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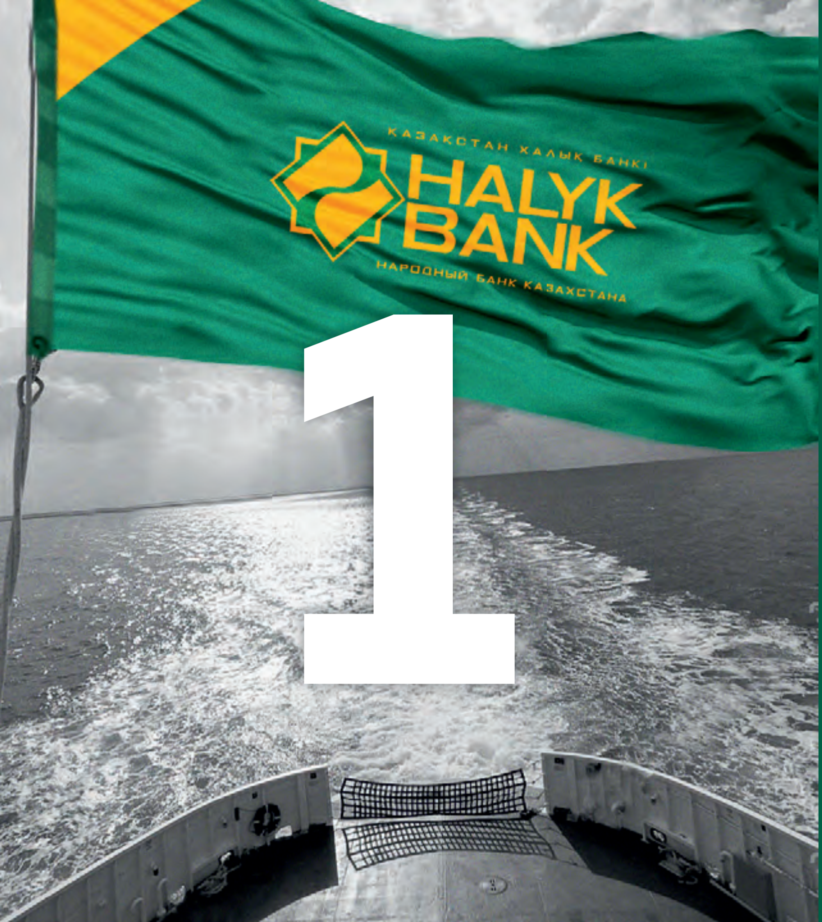
ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

ANNUAL REPORT 2017



BE THE LEADER!

LEAD FROM THE FRONT!

AT A GLANCE

FLAGSHIP

The word flagship denotes the lead ship in a fleet. The name is usually given to the best and largest ships, expeditions and taskforces. A flagship, as a rule, is a command and control ship for a commander, flag officer or headquarters and display's the senior officer's flag.

FINANCIAL HIGHLIGHTS[1]

Key figures at year-end	01.01.2018		01.01.2017	
	KZT mln	US$ mln*	KZT mln	US$ mln*
Loans to customers	3,251,102	9,783	2,319,583	6,960
Total assets	8,857,781	26,654	5,348,483	16,048
Amounts due to customers	6,131,750	18,451	3,820,662	11,464
Debt securities issued	962,396	2,896	584,933	1,755
Amounts due to credit institutions	255,151	768	162,134	486
TOTAL EQUITY	**934,457**	**2,812**	**665,593**	**1,997**

Key figures	2017		2016***	
	KZT mln	US$ mln**	KZT mln	US$ mln**
Net interest income	181,221	556	146,706	429
Fees and commissions, net	87,640	269	57,697	169
Operating expenses (excluding impairment losses on assets held for sale)	(112,330)	344	(68,559)	201
Net income	173,362	532	131,412	385

Key ratios	2017	2016****
Return on average common equity	22.7	22.3%
Return on average assets	2.6	2.8%
Net interest margin	4.9%	5.5%
Net interest spread	5.4%	6.3%
Cost-to-income	29.5	28.1%
Cost-to-average assets	1.7%	1.6%
Common equity tier 1 capital adequacy ratio (CET1)	16.9%	19.4%
Tier 1 capital adequacy ratio	16.9%	19.4%
Total capital adequacy ratio	18.9%	19.4%

[1] On a consolidated basis

NUMBER OF CUSTOMERS/ACCOUNTS AT YEAR-END

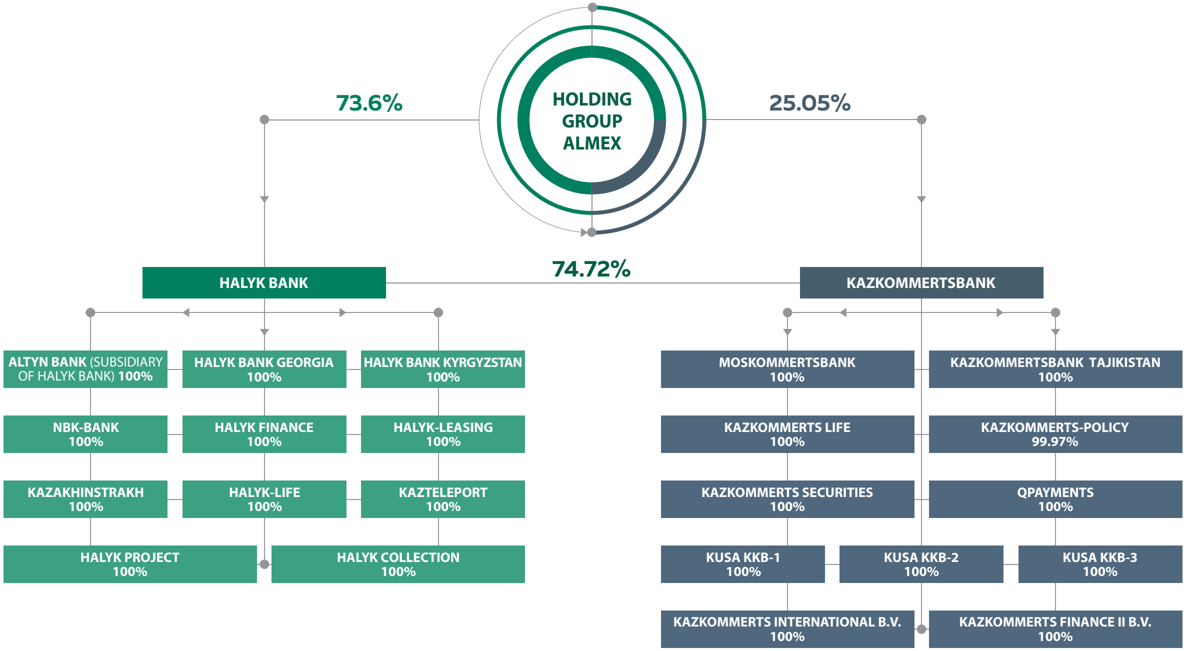
Key ratios	Halyk Bank + Kazkommertsbank	Halyk Bank	
	01.01.2018	01.01.2018	01.01.2017
Retail accounts, mln	8.5	5.9	5.4
Corporate clients	3,935	1,672	1,621
Payment cards, mln	9.0	6.3	5.5
Retail loans, mln	0.9	0.68	0.67
Mortgage loans	40,761	20,012	21,455
Other consumer loans	878,795	661,088	652,311
Plastic cards of payroll programme customers (individuals), mln	4.4	3.0	2.9
Payroll programme clients (legal entities, including public organisations)	43,873	21,870	23,001
Internet banking users:			
- individuals	2,960,989	1,204,067	918,210
- legal entities	93,384	17,223	15,065

* 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
*** Restated based on the presentation of Altyn Bank as discontinued operations; see Note 16 to the Financial Statements
**** Ratios for 2016 restated to account for Altyn Bank

INTERNATIONAL CREDIT RATINGS OF HALYK BANK AS OF 1 JANUARY 2018

Agency	Long-term rating	Outlook
Moody's Investors Service	Ba1	Stable
Fitch Ratings	BB	Stable
Standard & Poor's	BB	Negative

STRUCTURE OF HALYK GROUP



DISTRIBUTION NETWORK

HALYK BANK	489 OUTLETS, INCLUDING:
	- 22 regional branches
	- 122 sub-regional offices
	- 62 personal service centres
	- 2 VIP centres
	- 1 bank service centre
	- 280 cash settlement units
	2,367 ATMs
	23,213 POS terminals
	360 multi-service kiosks
	576 payment terminals

KAZKOMMERTSBANK	
	210 outlets
	2 227 ATMs
	51,389 POS terminals
	575 payment terminals

KAZAKHINSTRAKH	18 BRANCHES, 193 POINTS OF SALE
HALYK-LIFE	17 BRANCHES, 4 REPRESENTATIVE OFFICES
HALYK-LEASING	1 BRANCH
HALYK COLLECTION	18 BRANCHES, 37 OUTLETS
ALTYN BANK	4 BRANCHES, 2 OUTLETS
HALYK BANK KYRGYZSTAN	9 BRANCHES, 10 CASH SETTLEMENT UNITS
HALYK BANK GEORGIA	7 BRANCHES
NBK-BANK	2 LENDING AND CASH SETTLEMENT UNITS
KAZKOMMERTS-POLICY	18 BRANCHES, 68 OUTLETS
KAZKOMMERTS LIFE	16 BRANCHES, 6 AGENT OUTLETS
MOSKOMMERTSBANK	2 BRANCHES, 4 OUTLETS
KAZKOMMERTSBANK TAJIKISTAN	2 BRANCHES, 5 OUTLETS

As of 31 December 2017, Halyk Group had 18,410 full-time equivalent employees.

