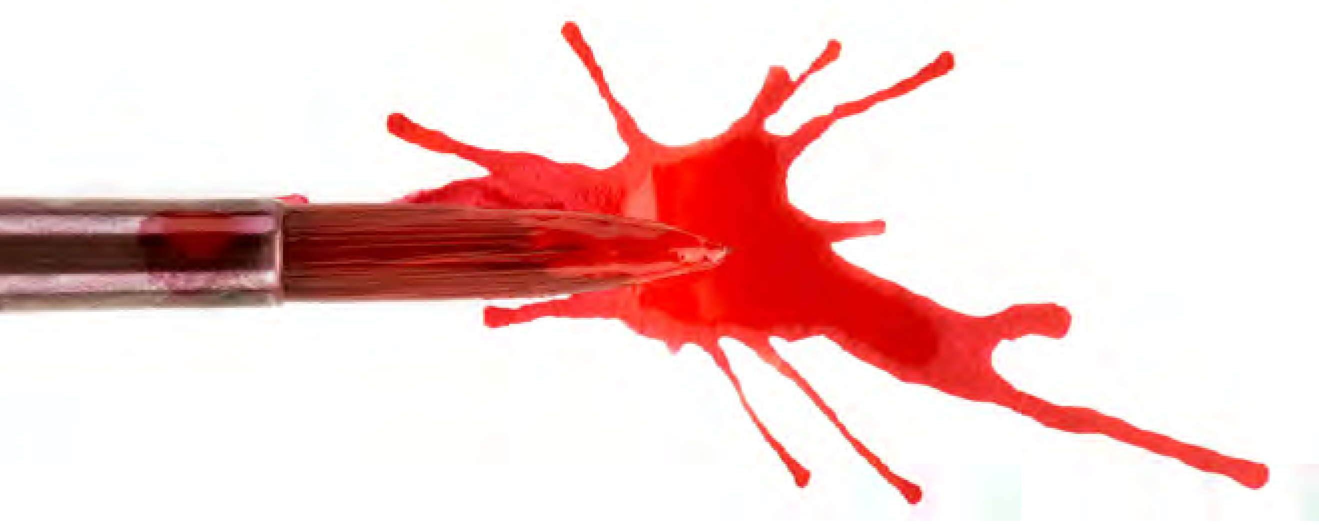
	Maximum exposure	Net exposure after offset	Collateral pledged
Cash equivalents*	1,285,789	1,285,789	8,320
Obligatory reserves	68,389	68,389	-
Financial assets at fair value through profit or loss (less equity securities)	176,838	176,838	-
Amounts due from credit institutions	44,993	44,993	-
Available-for-sale investment securities	373,356	373,356	-
(less equity securities)	2,176,069	2,176,069	2,040,192
Loans to customers	6,226	6,226	-
Other financial assets	4,131,660	4,131,660	2,048,512
Commitments and contingencies	237,566	237,566	18,675

31 December 2014

	Maximum exposure	Net exposure after offset	Collateral pledged
Cash equivalents*	410,124	410,124	3,803
Obligatory reserves	48,225	48,225	-
Financial assets at fair value through profit or loss (less equity securities)	15,361	15,361	-
Amounts due from credit institutions	27,095	27,095	-
Available-for-sale investment securities	379,648	379,648	-
(less equity securities)	1,648,013	1,648,013	1,579,026
Loans to customers	8,493	8,493	-
Other financial assets	2,536,959	2,536,959	1,582,829
Commitments and contingencies	182,414	182,414	3,427

*Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents in the statement of financial position.

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Group's internal rating system. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as speculative grade.



The following table details the credit ratings of financial assets held by the Group, before any impairment losses:

	AA	AA-	A	BBB	<BBB	Not Rated	31 December 2016 Total
Cash equivalents*	259,232	275,101	14,740	1,018,410	52,396	5,516	1,625,395
Obligatory reserves	-	-	-	69,888	6,234	-	76,122
Financial assets at fair value through profit or loss	149	39	886	326,339	1,154	170	328,737
Amounts due from credit institutions	-	5,154	285	1,370	28,684	49	35,542
Available-for-sale investment securities	91,534	-	-	354,784	145,456	11,734	603,508
Other financial assets	-	-	-	-	-	11,273	11,273
Commitments and contingencies	-	-	-	-	-	215,697	215,697

	AA	AA-	A	BBB	<BBB	Not Rated	31 December 2015 Total
Cash equivalents*	74,268	85,108	41,422	1,033,095	46,447	5,449	1,285,789
Obligatory reserves	-	-	-	66,023	2,366	-	68,389
Financial assets at fair value through profit or loss	21	-	1,026	174,815	970	238	177,070
Amounts due from credit institutions	-	-	11,524	27,463	6,013	-	45,000
Available-for-sale investment securities	5,839	-	-	265,583	101,614	11,000	384,036
Other financial assets	-	-	-	-	-	10,794	10,794
Commitments and contingencies	-	-	-	-	-	238,548	238,548

	AA	AA-	A	BBB	<BBB	Not Rated	31 December 2014 Total
Cash equivalents*	7,743	43,135	85,484	265,090	6,184	2,488	410,124
Obligatory reserves	-	-	-	47,335	561	329	48,225
Financial assets at fair value through profit or loss	-	1	554	14,418	408	346	15,727
Amounts due from credit institutions	-	-	2,501	24,222	48	324	27,095
Available-for-sale investment securities	9,576	20	33,567	246,433	82,053	16,641	388,290
Other financial assets	-	-	-	-	-	12,790	12,790
Commitments and contingencies	-	-	-	-	-	182,821	182,821

*Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents in the statement of financial position.

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

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Group, and this classification is verified by the risk management function.

The Group is considering the following impairment indicators:

- Overdue for more than 90 days;
- Default rating calculated based on rating model described below;
- Restructuring because of deterioration of the financial position of the borrower.