SHAREHOLDERS OF HALYK GROUP WITH AT LEAST 5% OF SHARES ISSUED AS OF 1 JANUARY 2018[1]:

№	Name	Total shares	Proportion of total shares in circulation	Common shares	Proportion of common shares in circulation
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)	1,852,878,720	16.8%	1,852,878,720	16.8%
5	Other	338,204,581	3.1%	338,204,581	3.1%
6	**TOTAL SHARES ISSUED**	**12,688,857,059**	-	**12,688,857,059**	-
7	Shares bought back by the Bank	(1,693,389,285)	-	(1,693,389,285)	-
8	Shares retained by companies in the Group	(1,650,955)	-	(1,650,955)	-
9	**TOTAL SHARES IN CIRCULATION (CONSOLIDATED BASIS, FOR EPS CALCULATION)**	**10,993,816,819**	-	**10,993,816,819**	-
10	**TOTAL SHARES IN CIRCULATION (AS PER KASE LISTING RULES)**	**2,192,709,556**	-	**2,192,709,556**	-
11	**MARKET SHARE PRICE, KZT***	-	-	**82.66**	-

* Market share price as of 1 January 2018, determined and published by KASE (www.kase.kz) on a weekly basis
[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.

Holding Group ALMEX is a holding company that, in addition to its controlling interest in the Bank, has an interest in Kazkommertsbank and Insurance Broker AON Kazakhstan.

The Unified Accumulative Pension Fund (UAPF) collects obligatory pension payments, obligatory professional pension payments and voluntary pension payments and disburses pension payments. It is one of the leading institutional investors on the Kazakhstan stock market and the sole administrator and operator of all financial and information flows of the country's pension system.

The sole shareholder of the UAPF is the State Property and Privatisation Committee of the Ministry of Finance of Kazakhstan (100%).

The state's stake in the UAPF is held in trust by the National Bank of Kazakhstan, which manages its assets jointly with Kazakhstan's Presidential Council for Pension Asset Management. Since 1 January 2016, by decree of the president of Kazakhstan, the functions for developing proposals to improve pension asset management have been transferred to the National Fund Management Council, which is headed by the president of Kazakhstan.

BUSINESS MODEL

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ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

LEAD FROM THE FRONT!

GROSSMASTER

Chess is one of the East's priceless gifts to the world. The number of chess fans has only grown over the centuries. Both a beginner and an experienced player dream of the grandmaster title, which is awarded only to the best of the best. Back in the past, the title of grandmaster belonged to the masters of glorious knightly orders and today these are legendary sportspeople. Similar to medieval knights, each has a unique talent and wins stunning victories on the chess board.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

SOLID FINANCIAL POSITION, CAPABLE OF WITHSTANDING NEGATIVE MACROECONOMIC DEVELOPMENTS

- High level of capitalisation: common equity tier 1 capital adequacy ratio of 16.9%, tier 1 capital adequacy ratio of 16.9% and total capital adequacy ratio of 18.9%
- Sufficient liquidity: liquid assets to total assets ratio of 48.3%
- High-quality funding base: loans to deposits ratio of 53.0%
- Sufficient provisioning: the share of non-performing loans (overdue by 90 days or more) has been reduced to 8.9% and the provision coverage ratio is 73.7%
- Highest long-term credit ratings among second-tier Kazakh banks with no major overseas shareholders:
  - Moody's Investor Services – Ba1
  - Fitch Ratings – BB
  - Standard & Poor's – BB

SYSTEMICALLY IMPORTANT FINANCIAL GROUP IN KAZAKHSTAN WITH A STRONG MARKET POSITION

- Effective risk management ensures 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
- Following the acquisition of Kazkommertsbank, Halyk Bank is the undisputed leader in Kazakhstan in terms of assets (combined market share of 35.2%), total equity (35.3%), net income (32.2%), retail term deposits, retail current accounts, corporate deposits and current accounts, gross loans, number of payment cards, combined portfolio of letters of credit and guarantees, and payroll programmes
- Halyk Group ranks third in terms of assets and second in terms of net income among commercial banks in the CIS, and eighth in terms of assets and fifth in terms of net income in the CIS, including state-owned banks[1]
- Largest payment agent for pensions and social payments (2.7 million customers)
- Active participant in government business-support programmes

SUBSTANTIAL MARKET SHARES IN KEY BUSINESS SEGMENTS

- Largest branch network, with 699 outlets
- Combined market share of Halyk Bank and Kazkommertsbank among second-tier banks is 36.9% of retail deposits, 35.7% of retail term deposits and 47.3% of retail current accounts
- Share of corporate deposits among second-tier banks is 37.7%
- Share of gross loans is 31.3%, share of net loans is 27.2%
- Share of the retail lending market is 24.0%
- Share of total cards issued is 61.0%
- Share of letters of credit is 52.8%
- Share of portfolio of guarantees is 38%

SOLID AND LOW-COST FUNDING BASE

- 'Safe haven' for deposits during a crisis
- One of the lowest funding rates among second-tier banks
- Deposits comprise 77.4% of the funding base, of which 21.9% are current accounts that pay 0% or low interest (highest share in the market)
- Low debt burden - debt securities comprise just 12.1% of total liabilities

DIVERSIFIED SOURCES OF INCOME AND HIGH COST EFFICIENCY RATIO

- High profitability is supported by diversified commission income inflows, which generated 12.5% of total revenues in 2017
- Strict control of operating expenses: cost to income ratio of 30.3% in 2017

CONTINUOUS DEVELOPMENT OF REMOTE SERVICE CHANNELS

- Wide range of remote channels for retail, corporate and SME customers, remote channels handle 80% of all payments
- Total of 4,594 ATMs, 74,602 POS terminals and 1,151 payment terminals (25.2 million transactions in 2017)
- Halyk Bank's myHalyk and Kazkommertsbank's Homebank.kz are the leading online banking platforms in Kazakhstan with 3 million customers (18.9 million transactions in 2017), mobile applications are ranked in the top-5 among free mobile applications in the "Finance" categories in Google Play and the App Store
- Advanced online banking platform for corporate customers with 93.4 thousand users

[1] Sources: Halyk Bank, Interfax

LEAD
FROM THE FRONT!

CHAIRMAN OF THE BOARD'S STATEMENT

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ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

LEAD FROM THE FRONT!

CHAIRMAN OF THE BOARD'S STATEMENT

AVANT-GARDE

The avant-garde (from French, "advance guard" or "vanguard" in modern military use), is a formation in the armed forces that is sent ahead of the main ground or naval force to perform route security and seek the enemy. As the initiative of vanguard commanders can have a decisive influence on the course of battle, they should be chosen for their conviction, prudence and composure.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ HALYK BANK НАРОДНЫЙ БАНК КАЗАХСТАНА

ALEXANDER PAVLOV

**CHAIRMAN OF THE BOARD OF DIRECTORS
HALYK BANK**

Dear shareholders, clients and partners,

Last year was a turning point for Kazakhstan's economy and the financial system that underpins it. In 2017, the comprehensive programme of the government and National Bank of Kazakhstan aimed at overcoming the adverse effects of the global crisis delivered impressive results, as demonstrated by 4% GDP growth and reduced annual inflation rates. Compared with the 1% GDP growth seen in 2015-16, this suggests that Kazakhstan's economy is gradually recovering. Positive drivers included higher global prices for the country's major exports, stabilised prices for imported non-food products, a relatively stable tenge exchange rate and the regulator's predictable monetary policy.

The acquisition of Kazkommertsbank and its subsidiaries bolstered significantly Halyk Group's leading positions in most segments of the financial market. The planned merger of several banks and insurance companies that previously had competed with each another for many years will allow the Group to maximise its overall potential. At the core of the integration lies the principle of maximum synergy, which is achieved by combining the two banks' strengths.

Halyk Bank's chief competitive advantages include the high reliability and profitability of its business, its wide range of financial products, competent risk management, well developed infrastructure and loyal customer base. Kazkommertsbank brings innovation, advanced front-office systems and IT infrastructure. These are combined with the experience and expertise of the two banks' key employees.

We view this as a major transaction and believe that it offers tremendous potential, in terms of both scope and ability to influence the economies of Kazakhstan and its neighbouring countries. In the second half of 2017, Halyk Bank and Holding Group ALMEX recapitalised Kazkommertsbank with KZT250.2 billion, which ensures that the newly acquired bank could resume lending and provides the necessary support to achieve our growth targets. The decision to inject such a massive amount of capital into Kazkommertsbank confirms our commitment to further improve its competitive advantages as part of Halyk Group.

Insurance services are an important aspect of Halyk Group's business and our subsidiaries hold confident positions on Kazakhstan's insurance market. By the end of 2017, our life insurance subsidiaries, Halyk-Life and Kazkommerts Life, held a combined market share of 50.3% in terms of gross premiums, while the share of our general insurance subsidiaries, Kazakhinstrakh and Kazkommerts-Policy, was 21.2% on the same metric.

To achieve maximum synergy, similar to the process of consolidating the two systemically important banks, Halyk Group has launched a reorganisation of its subsidiaries that have overlapping business lines and geographical presences. The merger of Kazakhinstrakh and Kazkommerts-Policy has already begun. This process is founded on the principles of selecting the best practices in various areas and optimising costs. We expect the insurance companies' integration to be completed in the third quarter of 2018, which should allow Halyk Group to expand its presence on the corporate and retail insurance market.