The Group is using an internal rating model to classify loans in different risk categories.

After the occurrence of an impairment event, the model assists in estimating the allowance for loan loss based on a borrowers' financial performance, credit history, quality of accounts receivable, liquidity of the borrower, market risks relating to the borrower, industry of the borrower and other factors. Periodically, the required information is inputted into the model by credit analysts. Information input into the system and the estimate of the allowance for loan loss is verified by the risk management department.

The following classifications are used by the rating model:

- Rating score 1 – superior loan rating, minimal credit risk;
- Rating score 2 – very high quality of loan, very low credit risk;
- Rating score 3 – high quality of loan, low credit risk;
- Rating score 4 – satisfactory quality of loan, insignificant risk;
- Rating score 5 – credit risk can increase at economic variation;
- Rating score 6 – high risk at economic variation;
- Rating score 7 – high risk of default, paying capacity of the borrower depends on favourable economic circumstances;
- Rating score 8 – 10 - very high risk of default/default.

Pools of homogeneous loans – loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Pools of homogeneous loans include assets that have been assessed collectively.

Rating score	31 December 2016	31 December 2015	31 December 2014
1-3	-	-	8,984
4	118,300	158,907	198,407
5	461,059	270,049	191,679
6	421,288	500,177	340,418
7	425,337	412,839	200,867
8-10	148,467	162,838	223,515
Loans to corporate customers that are individually assessed for impairment	1,574,451	1,504,810	1,163,870
Loans to SME customers and retail business that are individually assessed for impairment	138,108	127,503	98,674
Loans to customers that are collectively assessed for impairment	891,776	848,870	671,487
	2,604,335	2,481,183	1,934,031
Less – Allowance for loan impairment (Note 22)	(284,752)	(305,114)	(286,018)
Loans to customers	2,319,583	2,176,069	1,648,013

The following table details the carrying value of assets that are impaired and for those that are past due but not impaired:

	Financial assets that have been individually assessed for impairment				Financial assets that have been individually assessed for impairment		
	Unimpaired financial assets		Unimpaired financial assets				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	31 December 2016 Total
Amounts due from credit institutions	35,542	-	-	-	-	-	35,542
Available-for-sale investment securities	601,431	(1,807)	2,077	(2,077)	-	-	599,624
Loans to customers	1,286,972	(14,836)	425,587	(172,748)	891,776	(97,168)	2,319,583
Other financial assets	3,537	-	7,736	(4,516)	-	-	6,757

	Financial assets that have been individually assessed for impairment				Financial assets that have been individually assessed for impairment		
	Unimpaired financial assets		Unimpaired financial assets				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	31 December 2015 Total
Amounts due from credit institutions	44,993	-	7	(7)	-	-	44,993
Available-for-sale investment securities	378,520	-	5,516	(5,516)	-	-	378,520
Loans to customers	1,161,326	(14,269)	470,987	(193,849)	848,870	(96,996)	2,176,069
Other financial assets	3,602	-	7,191	(4,567)	-	-	6,226

	Financial assets that have been individually assessed for impairment				Financial assets that have been individually assessed for impairment		
	Unimpaired financial assets		Unimpaired financial assets				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	31 December 2014 Total
Amounts due from credit institutions	27,095	-	-	-	-	-	27,095
Available-for-sale investment securities	386,423	-	1,858	(1,858)	-	-	386,423
Loans to customers	840,065	(9,235)	422,479	(197,942)	671,487	(78,841)	1,648,013
Other financial assets	6,611	-	6,179	(4,297)	-	-	8,493

As at 31 December 2016, the carrying amount of unimpaired overdue loans was KZT 769 million (31 December 2015 – KZT 11,119 million; 31 December 2014 – KZT 1,528 million). Maturities of these overdue loans are not greater than 90 days.

Liquidity risk

Liquidity risk is the risk resulting from the inability of the Group to provide funds for repayment of its obligations in due time. 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 cash inflow/outflow forecasts. Long-term liquidity management is performed by the ALMC by analysing longer term liquidity positions and making decisions on managing significant gaps through various available means.

In order to manage liquidity risk, the Group analyses 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 in the form of securities which are included in the column "Less than 1 month" as they are available to meet the Group's short-term liquidity needs.

31 December 2016

FINANCIAL ASSETS:	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
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	

31 December 2015

FINANCIAL ASSETS:	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	1,404,000	680	-	-	-	1,404,680
Obligatory reserves	36,373	2,864	20,677	4,522	3,953	68,389
Financial assets at fair value through profit or loss	8,271	8,058	86,331	74,410	-	177,070
Amounts due from credit institutions	6,735	49	21,413	8,364	8,432	44,993
Available-for-sale investment securities	1,786	3,197	42,015	156,592	174,930	378,520
Loans to customers	145,257	217,322	1,443,491	258,976	111,023	2,176,069
Other financial assets	3,666	1,375	1,159	3	23	6,226
	1,606,088	233,545	1,615,086	502,867	298,361	4,255,947
FINANCIAL LIABILITIES:						
Amounts due to customers	1,512,389	157,208	1,251,201	38,008	84,925	3,043,731
Amounts due to credit institutions	65,353	140	1,142	8,879	92,744	168,258
Financial liabilities at fair value through profit or loss	5,593	-	-	-	-	5,593
Debt securities issued	4,973	3,802	7,366	202,178	379,206	597,525
Other financial liabilities	10,671	315	1,551	183	11	12,731
	1,598,979	161,465	1,261,260	249,248	556,886	3,827,838
Net position	7,109	72,080	353,826	253,619	(258,525)	
Accumulated gap	7,109	79,189	433,015	686,634	428,109	

31 December 2014

FINANCIAL ASSETS:	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	537,252	3,285	-	-	-	540,537
Obligatory reserves	26,799	3,353	12,141	3,320	2,612	48,225
Financial assets at fair value through profit or loss	7,951	-	2,064	5,712	-	15,727
Amounts due from credit institutions	2,734	8,279	1,773	14,309	-	27,095
Available-for-sale investment securities	6,007	2,878	52,498	196,413	128,627	386,423
Loans to customers	154,159	172,535	1,011,360	235,171	74,788	1,648,013
Other financial assets	7,909	389	142	15	38	8,493
	742,811	190,719	1,079,978	454,940	206,065	2,674,513
FINANCIAL LIABILITIES:						
Amounts due to customers	995,765	215,470	489,419	104,434	43,125	1,848,213
Amounts due to credit institutions	24,908	-	274	3,837	78,173	107,192
Financial liabilities at fair value through profit or loss	3,131	-	-	-	-	3,131
Debt securities issued	2,797	-	13,754	113,869	180,589	311,009
Other financial liabilities	9,310	237	729	74	3	10,353
	1,035,911	215,707	504,176	222,214	301,890	2,279,898
Net position	(293,100)	(24,988)	575,802	232,726	(95,825)	
Accumulated gap	(293,100)	(318,088)	257,714	490,440	394,615	

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 for a ten month period after proper notification would be issued by the Group.

A significant portion of the Group's liabilities are 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 the Group's current accounts is considered to be stable resources for the purposes of liquidity analysis and management.

A further analysis of the liquidity risk is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated statement of financial position, as the presentation below includes a maturity analysis for financial liabilities and contingent liabilities based on the remaining contractual payments (including interest payments).

31 December 2016

FINANCIAL AND CONTINGENT LIABILITIES	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Amounts due to customers	2,047,509	228,164	810,823	741,741	110,798	3,939,035
Amounts due to credit institutions	53,281	1,544	7,169	31,140	99,992	193,126
Debt securities issued	10,697	8,749	222,782	267,758	277,951	787,937
Other financial liabilities	11,527	354	1,887	189	25	13,982
Guarantees issued	173,226	-	-	-	-	173,226
Commercial letters of credit	27,026	-	-	-	-	27,026
Commitments to extend credit	15,445	-	-	-	-	15,445
	2,338,711	238,811	1,042,661	1,040,828	488,766	5,149,777
Derivative financial assets	17,595	27,091	166,645	25,823	-	237,154
Derivative financial liabilities	17,475	26,312	89,962	28,470	-	162,219

31 December 2015

FINANCIAL AND CONTINGENT LIABILITIES	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Amounts due to customers	1,513,423	157,975	1,289,364	40,141	131,846	3,132,749
Amounts due to credit institutions	65,908	158	1,213	9,815	121,931	199,025
Debt securities issued	11,135	8,739	42,555	353,676	436,265	852,370
Other financial liabilities	10,674	315	1,551	183	8	12,731
Guarantees issued	186,306	-	-	-	-	186,306
Commercial letters of credit	17,064	-	-	-	-	17,064
Commitments to extend credit	35,178	-	-	-	-	35,178
	1,839,688	167,187	1,334,683	403,815	690,050	4,435,423
Derivative financial assets	99,199	38,492	376,966	-	-	514,657
Derivative financial liabilities	97,336	33,218	113,943	100,439	-	344,936

31 December 2014

FINANCIAL AND CONTINGENT LIABILITIES	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Amounts due to customers	998,589	222,913	511,807	222,648	63,160	2,019,117
Amounts due to credit institutions	24,935	1	370	4,274	101,587	131,167
Debt securities issued	2,797	72	37,659	197,358	209,846	447,732
Other financial liabilities	9,310	237	729	74	3	10,353
Guarantees issued	155,639	-	-	-	-	155,639
Commercial letters of credit	6,657	-	-	-	-	6,657
Commitments to extend credit	20,525	-	-	-	-	20,525
	1,218,452	223,223	550,565	424,354	374,596	2,791,190
Derivative financial assets	78,612	92,682	-	182,350	-	353,644
Derivative financial liabilities	75,310	-	94,906	174,466	-	344,682

Market risk

Market risk is the risk that the Group's earnings or equity or its ability to meet business objectives will be adversely affected by changes in market variables, such as interest rates, foreign exchange rates, securities prices and other basic variables.

The Group is exposed to market risks, which include the following components:

- Risk of changes in interest rates (interest rate risk);
- Risk of changes in foreign exchange rates (currency risk);
- Risk of changes in securities prices (price risk).

The objective of market risk management is to optimise risk/return, minimise losses in case of adverse events and decrease deviation of factual financial results from expected financial results.

Market risk management includes security portfolio management and control of open positions on currencies, interest rates and derivatives. For these purposes, the ALMC fixes limits on security portfolios, open positions, stop-loss limits and other limitations. Market risk limits are subject to review on at least an annual basis and should be monitored continuously.

Interest rate risk

The Group is exposed to interest rate risk. Interest rate risk is defined as the risk of interest income decreases, interest expense increases or a negative impact on equity resulting from adverse changes in market interest rates.

The Group determines two types of interest rate risk:

- Interest rate risk related to changes in fair values of securities portfolios, which are reflected through equity;
- Interest rate risk resulting from assets and liabilities maturity dates (dates of interest rate repricing) mismatch that are sensitive to interest rate changes (risk of interest rate changes).

The ALMC manages interest rate risks and market risks through the management of the Group's position on interest rates to reach positive interest margins.

The Group manages interest rates by determining the Group's exposure to the interest rate risk using the approach described by the Basel Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Group's exposure to interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities.