Special mention is warranted for the successes of Halyk Group's leading investment and brokerage companies, Halyk Finance and Kazkommerts Securities. As of 1 December 2017, the two subsidiaries had a combined market share of 30% in terms of assets and 35% in terms of equity. The two companies also receive prestigious awards each year from authoritative international financial publications: Cbonds recognised Halyk Finance "Best Investment Bank in Kazakhstan" in 2017; EMEA Finance recognised Halyk Finance "The Best Investment Bank in Kazakhstan 2016"; World Finance recognised Kazkommerts Securities "Best Investment Bank in Kazakhstan 2017"; and Cbonds recognised Kazkommerts Securities "Best underwriter in Kazakhstan" and "Best Financial Markets research in Kazakhstan" in 2017.

Halyk Group's own investment activity during the reporting period included active work to implement the provisions of the framework agreement signed in June 2017 regarding the sale of a 60% stake in Altyn Bank to strategic investors from China. They included CITIC Bank, which is one of China's largest financial institutions, and China Shuangwei Investment Company, Ltd. To implement the agreements reached in 2017, due diligence was conducted on Altyn Bank and requests for permits were sent to the regulatory bodies in China and Kazakhstan. We aim to complete the deal in the first half of 2018.

The transaction will see Halyk Group retain a 40% stake in Altyn Bank and play a key role in implementing Kazakhstan's Nurly Zhol development programme and China's Silk Road Economic 'One Belt. One Road' initiative. After changing majority shareholders, Altyn Bank will continue to work on the local market as a universal bank that can offer its corporate and retail customers unique new services, including direct conversions from tenge to yuan, payments in yuan, trade financing, treasury operations, private banking and lending. We are confident that having such a strong strategic partner as CITIC Bank will significantly expand Altyn Bank's possibilities, helping to strengthen its market positions through access to advanced technology. In 2017, Altyn Bank delivered impressive results: with a market share of just 1.6% in terms of assets, the bank earned net income of KZT9.4 billion.

In 2017, as part of Halyk Group's internal integration processes following the acquisition of Kazkommertsbank, we began to reorganise our subsidiary banks in Russia. The merger of NBK-Bank and Moskommertsbank will create a universal financial institution on the Russian market that prioritises the development of transaction services, cash management and merchant acquiring services. Its main goal will be to transfer its business model from classic banking to digital with a focus on joint projects between Russia and Kazakhstan. The merged bank will have a presence in major Russian cities, including cities with million-plus populations bordering Eurasian Economic Union member countries.

Our other subsidiary banks in Georgia and Kyrgyzstan continue to contribute to Halyk Group's overall profitability. In 2017, Halyk Bank Georgia generated a profit of around GEL12 million, which is the equivalent of KZT1.6 billion. The bank also has introduced a new online banking system for corporate and retail clients. In 2018, we plan to further expand along all business lines, targeting loan portfolio growth of 25%. Halyk Bank Kyrgyzstan delivered a profit of KGS88 million for the reporting period, which is the equivalent of KZT0.4 billion. Throughout the year, the bank has made staff changes aimed at improving productivity. In 2018, we plan to increase profit by 17% and the loan portfolio by 27%.

Throughout Halyk Group's history, charity has been an overriding priority. The Halyk charity fund was created specifically to initiate and support various educational, cultural, art and sport projects. The Astana Opera, Kazakhstan's largest opera and ballet theatre, has been a major recipient of our charitable assistance. With Kazkommertsbank as part of the Group now, it will be joined by the Abay State Opera and Ballet Theatre and the Kurmangazy National Conservatory.

For the past 11 years, the Halyk League sport project has been contributing to the development of youth basketball in Kazakhstan, helping to pay for the services of coaches and purchasing sport equipment for children at sponsored orphanages and boarding schools nationwide. A major focus has been on social support for orphans and children with disabilities, as well as survivors and veterans of World War II. In 2017, to foster an interest in science among young people, we supported the launch of the Smart Halyk educational channel on YouTube, which is regularly updated with informative new popular science videos in the Kazakh and Russian languages.

In 2018, in honour of Halyk Bank's 95th anniversary, we launched the "Festival of Good Deeds", a massive series of charity initiatives to complement our traditional social projects. Each month this year will be devoted to a theme: sport and healthy lifestyles, national traditions, caring for the young and elderly, culture and art. The festival's first charitable campaign provided free ice skating sessions for tens of thousands of people in 20 cities around Kazakhstan to promote sport and healthy lifestyles.

We believe that Halyk Group's successes each year in various business lines is the natural result of the hard work and dedication of one of the most experienced and professional teams in the financial market. We achieve this by adhering to a finely tuned risk management policy that promotes sound and effective business decisions. We are focused on a long-term market presence and acknowledge that Halyk Group bears a great social responsibility to the state, business community and our country. We always set lofty goals and do our best to achieve them.

LEAD
FROM THE FRONT!

CHAIRPERSON OF THE MANAGEMENT BOARD'S REVIEW

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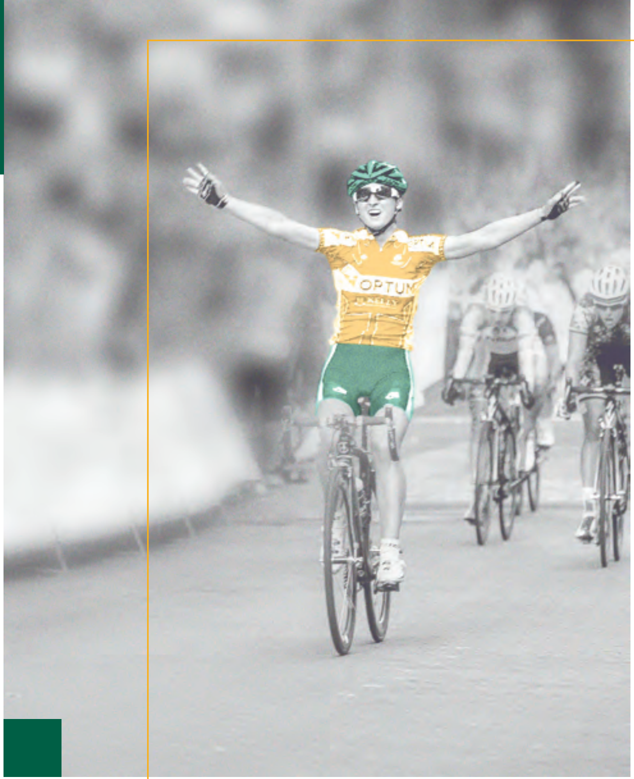
ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА



LEAD FROM THE FRONT!

RACE LEADER

In cycling, the yellow jersey goes to the rider who is currently leading in the overall standings of a competition. The yellow jersey was initially introduced in the Tour de France, but leader jerseys of various colours are now used in many other cycling events. The coloured jerseys make it easy to pick out the current leader in the overall standings from a pack of riders. Over time, the term “yellow jersey” has become commonly used to denote a person or phenomenon that is far ahead of anyone or anything else on some metric.

CHAIRPERSON OF THE MANAGEMENT BOARD'S REVIEW

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

UMUT SHAYAKHMETOVA

CHAIRPERSON OF THE MANAGEMENT BOARD
HALYK BANK

Dear shareholders, clients and partners,

In 2017, Kazakhstan's banking sector underwent a stress test of sorts. The burden of accumulated problems, which we believe were mainly a large volume of non-performing loans and insufficient levels of capitalisation at several commercial banks, led to a shortage of liquidity, defaults and the revocation of some financial institutions' licences.

In such challenging macroeconomic conditions, the regulator has done a great deal of vital work to revitalise and improve the stability of the financial sector, which had an evident positive effect. Additional funding from the National Bank has helped several major commercial banks in Kazakhstan to improve their liquidity and capitalisation, which has mitigated these unfavourable factors somewhat.

The government's unprecedented support to cleanse the banking system's loan portfolio was a vital precondition for our historic acquisition of a 96.81% stake in Kazkommertsbank. The bank, which was once a leading and highly successful systematically important bank in Kazakhstan, experienced major problems with capital adequacy and liquidity in 2016. Our due diligence on Kazkommertsbank in the first half of 2017 showed that most of these problems were caused by the BTA Bank loan.

From the very beginning of the discussions about the state selling its stake in BTA Bank, which had been nationalised in 2013, and selling its assets to a strategic investor, we as a potential bidder for the financial institution invariably adhered to a pragmatic position: the entire pool of BTA Bank's distressed assets related to the activities of its former shareholders needed to be taken off the banking system's balance sheet so that loans with a long recovery horizon would not hinder its development.

Time has proven this to be a sound and prudent approach. The acquisition of Kazkommertsbank can, without exaggeration, be called the largest deal of such kind in the CIS. The Problem Loan Fund's purchase of BTA Bank's debt has provided an optimal solution to save a systemically important bank while eliminating a whole range of risks.

Halyk Bank neither needs nor plans to participate in the government's programme to revitalise the banking sector. Thanks to the Bank's balanced asset and liability management policies and prudent risk management, its liquidity in both tenge and foreign currencies remains at consistently high levels and far exceeds regulatory requirements, even considering the high cost of recapitalising Kazkommertsbank.

Despite the objective factors that significantly limit the financial market's development, Halyk Group demonstrates remarkable success in all business lines year after year. This is evidenced by the Group's continuous growth on key financial metrics. In 2017, we earned record consolidated net income of KZT173.4 billion. As of 1 January 2018, Halyk Group's assets stood at KZT8,858 billion and its total equity was KZT934 billion. Alongside the growth in Halyk Bank's loan portfolio, which in 2017 was significantly ahead of the market average, its level of non-performing loans fell from 8.6% to 7.9% on an unconsolidated basis, using the National Bank's methodology.