Sensitivity analysis of interest rate risk

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The Group assesses the reasonably possible changes in interest rates in tenge and foreign currencies separately, in which financial assets and liabilities are denominated due to the different volatility of interest rates. Particularly, a scenario of interest rate changes in tenge takes into account the dynamics of the NBRK base rate, as an instrument of monetary policy introduced at the end of 2015. In 2016, the Group has changed its approach of presenting the sensitivity analysis of interest rate risk, by separately allocating the effect of financial assets and liabilities denominated in foreign currencies.

The impact on profit before tax is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2016, 2015 and 2014, and the effect of revaluing instruments with fixed rates accounted for at fair value. The management of the Group believes income tax not to have a substantial effect for the purpose of interest rate risk management.

The impact on income before tax based on asset and liability values as at 31 December 2016, 2015 and 2014 is as follows:

	31 December 2016		31 December 2015		31 December 2014	
	Interest rate KZT +4% CCY +2%	Interest rate KZT -4% CCY -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:	2,043	(2,043)	1,682	(1,682)	359	(359)
Loans to customers	485	(485)	n/a	n/a	n/a	n/a
KZT	1,558	(1,558)	n/a	n/a	n/a	n/a
CCY						
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	10	(10)	-	-	10	(10)
KZT	-	-	n/a	n/a	n/a	n/a
CCY	10	(10)	n/a	n/a	n/a	n/a
Net impact on income before tax	2,033	(2,033)	1,682	(1,682)	349	(349)

n/a – not available

The impact on equity is the effect of the assumed changes in interest rates due to changes in retained earnings and the effect of revaluation of available-for-sale investment securities with fixed rates.

The impact on equity based on asset and liability values as at 31 December 2016, 2015 and 2014 is as follows:

	31 December 2016		31 December 2015		31 December 2014	
	Interest rate KZT +4% CCY +2%	Interest rate KZT -4% CCY -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Loans to customers	2,043	(2,043)	1,682	(1,682)	359	(359)
KZT	485	(485)	n/a	n/a	n/a	n/a
CCY	1,558	(1,558)	n/a	n/a		
					n/a	n/a
Available-for-sale investment securities	(30,105)	30,105	(30,024)	30,024	(28,359)	28,359
KZT	(14,173)	14,173	-	-	-	-
CCY	(15,932)	15,932	-	-	-	-
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	10	(10)	-	-	10	(10)
KZT	-	-	n/a	n/a	n/a	n/a
CCY	10	(10)	n/a	n/a	n/a	n/a
Net impact on equity	(28,052)	28,052	(28,342)	28,342	(28,010)	28,010

n/a – not available

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.

The 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 minimise losses from significant currency rate fluctuations of national and foreign currencies.

The treasury department performs daily monitoring of the Group's open currency positions, 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 positions, results of operations and cash flows, which are monitored daily. The 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 value 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. Currently, the Group's sensitivity to fluctuations in exchange rates is acceptable, due to the fact that the off-balance sheet items significantly neutralise the consolidated statement of financial position.

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

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	

31 December 2015

	USD	EURO	RUR	Other	TOTAL foreign currencies	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	1,246,957	46,458	17,737	25,328	1,336,480	68,200	1,404,680
Obligatory reserves	52,945	1,149	233	970	55,297	13,092	68,389
Financial assets at fair value through profit or loss	1,000	-	-	-	1,000	176,070	177,070
Amounts due from credit institutions	14,829	-	-	-	14,829	30,164	44,993
Available-for-sale investment securities	211,261	1,784	904	654	214,603	163,917	378,520
Loans to customers	671,755	5,986	15,653	12,430	705,824	1,470,245	2,176,069
Other financial assets	44	48	56	195	343	5,883	6,226
	2,198,791	55,425	34,583	39,577	2,328,376	1,927,571	4,255,947
FINANCIAL LIABILITIES							
Amounts due to customers	2,247,718	54,362	6,085	12,511	2,320,676	723,055	3,043,731
Amounts due to credit institutions	22,732	545	1,952	1,332	26,561	141,697	168,258
Financial liabilities at fair value through profit or loss	-	2	-	-	2	5,591	5,593
Debt securities issued	364,241	-	-	-	364,241	233,284	597,525
Other financial liabilities	853	72	151	315	1,391	11,340	12,731
	2,635,544	54,981	8,188	14,158	2,712,871	1,114,967	3,827,838
Net position – on-balance	(436,753)	444	26,395	25,419	(384,495)	812,604	428,109
Net position – off-balance	462,886	37	(14,441)	(21,338)	427,144	(252,186)	
Net position	26,133	481	11,954	4,081	42,649	560,418	

31 December 2014

	USD	EURO	RUR	Other	TOTAL foreign currencies	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	399,727	44,879	9,395	13,434	467,435	73,102	540,537
Obligatory reserves	29,053	980	333	356	30,722	17,503	48,225
Financial assets at fair value through profit or loss	578	-	-	86	664	15,063	15,727
Amounts due from credit institutions	2,490	-	-	-	2,490	24,605	27,095
Available-for-sale investment securities	190,531	1,057	1,059	1,617	194,264	192,159	386,423
Loans to customers	427,775	4,289	8,208	9,011	449,283	1,198,730	1,648,013
Other financial assets	1,399	26	76	63	1,564	6,929	8,493
	1,051,553	51,231	19,071	24,567	1,146,422	1,528,091	2,674,513
FINANCIAL LIABILITIES							
Amounts due to customers	1,139,993	52,080	3,135	7,976	1,203,184	645,029	1,848,213
Amounts due to credit institutions	11,672	290	802	399	13,163	94,029	107,192
Financial liabilities at fair value through profit or loss	-	-	-	-	-	3,131	3,131
Debt securities issued	195,266		-	-	195,266	115,743	311,009
Other financial liabilities	199	118	32	173	522	9,831	10,353
	1,347,130	52,488	3,969	8,548	1,412,135	867,763	2,279,898
Net position – on-balance	(295,577)	(1,257)	15,102	16,019	(265,713)	660,328	394,615
Net position – off-balance	318,777	(346)	(9,171)	(13,591)	295,669	(295,669)	
Net position	23,200	(1,603)	5,931	2,428	29,956	364,659	

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Group had significant exposure at 31 December 2016, 2015 and 2014, and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate, with all other variables held constant on the consolidated statement of profit or loss. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss, while a positive amount reflects a net potential increase. Sensitivity of currency risk is assessed based on balance sheet and off-balance sheet open currency positions. The management of the Group believes income tax not to have a substantial effect for the purpose of currency risk management.