Serving small and medium-sized businesses, or SMEs, plays a special role in Halyk Bank's operations. We are confident that a mature and prosperous domestic entrepreneurial class is part of the foundation for diversifying and further expanding the economy. In 2017, the number of loans issued to Kazakhstan's entrepreneurs increased by 37% year-on-year. Working actively with businesses also helped us to expand our SME deposit portfolio by 70% year-on-year.

For many years now, our main partner in supporting SMEs has been the Damu

Entrepreneurship Development Fund. At the year-end, the share of SME loans that were approved with our help under the government's "Business Road Map 2020" interest rate subsidy programme reached 14.3% of the total volume of subsidised SME loans.

In 2017, we strengthened our leading positions in the retail business. In tandem with Kazkommertsbank, as of 1 January 2018, our combined share of retail deposits reached around 37% and that of retail loans was about 24%. During the reporting period, we increased our metrics on retail deposits by 0.2% and on loans by 4.2%. The overall customer base of the two banks is also the largest in the country, with more than 9 million customers served as of 1 January 2018.

The total number of payment cards issued by Halyk Bank and Kazkommertsbank now exceeds 9 million and the two banks' payroll projects serve around 44,000 organisations. Since July 2017, following the technical integration of Halyk Bank's and Kazkommertsbank's ATMs, our unified ATM network has become the most accessible and extensive in the country with around 4,600 devices currently in operation. The 74,602 POS/mPOS terminals operated by Halyk Bank and Kazkommertsbank in retail and service establishments in 2017 processed more than 53 million transactions. On this metric, the two banks have a 47% combined market share.

In December 2017, the Board of Directors of Halyk Bank approved the legal merger of Kazkommertsbank with Halyk Bank as the most optimal option for the Group's further development. We expect the planned integration of the two systemically important banks in 2018 to create the absolute leader on the country's financial market in terms of assets, capitalisation and market share, ensuring a high degree of reliability for our customers' savings. This will make us the largest creditor of the national economy and the bank of choice for most people in Kazakhstan.

The merged bank will have the widest geographical coverage in Kazakhstan thanks to its extensive branch network of 699 outlets. The Bank's products and services will be available through the largest and most advanced merchant acquiring services infrastructure in the country, as well as our cutting-edge online banking platforms for retail and corporate customers. Customers of the country's two largest banks are already benefiting from the integration. Combining the ATM networks of Halyk Bank and Kazkommertsbank has allowed us to double the number of ATMs available and cancel additional cash withdrawal and deposit transaction fees for our customers.

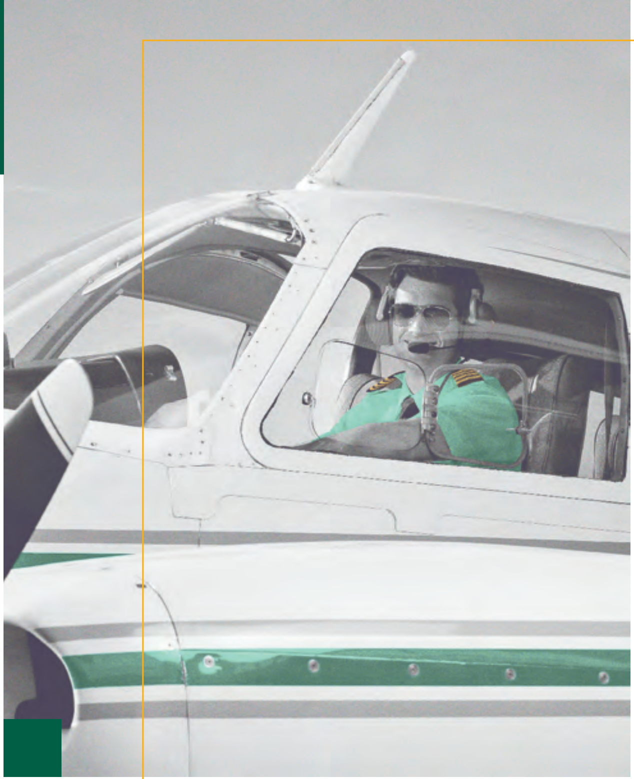
In parallel, our integration office is working to harmonise the product lines and align the tariffs of Halyk Bank and Kazkommertsbank. We aim to stimulate our customers to actively use our remote banking services with reduced fees, special services and valuable offers.

Major positive changes that have already taken place in Halyk Bank's business and that are planned for the near future aim is to increase the competitiveness of the banking sector to ensure that it can adequately meet the challenges posed by our country's accession to the WTO. Kazakhstan's president has set another national priority of joining the G30. As a major bank of systemic importance, we will make every effort to assist the government in achieving these ambitious goals and to justify the large debt of trust from our fellow citizens. On behalf of the Management Board, I would like to thank our shareholders, customers and partners for their assistance and support in addressing these important tasks.

BOARD OF DIRECTORS

5

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА



LEAD FROM THE FRONT!

BOARD OF DIRECTORS

FIRST PILOT

The first pilot is the person in command of a crew or aircraft. He or she manages the work of the crew, is responsible for order and discipline, and ensures the safety of the aircraft and all people and property on board.

1

BE THE LEADER!

LEAD
FROM THE FRONT!

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 2017. 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, and head of the Main Tax Inspectorate – first deputy minister of finance. He has also worked in the management teams of large Kazakh natural resource and machinery 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 science (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 2017. 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 has also held management positions in the 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 has a PhD from Moscow State University named after M. Lomonosov.

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 2017. 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 was 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 Board of Amsterdam Trade Bank N.V. Mr Kuijlaars received a Master's 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 and re-elected to the same post in April 2017. 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 of the Ministry of Finance. He has also 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. 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 PhD 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 2017. 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, Mr Ruehl 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, he was appointed first global head of research by Abu Dhabi Investment Authority. Mr Ruehl 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 and re-elected to the same post in April 2017. 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 PhD in economics from the same university 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, CHAIRPERSON OF THE MANAGEMENT BOARD

Ms Shayakhmetova was appointed chairperson of the Management Board of Halyk Bank on 22 January 2009. She was elected a member of the Board of Directors in April 2009 and re-elected to the same post in April 2017. 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 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 named after P. Lumumba, Moscow, and holds an MBA from Rutgers University, New Jersey, US.

MANAGEMENT BOARD

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LEAD FROM THE FRONT!

MANAGEMENT BOARD

FORWARD

In football, the forward is an offensive player who plays close to the opponent's goal. Also called a striker, a forward has the primary responsibility of scoring goals. For most of the game, the forward is either in or close to the box, constantly seeking to create scoring opportunities, which is why they are often referred to as a "fox in the box". The most important thing for a forward is to be in the right place at the right time and kick the ball skilfully.

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BE THE LEADER!

LEAD
FROM THE FRONT!

UMUT SHAYAKHMETOVA (b. 1969)

CHAIRPERSON OF THE MANAGEMENT BOARD

Please refer to the "Board of Directors" section

MANAGEMENT BOARD

MARAT ALMENOV (b. 1976)

DEPUTY CHAIRMAN: RETAIL BANKING, SECURITY AND PROBLEM LOANS

Mr Almenov started his career at Halyk Bank in 1997 as a corporate lending banker. He has 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 of the Bank, 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. Mr Almenov is an economics graduate of the Kazakh State Academy of Management with major in Credit and Finance.

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 project on accounting reform in the Kazakh banking system. 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, head of risk management, and finance director. She has been deputy chairperson of the Management Board of Halyk Bank since October 2011, Board member of Kazakhinstrakh since 2016 and Board member of Kazkommertsbank since 2017. 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 has worked in the banking sector since 2000. From 2002 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)). He joined Halyk Bank in January 2010 as chief risk officer and then 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 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 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 the head office; managing director; and chief IT director. He has been deputy chairman of the Management Board of Halyk Bank since February 2015. Mr Kussainbekov has a degree in automated control systems from the Kazakh Polytechnic Institute named after V. Lenin.

YERTAI SALIMOV (b. 1974)

DEPUTY CHAIRMAN: OPERATIONS AND TREASURY

Mr Salimov 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. He 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. Mr Salimov has a degree in finance and credit from the Kazakh State Academy of Management with major in Credit and Finance.

ASLAN TALPAKOV (b. 1975)

DEPUTY CHAIRMAN: SME BANKING, MARKETING AND PR, AND MAINTENANCE

Mr Talpakov 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, an account manager, a settlement unit manager 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 joined the Bank in July 2011, when he became head of the corporate client department. He has been deputy chairman of the Management Board of Halyk Bank since July 2015. 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. Mr Talpakov has a bachelor's degree in international business management from Varna Free University.