The impact on income before tax and equity, based on asset values as at 31 December 2015 and 2014, was calculated using the currency rate fluctuation analysis. Changes of the possible movement of the currency rate from 25% to 30% in 2016 were associated with the transition to the flexible exchange rate policy announced by the NBRK. The impact on income before tax and equity, based on asset values as at 31 December 2016, was calculated using the annual analysis of the exchange rate volatility based on historical data of the exchange rate dynamics over the last two years, see the details in the following table:

	31 December 2016		31 December 2015		31 December 2014	
	+30% KZT/USD	-30% KZT/USD	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD
Impact on income before tax	2,446	(2,446)	6,533	(6,533)	5,800	(5,800)

	31 December 2016		31 December 2015		31 December 2014	
	+30% KZT/EURO	-30% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO
Impact on income before tax	197	(197)	120	(120)	(401)	401

	31 December 2016		31 December 2015		31 December 2014	
	+30% KZT/RUR	-30% KZT/RUR	+25% KZT/RUR	-25% KZT/RUR	+25% KZT/RUR	-25% KZT/RUR
Impact on income before tax	1,364	(1,364)	2,989	(2,989)	1,483	(1,483)

The impact on equity is as follows:

	31 December 2016		31 December 2015		31 December 2014	
	+30% KZT/USD	-30% KZT/USD	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD
Impact on equity	2,446	(2,446)	6,533	(6,533)	5,800	(5,800)

	31 December 2016		31 December 2015		31 December 2014	
	+30% KZT/EURO	-30% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO
Impact on equity	197	(197)	120	(120)	(401)	401

	31 December 2016		31 December 2015		31 December 2014	
	+30% KZT/RUR	-30% KZT/RUR	+25% KZT/RUR	-25% KZT/RUR	+25% KZT/RUR	-25% KZT/RUR
Impact on equity	1,364	(1,364)	2,989	(2,989)	1,483	(1,483)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption, while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocations and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, where those changes are caused by factors specific to the individual security, its issuer, or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

To limit price risk, the Group determines limits for maximum losses (stop-loss) on securies from the trade portfolio to minimise potential losses of the trade portfolio.

Price risk assessment is also performed on the basis of the Value At Risk ("VaR") method, through the establishment of Expected Shortfall ("ES") limits on the level of expected losses, which the Bank is able to undertake within one day in a situation when factual losses may exceed the level of VaR.

Calculation of VaR is based on the following parameters:

- Reporting period – 252 working days;
- Confidence interval – 95%;
- The method of measurement – historical simulation.

The Group estimates the price risk at 31 December 2016, 2015 and 2014, to be not material and therefore quantitative information is not disclosed.

35. CAPITAL RISK MANAGEMENT

The Group's capital management objectives, which are a broader concept than the "equity" on the face of the consolidated statement of financial position, are as follows:

- To comply with the capital requirements set by the NBRK;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined during the annual budgeting process, taking into account the above objectives, and is approved by the Management Board and the Board of Directors. As of the current date the capital adequacy of the Group is calculated according to prudential norms set for banks by the Kazakhstan regulatory authority, applying Basel Committee principles and methods. Starting from 1 January 2016, prudential norms regulating the capital calculation applied certain principles and methods prescribed by the Basel III Committee. Prior to 1 January 2016, prudential norms regulating the capital calculation applied principles and methods prescribed by the Basel II Committee. Risk-weighted assets are calculated according to Kazakhstan regulatory standards.

Currently, regulatory capital is represented by:

- Tier 1 capital, which is required to maintain the normal operating activity of the Group and absorb losses as they arise. It consists of Common Equity Tier 1 capital ("CET 1 capital") and Additional Tier 1 capital, which includes common shares issued by the Group, share premium, retained earnings, other accrued comprehensive income and disclosed reserves and regulatory adjustments (deductions);
- Tier 2 capital, which is required to absorb losses in case of the Group's liquidation. This part of capital consists of instruments issued by the Group and deductions.

Risk-weighted assets are split into five different groups, based on the risk level of the investment and its possible impairment, and weighted according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments made to reflect the more contingent nature of the potential losses.

The below table summarises the regulatory capital composition and capital adequacy ratios of the Group for the years ended 31 December 2016, 2015, and 2014. During these three years, individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject to.

	31 December 2016	31 December 2015	31 December 2014
Composition of regulatory capital			
CET 1 (2015 and 2014: Tier 1)			
Common shares, net of treasury shares	40,574	40,520	64,701
Share premium	1,911	2,039	1,439
Retained earnings of prior years	412,310	291,998	213,457
Net income for the current year	131,412	120,312	114,377
Accumulated disclosed reserves*	73,359	73,353	74,043
Property and available-for-sale investment securities revaluation reserves	930	1,707	7,204
Less: goodwill and intangible assets (2015 and 2014: goodwill)	(14,133)	(4,954)	(4,954)
Less: cumulative translation reserve	(5,097)	-	-
Common Equity Tier 1 (CET 1) Capital (2015 and 2014: total qualifying tier 1 capital)	641,266	524,975	470,267
Additional tier 1	-	n/a	n/a
Tier 2			
Subordinated debt	-	5,508	7,760
Total qualifying for Tier 2 capital	-	5,508	7,760
Less: investments in associates	-	(65)	(30)
Total regulatory capital	641,266	530,418	477,997
Risk weighted assets	3,303,428	2,922,029	2,271,545
CET 1 capital adequacy ratio	19.4%	n/a	n/a
Tier 1 capital adequacy ratio	19.4%	18.0%	20.7%
Total capital adequacy ratio	19.4%	18.2%	21.0%

*As at 31 December 2016, accumulated disclosed reserves comprised of KZT 19,568 million dynamic reserve and KZT 53,791 million capital reserve (31 December 2015: KZT 19,568 million dynamic reserve and KZT 53,785 million capital reserve; 31 December 2014: KZT 19,568 million dynamic reserve and KZT 54,475 million capital reserve).