KEY EVENTS IN 2017

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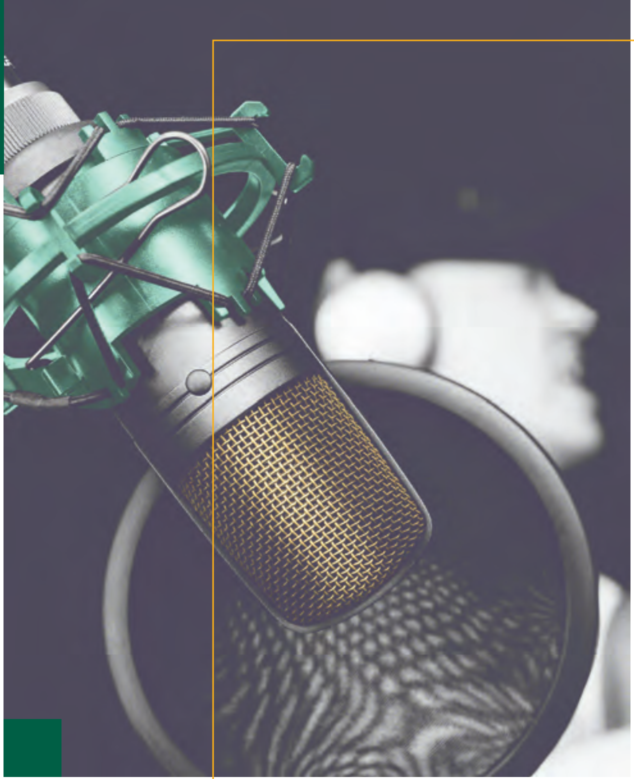
ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА



LEAD FROM THE FRONT!

KEY EVENTS IN 2017

SOLO PLAYER

The soloist is the undisputed leader of any creative team, its brightest star. It is no coincidence that the term is so common in art, because it is the soloist who performs key vocal or dance parties, inspiring, captivating and admiring spectators with his or her talent.

КАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

KEY EVENTS IN 2017

JANUARY

- Halyk Bank launches a beta version of its new website using advanced IT solutions to make the site more modern, capable and user friendly by introducing numerous new features

FEBRUARY

- Halyk Bank Kyrgyzstan registers its ninth stock issue, placing an additional 131,616 common shares at a price of KGS500 each for a total of KGS65.8 million

MARCH

- Halyk Bank signs a non-binding memorandum of understanding regarding the acquisition of a controlling interest in Kazkommertsbank with the government of Kazakhstan, the National Bank of Kazakhstan, Kazkommertsbank, BTA Bank and Kenges Rakishev, a major shareholder in Kazkommertsbank
- Halyk Finance wins Cbonds' most prestigious award, "Best Investment Bank in Kazakhstan 2017"
- Kazkommerts Securities wins Cbonds' "Best Bookrunner Kazakhstan I" award for 2017

APRIL

- Halyk Finance is recognised the "Best Investment Bank in Kazakhstan 2016" by EMEA Finance, marking the seventh time in a row that it has won the title
- Halyk Finance wins EMEA Finance Achievement Awards for a record seventh year in a row: in "The Best Sub-Sovereign Bond in EMEA" category, EMEA Finance recognised Kazakhstan Temir Zholy's KZT50 billion, 10-year bond, in which Halyk Finance acted as the Sole Financial Adviser and Bookrunner
- Due to the expiration of the term of office of Halyk Bank's Board of Directors, the Annual General Shareholder Meeting decided to elect the following Board members for a three-year term: Alexander Pavlov, Anvar Saidenov, Arman Dunaev, Christof Ruehl, Frank Kuijlaars, Mazhit Yessenbayev and Umut Shayakhmetova
- Aikyn Kabulov is appointed chairman of the Management Board of Halyk Bank Kyrgyzstan
- Galym Kalmurzayev is appointed CEO of Halyk Project
- A.M. Best confirms its financial strength rating of 'B+' (Good) and issuer credit rating of 'bbb' for Kazakhinstrakh, the outlook 'stable'

MAY

- Halyk Bank repaid on schedule and in full using the Bank's own funds its US$638 million, 10-year, 7.25% Eurobond
- The Board of Directors resolves to end the membership on the Management Board of Aivar Bodanov, Deputy Chairman, starting from 20 May at his own initiative

JUNE

- Halyk Bank signs a framework agreement regarding the acquisition of a controlling interest in Kazkommertsbank with the Ministry of Finance of Kazakhstan (representing the government of Kazakhstan), the National Bank of Kazakhstan, Sovereign Wealth Fund Samruk-Kazyna, the Problem Loans Fund, BTA Bank, Kazkommertsbank and Kenges Rakishev, a major shareholder in Kazkommertsbank
- Halyk Bank signs an agreement with China CITIC Bank Corporation Limited and China Shuangwei Investment Co., Ltd regarding the sale of a 60% stake in Altyn Bank, a subsidiary of Halyk Bank
- Halyk Finance acts as Joint Lead Manager for Kazakhstan Temir Zholy's RUB 15 billion (around US$ 264 million) 5-year bond placement with dual listing on the Moscow Exchange and Kazakhstan Stock Exchange. The transaction marks the first ever bond issue on the Russian market out of Kazakhstan and the first ever corporate bond issue by a foreign issuer on the Russian market out of the whole CIS region
- Halyk Bank signs sales contracts with Kenges Rakishev for the acquisition of 86.09% of the common shares of Kazkommertsbank and, separately, with Sovereign Wealth Fund Samruk-Kazyna for the acquisition of 10.72% of the common shares of Kazkommertsbank
- The Board of Directors resolves to end the membership on the Management Board of Askar Smagulov, Deputy Chairman, starting from 1 June due to his transfer to the post of adviser to the staff of the Bank's Board of Directors and Management Board, while he will remain chairman of the Management Board of Altyn Bank

JULY

- Halyk Bank completes the acquisition of 96.81% of the common shares of Kazkommertsbank
- Halyk Bank recapitalises Kazkommertsbank for KZT185 billion
- Halyk Bank and Kazkommertsbank begin to merge their ATM networks
- Following Kazkommertsbank's recapitalisation and consolidation with Halyk Group, S&P upgrades its long-term issuer credit rating for Kazkommertsbank from 'B–' to 'B+', confirms its short-term issuer credit rating at 'B', and upgrades its national-scale rating from 'kzB+' to 'kzBBB–', while Moody's upgrades its issuer credit rating for Kazkommertsbank from 'Caa2' to 'B1' and its deposit rating from 'B3' to 'Ba2'
- Moody's upgrades its independent issuer credit rating for Altyn Bank from 'Ba3' to 'Ba2', confirms its long- and short-term deposit ratings for the bank at 'Ba2/Not Prime', and

changes the outlook on its 'Ba2' long-term deposit ratings from 'negative' to 'stable'

- Altyn Bank's Altyn-i brand receives Global Finance's "Digital Banks of Distinction Award"
- Halyk Bank is recognised the "Best Bank in Kazakhstan" by Euromoney
- A.M. Best confirms its financial strength rating of 'B+' and issuer credit rating of 'bbb–' for Halyk Life, maintaining 'negative' outlook on both ratings
- Halyk Bank's subsidiary Kazteleport receives the status of a payment organisation

AUGUST

- Halyk Bank and Kazkommertsbank make it possible for their clients' payment cards to be topped up in the merged ATM network with no additional commission
- Kazakhinstrakh begins to sell bundled insurance products to individuals, including through Halyk Bank's network
- Halyk Bank and Kazakhstan's postal service, Kazpochta, sign a memorandum of cooperation
- Umut Shayakhmetova and Halyk Bank are recognised among the "Best in 2016" in PwC's "Kazakhstan edition of the 20th Annual Global CEO Survey 2017", which was conducted with editorial support from Forbes Kazakhstan

SEPTEMBER

- Fitch Ratings confirms its long-term issuer default rating for Halyk Finance at 'BB', in foreign and local currency, the outlook 'stable'; its short-term issuer default rating at 'B', in foreign and local currency; and its support rating at '3'
- Fitch Ratings upgrades Kazkommertsbank's long-term ratings to BB-, in foreign and local currency; short-term ratings to 'B'; its strength rating to 'b'; its support rating to '3'; and sets the outlook for the long- and short-term ratings at 'stable'
- PwC Kazakhstan confirms that Halyk Bank's internal audit function complies with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics
- Halyk Bank reopens one of its outlets in Almaty after capital repairs
- Halyk Bank completes successfully the recertification audit for its information security management system's compliance with the ISO/IEC 27001:2013 international standard

OCTOBER

- Altyn Bank is recognised the "Best Subcustodian Bank in Kazakhstan for 2017" by Global Finance
- Kazkommertsbank and Visa launch Homebank Pay, a mobile payment solution that allows customers to use quick response (QR) codes to pay for purchases and makes it possible for businesses to accept cashless payments without point-of-sales terminals, which makes settlement processes simpler and less expensive
- Kazkommerts Securities is recognised the "Best Investment Bank in Kazakhstan" by World Finance

NOVEMBER

- Holding Group ALMEX acquires 25.05% of the common shares of Kazkommertsbank
- Halyk Finance wins EMEA Finance Achievement Awards for a record seventh year in a row: in the "Best Local Currency Bond in EMEA" category, EMEA Finance recognised KazAgroFinance's KZT8 billion, five-year bond, in which Halyk Finance acted as the Sole Financial Adviser and Lead Bookrunner
- Kazteleport registers a new brand, SmartCloud, which will offer the following services for SME customers: Cloud 1C, virtual datacentres (IaaS), and virtual dedicated servers (VDS/VPS)
- Halyk Finance successfully acted as a Joint Bookrunner in US$780 million 10-year Eurobond issuance and placement by National Company Kazakhstan Temir Zholy. This groundbreaking transaction has become an integral part of the issuer's complex liability management project to enhance the Company's debt profile

DECEMBER

- Fitch Ratings confirms its long-term issuer default rating for Altyn Bank at 'BB', in foreign and local currency, and leaves the bank's ratings on Rating Watch Positive, a list of ratings that may be upgraded
- Halyk Finance is recognised at Cbonds Awards 2017 in the "Best Foreign Issuer Deal" category for Kazakhstan Temir Zholy's debut rouble bond placement, a RUB15 billion, five-year placement via KTZh Finance in June 2017 in which Halyk Finance acted as Joint Lead Manager
- Halyk Finance has successfully acted as a Joint Bookrunner in the debut Tenge-denominated KZT 100 bn 3-year Eurobond by Development Bank of Kazakhstan. This transaction has marked the first-ever public Eurotenge bond offering to a wide range of international and domestic investors by a Kazakhstani issuer
- Halyk Bank Kyrgyzstan and Guarantee Fund sign a cooperation agreement to support SMEs in Kyrgyzstan
- Fitch Ratings confirms its long-term issuer default rating for Halyk Bank Georgia at 'BB–', in foreign currency, the outlook 'stable'
- Halyk Bank's Board of Directors approves the integration via merger of Kazkommertsbank into Halyk Bank
- In Global Finance's 18th annual awards, Halyk Bank is recognised the "Best Foreign Exchange Provider in Kazakhstan 2018"

AWARDS

8

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

LEAD
FROM THE FRONT!