Starting from 1 January 2016, prudential norms of the NBRK, which apply certain principles and methods prescribed by Basel III committee, set minimum CET 1 capital, Additional Tier 1 capital and total capital adequacy ratios at 7.5%, 8.5% and 10.0%, respectively, including buffers. Prior to 1 January 2016, Basel II standards set the minimum capital adequacy and the Tier 1 capital ratios at 8% and 4%, respectively.

36. 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.

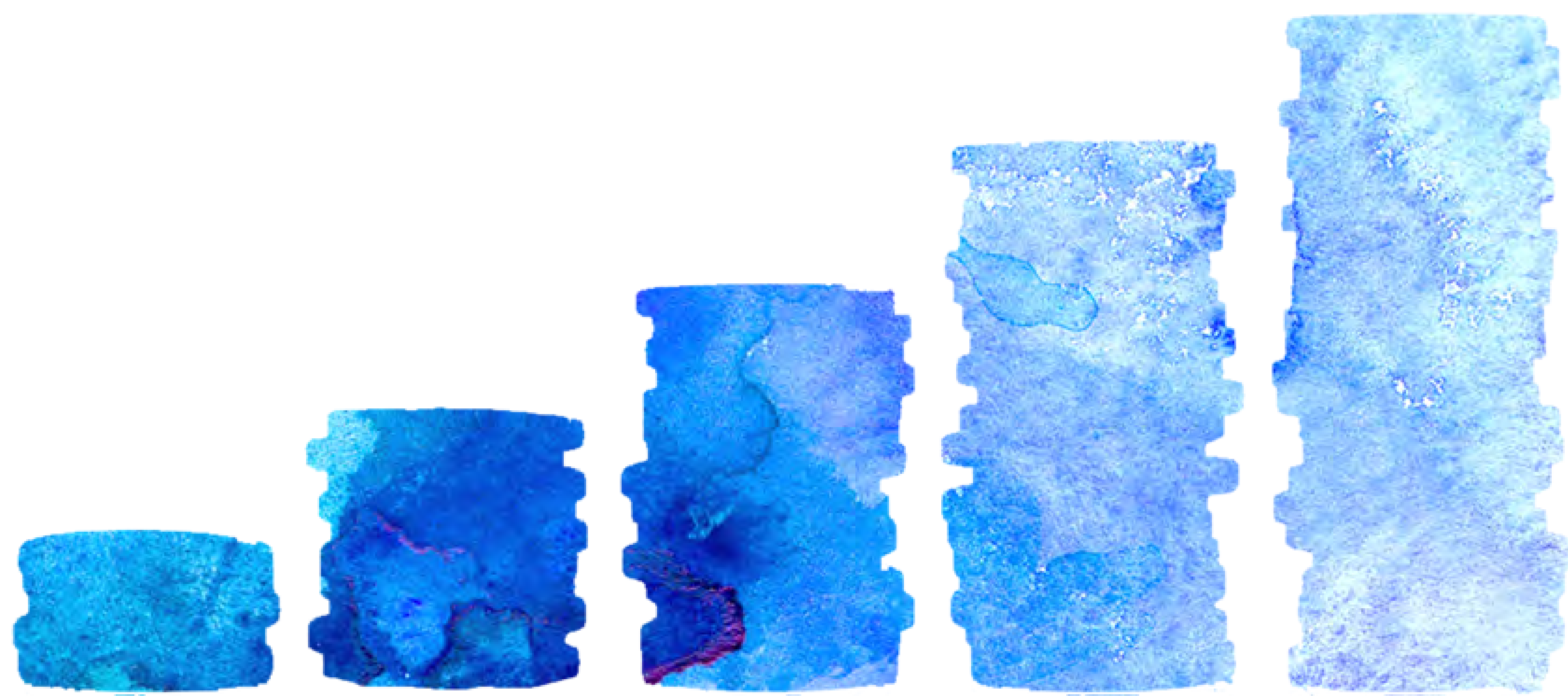
SME banking represents banking services to SME clients and individual entrepreneurs, including current accounts, deposits, overdrafts, loans and other credit facilities, documentary operations and guarantees, foreign exchange transactions and trade finance products.

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 main and nonoperating 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 years ended
31 December 2016, 2015 and 2014.



Segment information for the main reportable business segments of the Group as at 31 December 2016, 2015 and 2014 and for the years then ended, is set out below:

As at 31 December 2016 and for the year then ended	Retail banking	Corporate banking	SME banking	Other	Unallocated	Total
External revenues	178,951	156,019	46,531	61,501	33,631	476,633
Total revenues	178,951	156,019	46,531	61,501	33,631	476,633
Total revenues comprise:						
- Interest income	107,984	158,480	32,105	56,428	-	354,997
- Fee and commission income	43,607	6,240	8,645	241	612	59,345
- Net realised gain from available-for-sale investment securities	-	-	-	5,106	-	5,106
- Net foreign exchange gain	27,360	(8,701)	5,781	(274)	(1,543)	22,623
- Insurance underwriting income and other income	-	-	-	-	34,562	34,562
Total revenues	178,951	156,019	46,531	61,501	33,631	476,633
- Interest expense	(66,560)	(99,916)	(4,565)	-	-	(171,041)
- Impairment charge	(6,044)	(12,797)	(6,842)	684	(681)	(25,680)
- Fee and commission expense	(10,964)	(336)	(213)	(219)	(359)	(12,091)
- Operating expenses	(40,956)	(4,753)	(11,200)	(2,230)	(14,256)	(73,395)
- Impairment loss of assets held for sale	-	-	-	-	(1,564)	(1,564)
- Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	(52,581)	28,321	(5,246)	12,077	3,767	(13,662)
- (Provisions)/recoveries of provisions	-	(56)	18	22	(6)	(22)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(24,799)	(24,799)
Segment result	1,846	66,482	18,483	71,835	(4,267)	154,379
Income before income tax expense						154,379
Income tax expense					(22,967)	(22,967)
Net income						131,412
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					(15,386)	(15,386)
Depreciation and amortisation					(6,859)	(6,859)

As at 31 December 2015 and for the year then ended	Retail banking	Corporate banking	SME banking	Other	Unallocated	Total
External revenues	628,806	(131,817)	94,996	(60,757)	3,871	535,099
Total revenues	628,806	(131,817)	94,996	(60,757)	3,871	535,099
Total revenues comprise:						
- Interest income	94,560	112,057	27,054	21,185	-	254,856
- Fee and commission income	39,187	5,324	7,874	784	139	53,308
- Net gain/(loss)from financial assets and liabilities at fair value through profit or loss	495,059	(249,198)	60,068	(82,726)	(30,879)	192,324
- Insurance underwriting income and other income	-	-	-	-	34,611	34,611
Total revenues	628,806	(131,817)	94,996	(60,757)	3,871	535,099
- Interest expense	(40,515)	(60,800)	(3,237)	-	-	(104,552)
- Impairment charge	(11,553)	12,105	(11,244)	(1,311)	(114)	(12,117)
- Fee and commission expense	(9,659)	(301)	(183)	(35)	(659)	(10,837)
- Operating expenses	(40,465)	(5,417)	(7,080)	(4,287)	(13,556)	(70,805)
- Net realised loss from available-for-sale investment securities	-	-	-	(252)	-	(252)
- Net foreign exchange (loss)/gain	(485,238)	273,959	(56,820)	76,518	30,559	(161,022)
- (Provisions)/recoveries of provisions	-	(319)	(34)	9	(15)	(359)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(22,793)	(22,793)
Segment result	41,376	87,410	16,398	9,885	(2,707)	152,362
Income before income tax expense						152,362
Income tax expense					(32,050)	(32,050)
Net income						120,312
Total segment assets	540,639	2,952,768	256,885	382,973	321,673	4,454,938
Total segment liabilities	1,468,313	2,082,308	259,757	230	114,402	3,925,010
Other segment items:						
Capital expenditures					(17,131)	(17,131)
Depreciation and amortisation					(6,323)	(6,323)

As at 31 December 2014 and for the year then ended	Retail banking	Corporate banking	SME banking	Other	Unallocated	Total
External revenues	107,416	115,940	30,341	34,467	26,075	314,239
Total revenues	107,416	115,940	30,341	34,467	26,075	314,239
Total revenues comprise:						
- Interest income	71,136	97,429	21,982	20,046	-	210,593
- Fee and commission income	32,564	5,408	6,205	14,421	40	58,638
- Net gain from financial assets and liabilities at fair value through profit or loss	-	7,842	-	-	-	7,842
- Net foreign exchange gain	3,716	1,533	1,837	-	-	7,086
- Insurance underwriting income and other income	-	-	-	-	26,044	26,044
- Recoveries of provisions/(provisions)	-	3,728	317	-	(9)	4,036
Total revenues	107,416	115,940	30,341	34,467	26,075	314,239
- Interest expense	(42,278)	(32,693)	(2,487)	-	-	(77,458)
- Impairment charge	(1,905)	(6,013)	1,111	-	(580)	(7,387)
- Fee and commission expense	(7,600)	(162)	(190)	(536)	(71)	(8,559)
- Net realised loss from available-for-sale investment securities	-	-	-	(230)	-	(230)
- Operating expenses	(31,544)	(5,182)	(7,139)	(778)	(17,869)	(62,512)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(16,195)	(16,195)
Segment result	24,089	71,890	21,636	32,923	(8,640)	141,898
Income before income tax expense						141,898
Income tax expense					(27,521)	(27,521)
Net income						114,377
Total segment assets	441,336	1,508,888	215,783	391,306	252,469	2,809,782
Total segment liabilities	932,673	1,099,850	256,156	3,484	42,398	2,334,561
Other segment items:						
Capital expenditures	-	-	-	-	(13,628)	(13,628)
Depreciation and amortisation	-	-	-	-	(5,023)	(5,023)

Geographical information

Information for the main geographical areas of the Group is set out below as at 31 December 2016, 2015 and 2014, and for the years then ended.

	Kazakhstan	OECD	Non-OECD	Total
2016				
Total assets	4,450,495	795,651	102,337	5,348,483
External revenues	452,812	12,289	11,532	476,633
Capital expenditure	(15,386)	-	-	(15,386)
2015				
Total assets	4,101,191	262,578	91,169	4,454,938
External revenues	526,779	1,846	6,474	535,099
Capital expenditure	(17,131)	-	-	(17,131)
2014				
Total assets	2,547,344	185,108	77,330	2,809,782
External revenues	304,840	3,089	6,310	314,239
Capital expenditure	(13,628)	-	-	(13,628)

External revenues, assets and credit related commitments have generally been allocated based on the 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.

37. 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 a measurement date.

The fair values of the Group's financial assets and financial liabilities are 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 year. 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's assessment of the significance of a particular input to the fair value measurement 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 the 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 changes from year to year, as it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific features of transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on the consolidated statement of financial position, as well as, the related profit or loss reported on the consolidated statement of profit or loss, could be material.