AWARDS

CHAMPION

When it comes to a sports match, nothing is more important than victory. Every athlete dreams of winning, because the image of a champion is the embodiment of all the hopes and aspirations of anyone who has devoted his life to sport. However, the championship philosophy is not just limited to illustrious victories and new records. To be the first, to be a champion is to serve the great Olympic idea of triumph in spirit and its great potential.

AWARDS

HALYK BANK

DAMU FUND
Best Bank for Regional Business Support

EUROMONEY
Best Bank in Kazakhstan

GLOBAL FINANCE
Best Foreign Exchange Provider in Kazakhstan in 2018

KASE
Diploma "For Pursuit of Transparency"

Market Leader

HALYK FINANCE

CBONDS
The Best Investment Bank in Kazakhstan 2017

Best Foreign Issuer Deal 2017

EMEA FINANCE
The Best Investment Bank in Kazakhstan 2016

The Best Sub-Sovereign Bond in EMEA

The Best Local Currency Bond in EMEA

KASE
Market Maker of the Year in Corporate Bonds

KAZKOMMERTS SECURITIES

CBONDS
Best Financial Markets research in Kazakhstan

Best Underwriter in Kazakhstan

WORLD FINANCE
Best Investment Bank in Kazakhstan

ALTYN BANK

GLOBAL FINANCE
Best Subcustodian Bank in Kazakhstan for 2017

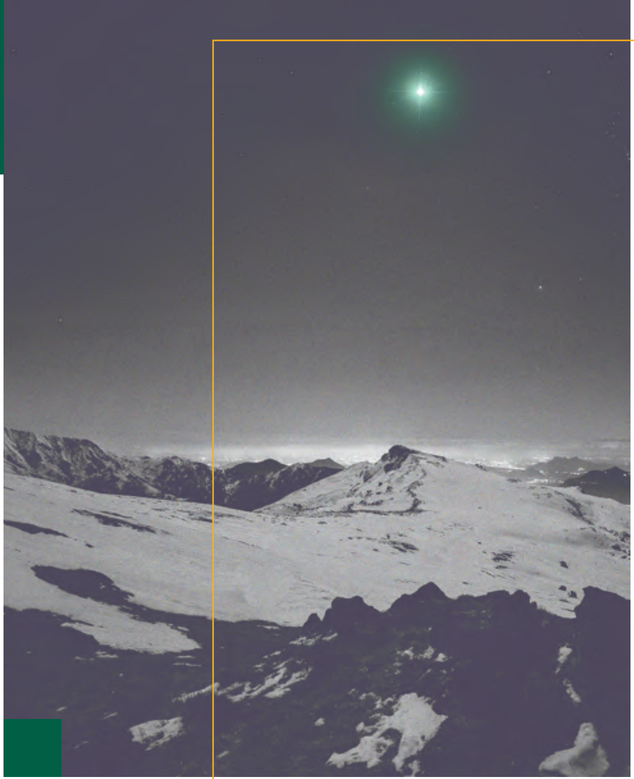
ALTYN BANK'S ALTYN-I BRAND

GLOBAL FINANCE
Digital Banks of Distinction Award

MACROECONOMIC AND BANKING REVIEW

9

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА



LEAD FROM THE FRONT!

MACROECONOMIC AND BANKING REVIEW

FIRST STAR

Sirius, also known as Alpha Canis Majoris, is the brightest star system that appears as the first star in Earth's night sky. Its luminosity exceeds that of our Sun by 22 times. While Sirius' brightness is by no means rare for stars, its record visible brilliance is due to its relative proximity to Earth. Sirius can be seen from any region on Earth, except the northernmost points. Sirius is 8.67 light years away from our solar system and is one of the closest stars to us.

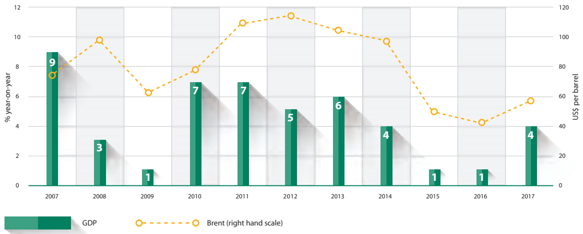
KAZAKHSTAN'S ECONOMY IN 2017

In 2017, Kazakhstan's economy grew 4% after the previous two years of stagnation, slightly outpacing the average global growth of 3.6%. The result was due to a combination of several factors, such as the significant increase in raw material prices, greater production volumes of oil and other natural resources and continued high investment growth, including government spending.

The average annual price of Brent crude during the reporting period rose by US$10 per barrel to US$54 per barrel and prices for key industrial metals climbed by more than 20%. Since October 2017, Brent has hovered above US$60 per barrel.

The main growth drivers were the industrial sector (up 7.1%), transport (up 4.8%), to lesser extent, telecommunications (up 3.3%), trade (up 3.2%), agriculture (up 2.9%) and construction (up 1.9%). Investment played an important role, rising by 5.5%.

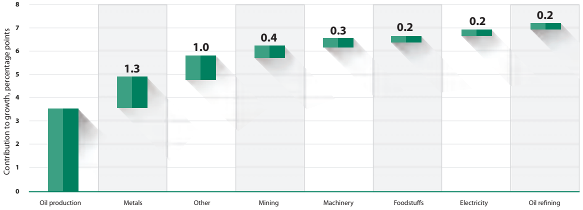
OIL PRICES REINVIGORATE ECONOMIC GROWTH



Sources: Kazakhstan's Ministry of National Economy Statistics Committee, Bloomberg

Half of the industrial sector's growth was due to the increase in oil production at the Kashagan field. Encouraging trends were also seen in metals, oil refining, pharmaceuticals, textile and other industrial sectors. Most of the growth came from the oil-producing Western Kazakhstan, with more moderate improvements in Astana, Almaty and other areas.

AFTER SIX YEARS OF STAGNATION, INDUSTRY GROWS BY 7% IN 2017



Sources: Kazakhstan's Ministry of National Economy Statistics Committee

In 2017, the government's economic stimulus programme continued. Consolidated budget expenditures totalled 25% of GDP, compared with 22% in the previous year. The primary cause for the increase in spending was the injection of KZT2.1 trillion in government funding to support the banking system.

Similar to 2016, the Nurly Zhol government infrastructure programme continued, with KZT472 billion allocated from the state budget in 2017. It is due to run through to 2019 and focuses on infrastructure construction.

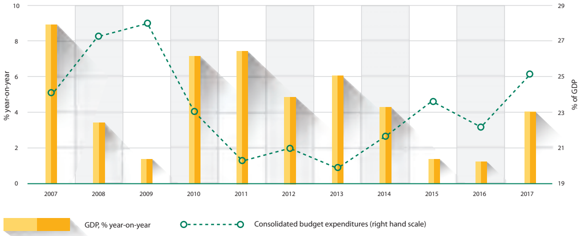
In 2017, the government launched its new Nurly Zher housing construction programme, which will run through to 2031. Roughly KZT140 billion in budget funds have been allocated for the programme, which aims to support a high volume of housing construction and stimulate the acquisition of housing with mortgage subsidies.

Government debt rose moderately during the reporting period to 26% of GDP. On the positive side, the cost of borrowing has fallen, as money market rates have stabilised after the base rate has decreased and the national currency has strengthened.

Tax revenues to the National Fund in 2017 almost doubled to KZT2 trillion. However, transfers from the state budget increased by 50% to KZT4.4 trillion and investment income was some KZT1.6 trillion. In 2017, the total in the National Fund fell by KZT1.3 trillion to KZT23.1 trillion, or 45% of GDP. The reduction in the fund's assets was affected by the allocation of around KZT1 trillion as part of a support package for problem banks totalling KZT2.1 trillion.

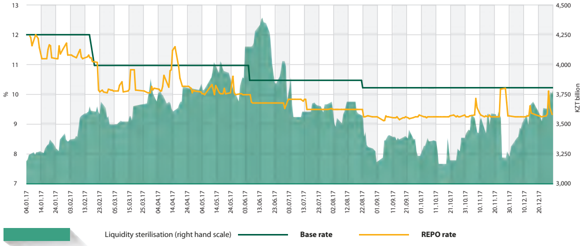
Government agencies worked to improve business conditions for entrepreneurs through adjustments to the Tax Code and Customs Code. The aim is for the private sector to drive economic growth by lowering the barriers to private initiative.