The table below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2016, 2015 and 2014, before any allowances for impairment losses:

	Fair value at						
Financial Assets/Liabilities	31 December 2016	31 December 2015	31 December 2014	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)	250,961	1,757	3,633	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)	1,093	1,509	4,318	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
Derivative financial assets at fair value through profit or loss, excluding options (Note 8)	76,683	173,804	7,776	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 the KZT implied rate – the smaller the fair value
Total financial assets at fair value through profit or loss	328,737	177,070	15,727				
Derivative financial liabilities at fair value through profit or loss, excluding options (Note 8)	2,841	5,593	3,131	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	2,841	5,593	3,131				
Non-derivative available-for-sale investment securities (Note 10)	597,682	378,174	384,327	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 organisations (Note 10)	1,860	248	172	Level 2	Discounted cash flows. Future cash flows discounted using LIBOR, adjusted for the 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)	82	98	1,924	Level 3	Valuation model based on internal rating model.	Percentage discount	The greater the discount – the smaller the fair value
Available-for-sale investment securities	599,624	378,520	386,423				

There were no transfers between Level 1 and Level 2 during the years ended 31 December 2016, 2015 and 2014.

	Financial assets at fair value through profit or loss (Level 3)	Available-for-sale investment securities equity securities (Level 3)
31 December 2013	-	1,123
Total gains or losses		
- additions	7,597	-
- to profit or loss	179	813
Settlements	-	(12)
31 December 2014	7,776	1,924
Total gains or losses		
- in other comprehensive income	-	(27)
Settlements*	15,506	(531)
Gain/(loss) to profit or loss	150,522	(1,268)
31 December 2015	173,804	98
Loss to profit or loss	(2,313)	(16)
Settlements*	(94,808)	-
31 December 2016	76,683	82

*As at 31 December 2016 and 2015, the settlements include interest and repayment of NBRK swaps.

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 to and from 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 the 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 as at the respective year-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 year-end market rates.

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

	31 December 2016		31 December 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Amounts due from credit institutions	35,542	35,430	44,993	45,058	27,095	27,296
Loans to customers	2,319,583	2,178,539	2,176,069	2,106,902	1,648,013	1,742,664
Financial liabilities						
Amounts due to customers	3,820,662	3,972,622	3,043,731	3,197,750	1,848,213	1,850,824
Amounts due to credit institutions	162,134	190,971	168,258	193,863	107,192	111,426
Debt securities issued	584,933	586,378	597,525	611,607	311,009	323,244

31 December 2016

	Level 1	Level 2	Level 3	Total fair value
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

31 December 2015

	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Amounts due from credit institutions	-	45,058	-	45,058
Loans to customers	-	-	2,106,902	2,106,902
Financial liabilities				
Amounts due to customers	-	3,197,750	-	3,197,750
Amounts due to credit institutions	-	193,863	-	193,863
Debt securities issued	611,607	-	-	611,607

31 December 2014

	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Amounts due from credit institutions	-	27,296	-	27,296
Loans to customers	-	-	1,742,664	1,742,664
Financial liabilities				
Amounts due to customers	-	1,850,824	-	1,850,824
Amounts due to credit institutions	-	111,426	-	111,426
Debt securities issued	323,244	-	-	323,244

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

38. 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. Terms, conditions and amounts of related party transactions are usually same as those 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.

As at 31 December 2016, 2015 and 2014, the Group had the following transactions outstanding with related parties:

	31 December 2016		31 December 2015		31 December 2014	
	Related party balances	Total category as per financial statements caption	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	2,148	2,604,335	3,537	2,481,183	4,597	1,934,031
- the parent	-		8		-	
- entities with joint control or significant influence over the entity	2,024		3,426		4,597	
- key management personnel of the entity or its parent	94		90		-	
- other related parties	30		13		-	
Allowance for impairment losses	(21)	(284,752)	(47)	(305,114)	(15)	(286,018)
- the parent	-		(1)		-	
- entities with joint control or significant influence over the entity	(21)		(46)		(15)	
Amounts due to customers	197,569	3,820,662	181,164	3,043,731	105,405	1,848,213
- the parent	99,641		116,204		73,757	
- entities with joint control or significant influence over the entity	4,086		12,525		8,086	
- key management personnel of the entity or its parent	9,538		9,818		5,903	
- other related parties	84,304		42,617		17,659	

Included in the consolidated statement of profit or loss for the years ended 31 December 2016, 2015 and 2014, are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2016		Year ended 31 December 2015		Year ended 31 December 2014	
	Related party transactions	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Interest income	309	354,997	444	254,856	547	210,593
- entities with joint control or significant influence over the entity	295		431		547	
- key management personnel of the entity or its parent	10		11		-	
- other related parties	4		2		-	
Interest expense	(8,525)	(171,041)	(3,196)	(104,552)	(3,541)	(77,458)
- the parent	(6,848)		(2,499)		(3,073)	
- entities with joint control or significant influence over the entity	(14)		(6)		-	
- key management personnel of the entity or its parent	(404)		(265)		(250)	
- other related parties	(1,259)		(426)		(218)	

	Year ended 31 December 2016		Year ended 31 December 2015		Year ended 31 December 2014	
	Related party transactions	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Key management personnel compensation:	1,800	42,230	1,433	40,886	1,333	35,767
- Salaries and other employee benefits	1,800		1,433		1,333	

39. SUBSEQUENT EVENTS

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.

INFORMATION FOR SHAREHOLDERS

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INFORMATION FOR SHAREHOLDERS

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Registered with
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Registered number
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Date of re-registration
12 November 2003

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Financial Conduct Authority (FCA)
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Prudential Regulation Authority (PRA)
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