GOVERNMENT SPENDING GROWTH IN 2017 DUE TO BANKING SECTOR SUPPORT



Sources: Kazakhstan's Ministry of Finance and Ministry of National Economy Statistics Committee

MONEY MARKET TRENDS



Sources: Kazakhstan Stock Exchange, National Bank

The consolidated international reserves of Kazakhstan's National Bank and National Fund totalled US$89 billion at the end of 2017. This marks a reduction of US$1.9 billion, as the National Fund's assets fell by around US$3 billion while the National Bank's reserves rose by US$1 billion.

The National Bank gradually eased its monetary policy in 2017, targeting its interventions on the foreign exchange market to smooth fluctuations in the national currency. In the year, the average annual exchange rate of the tenge strengthened by 5% to KZT326 against the US dollar. While the volume of National Bank interventions was low, they had a rather high impact on the foreign exchange rate. In August and September, the National Bank allowed the national currency to weaken substantially, though its monetary policy helped the exchange rate to more adequately reflect the fundamental factors governing the tenge exchange rate.

Throughout the year, inflation remained within the National Bank's corridor of 6-8% and ended the reporting period near the middle of the target at 7.1%, compared with 8.5% in 2016. This helped the base rate to gradually decline by 1.75 percentage points to 10.25% by the end of 2017.

The National Bank continued to soak up excess liquidity using treasury notes, despite the 2.7 percentage point year-on-year reduction in their yield. Short-term money market rates held steady near the lower boundary of the corridor. This helped banks to continue accumulating liquidity despite the reduced appeal of money market instruments. The National Bank used its instruments to sterilise the funds injected to support the banking sector, which caused the amount of liquidity taken from the market to grow in mid to late 2017.

KAZAKHSTAN'S BANKING SECTOR IN 2017

In 2017, Kazakhstan's banking sector underwent massive transformation processes that had a strong impact on its development. The system's hidden issues, including increased problem loan levels and inadequate capitalisation, continued to exert considerable pressure on banks, leading some to merge, lose their banking licences or exit the market. The lack of trust in the banking system among the population and businesses caused a serious deposit outflow. As a result, the banking system's share of the economy shrank in 2017. The share of loans to GDP was 24.6%, compared with 27.1% in 2016[1], and the share of banking assets to GDP totalled 46.8%, compared with 54.4% a year earlier.

The most important event of 2017 was the implementation of the programme aimed at strengthening the banking sector's financial stability. Two parts of the programme had a vital impact on the sector: measures aimed at improving financial stability of Kazkommertsbank, a systemically important bank; and separate measures aimed at improving financial strength of major financial organisations.

Kazkommertsbank's significant and sizable loan portfolio problems grew rapidly in early 2017, threatening major consequences for the entire banking sector. As such, the government's assistance in repaying BTA Bank's overdue loan to Kazkommertsbank, allowing it to retain the funds of depositors and creditors, was one of the most important and timely events.

[1] These and all further figures are sourced from the National Bank's Statistical Bulletin

The state's prompt support with KZT2.4 trillion in funding helped to restore Kazkommertsbank's financial stability, but it still faced the problems of negative capitalisation and disruptions in its operations. Halyk Bank's acquisition of Kazkommertsbank helped to solve these matters. In late 2017, Halyk Bank's Board of Directors approved the integration of the two organisations through the merger of Kazkommertsbank into Halyk Bank.

As part of other measures aimed at improving the financial stability of major banks, by the end of the year, the National Bank had allocated KZT500 billion out of a total of KZT650 billion in financial support approved for 2017. Support included funding in the form of subordinated debt with 15-year maturity at preferential interest rates. As part of this programme, the shareholders of participating banks are expected to recapitalise them to create additional reserves (provisions) on loan losses. Five banks in Kazakhstan received financial support under this programme: Tsesnabank, Bank CenterCredit, ATF Bank, Eurasian Bank and Bank RBK.

In 2017, the banking sector remained awash with liquidity, which banks placed in National Bank monetary instruments. Overall, the volume of funds sterilised by the National Bank rose by KZT649 billion to a gross total of KZT3.8 trillion at the end of 2017 (28% of the loan portfolio held by second-tier banks).

The National Bank's base rate dropped by 1.75 percentage points year-on-year to 10.25% +/–1 percentage point. In January 2018, it was unexpectedly reduced by another 0.5 percentage points to 9.75% +/–1 percentage point, suggesting that the National Bank is working to stimulate bank lending.

Due to the insignificant improvement in the non-energy sectors of the economy in 2017, demand for loans from legal entities remained low, despite the National Bank gradually relaxing its monetary policy. The reduction of the base rate in 2017, however, lead to a rather significant increase only in consumer lending by banks.

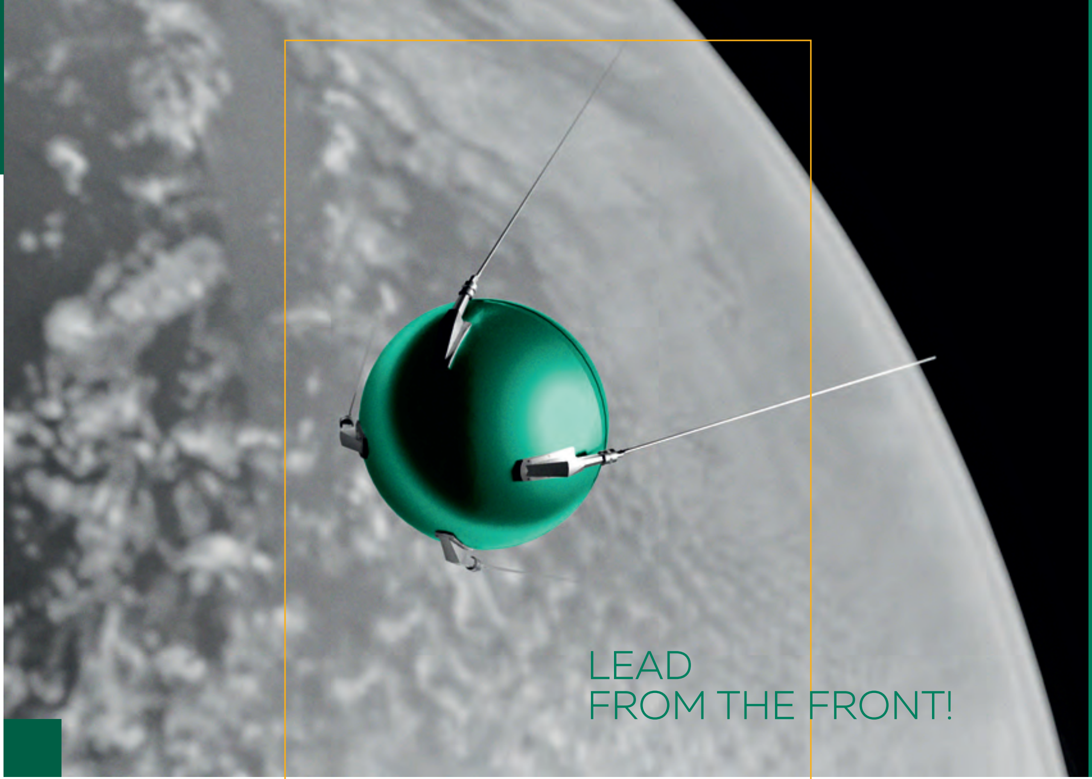
In 2017, credit to the economy decreased by 0.02% to KZT12.7 trillion. The reduced loan portfolio was mostly related to the implementation of the programme to improve the banking sector's financial stability and the partial elimination of problem loans from the sector. Corporate loans fell by 5.8% during the reporting period, while consumer loans grew by 12.4%.

Loan-loss provision levels among second-tier banks rose by 5 percentage points to 15.6% by the year-end. The share of loans overdue by more than 90 days increased by 2.6 percentage points to 9.3% of the loan portfolio, mostly due to the additional problem loans discovered at Kazkommertsbank during the acquisition process. The National Bank and international rating agencies believe that the true level of problem loans in the banking system is significantly higher.

The deposit outflow totalled 3% in 2017, compared with an inflow of 13% in 2016. The sharp drop in corporate deposits during the reporting period (down 8.1%) was partly compensated by an increase in consumer deposits (up 3.7%).

The free-floating tenge exchange rate and large difference in interest rates on foreign currency and tenge denominated deposits resulted in significant decrease of deposit dollarisation levels. The share of deposits denominated in foreign currencies fell by 6.7 percentage points, from 54.5% in 2016 to 47.8% in 2017. This was largely due to foreign-currency deposits of individuals, which share dropped by 9.9 percentage points from 62% to 52.3%.

Compared with 2016, banking margins were negative in 2017 due to the sector's ongoing transformation processes. The overall banking sector posted a net loss of KZT62.3 billion for the reporting period (including closing turnover). Based on the unaudited data, excluding Kazkommertsbank, Bank RBK and Delta Bank, the sector posted a net profit of KZT479 billion in 2017, up 69.2% year-on-year from KZT283 billion in 2016. Again excluding the same three banks, the sector's ROAE was 17.3% in 2017, compared with 10.6% in 2016. When the sector's audited results are released, they could well show an increase in provisioning among participants of the government's programme to improve the banking sector's financial stability.



LEAD
FROM THE FRONT!

FINANCIAL REVIEW
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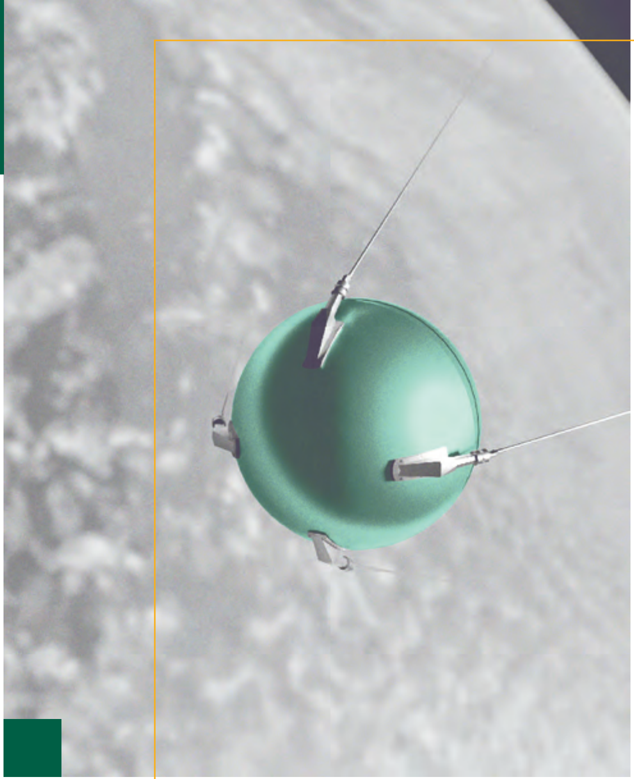
ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА



LEAD FROM THE FRONT!

THE FIRST SATELITE

On 4 October 1957, the USSR launched the world's first artificial Earth satellite into space. This event made it possible not only to collect data about atmospheric density at orbital heights, but also to research the distribution of radio signals in the ionosphere and to issues regarding launches into orbit. The event also marked the beginning of a new era of space exploration by humankind.

FINANCIAL REVIEW

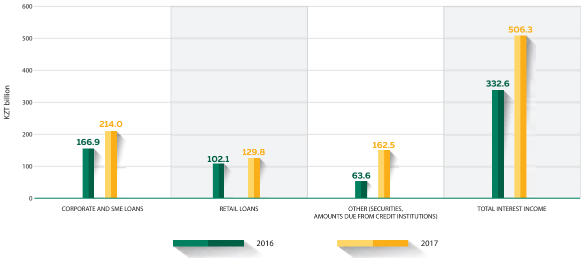
ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

In 2017, the Group's net income increased by 31.9% year-on-year to KZT173.4 billion, driven by a rise in net interest income of 23.5%.

CONSOLIDATED INCOME STATEMENT

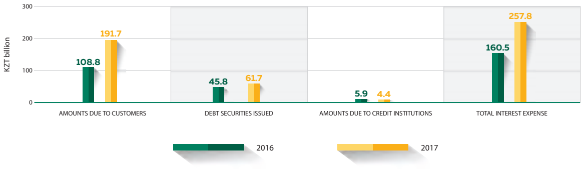
Compared with 2016, interest income grew by 52.3%, spurred by an increase in average balances of interest-earning assets of 51.1%. That itself came mainly from the consolidation of Kazkommertsbank assets in 3Q 2017, as well as Group purchases of National Bank notes starting from 2Q 2016.

INTEREST INCOME BY ASSETS, KZT BILLION



Interest expense grew by 60.6% year-on-year in 2017. This was mostly due to an increase in average balances on interest-bearing liabilities of 42.5%, as well as a rise in average interest rates on amounts to customers (from 3.7% to 4.1% p.a.) and debt securities issued (from 7.7% to 8.5% p.a.) following the consolidation of Kazkommertsbank assets in 3Q 2017.

INTEREST EXPENSE BY LIABILITIES, KZT BILLION

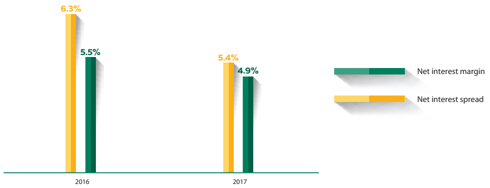


As a result, net interest income before impairment charge increased by 44.5% year-on-year to KZT248.5 billion in 2017.

In 4Q 2017, interest income grew by 8.4% compared with 3Q 2017, due to an increase in average balances of interest-earning assets of 15.7%. Interest expense decreased by 0.9% quarter-on-quarter, due to a decrease in average interest rates on interest-bearing liabilities from 5.5% to 4.7% p.a. As a result, compared with 3Q 2017, net interest income before impairment charge increased by 20.1% to KZT81.7 billion.

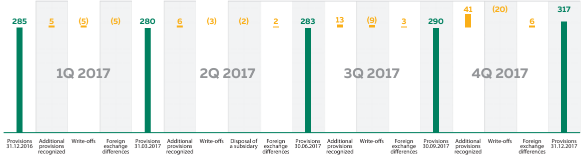
The net interest margin decreased to 4.9% p.a. in 2017, compared with 5.5% p.a. in 2016, mainly driven by Kazkommertsbank's lower net interest margin and the reclassification of Altyn Bank's interest earning-assets into assets held for sale. The net interest margin remained almost flat at 4.9% p.a. for 4Q 2017, compared with 4.8% p.a. for 3Q 2017, while interest rates on the interest-bearing liabilities decreased.

NET INTEREST MARGIN AND NET INTEREST SPREAD



Impairment charge increased by 165.9% year-on-year in 2017, mainly due to the consolidation of Kazkommertsbank's loan portfolio starting from 3Q 2017. The cost of risk rose to 2.2% p.a. in 2017, compared with 1.0% p.a. in 2016, and to 4.8% p.a. in 4Q 2017, compared with 1.1% p.a. for 4Q 2016.

PROVISIONS ON LOANS TO CUSTOMERS, KZT BILLION



Fee and commission income rose by 51.9% year-on-year in 2017, largely as a result of the Kazkommertsbank consolidation, as well as growing volumes of transactional banking, mainly in payment card maintenance, cash operations and bank transfers-settlements.

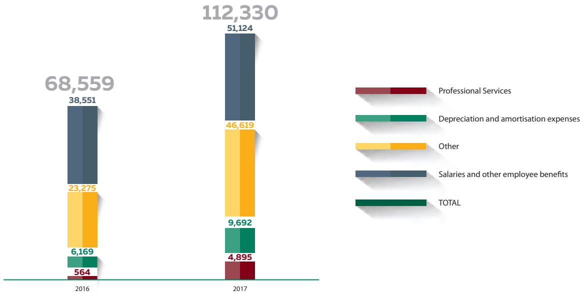
FEE AND COMMISSION INCOME IS DERIVED FROM THE FOLLOWING SOURCES, KZT MILLION

	Year ended 31 December 2017	Year ended 31 December 2016
Payment cards maintenance	23,332	11,116
Bank transfers-settlements	18,943	14,438
Cash operations	18,159	10,353
Servicing customers' pension payments	7,776	6,953
Bank transfers (salary projects)	7,261	6,912
Letters of credit and guarantees issued	5,406	3,818
Maintenance of customer accounts	3,006	1,884
Other	3,757	2,223
	87,640	**57,697**

Other non-interest income increased to KZT106.3 billion in 2017, compared with KZT43.0 billion in 2016. This rise was largely attributable to the consolidation of Kazkommertsbank's insurance subsidiaries, as well as growth in the Group's insurance business. In addition, other non-interest income increased due to a net gain from financial assets and liabilities at fair value through profit or loss, mainly from the Kazkommertsbank consolidation.

Operating expenses (including impairment loss of assets held for sale) climbed by 63.8% year-on-year in 2017, mainly due to the Kazkommertsbank consolidation, as well as an increase in the Group's expenses on salaries and other employee benefits, professional services and taxes. Salaries and other employee benefits increased, driven by higher bonus reserves accrued year-on-year and an overall rise in salaries from 1 June 2017; this was partly offset by a reversal in 3Q 2017 of bonus reserves accrued by Kazkommertsbank. The rise in professional services and taxes was due to external consultancy fees in connection with the purchase of Kazkommertsbank and sale of 60% in Altyn Bank.

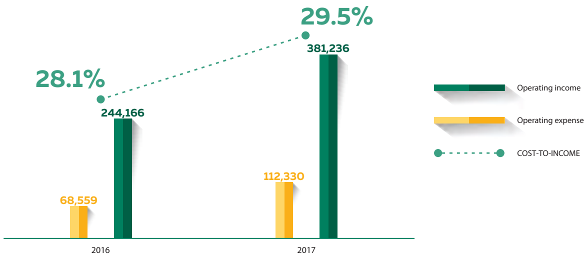
OPERATING EXPENSES, KZT MILLION*



* including impairment loss of assets held for sale

The Group's cost-to-income ratio increased to 29.5% in 2017, compared with 28.1% in 2016, amid faster growth in operating expenses versus operating income. Operating income rose by 56.1%, driven by higher interest income, net fees and commissions, a positive revaluation of derivative instruments in 3Q 2017 and a realised net gain on trading operations in 4Q 2017.

COST-TO-INCOME RATIO



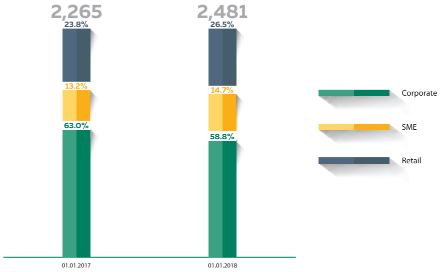
FINANCIAL REVIEW

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In 2017, total assets increased by 65.6% year-on-year, mainly due to the Kazkommertsbank consolidation. Compared with 2016, the Group's assets, excluding those of Kazkommertsbank, rose by 3.1%, mainly due to loan and securities portfolio growth.

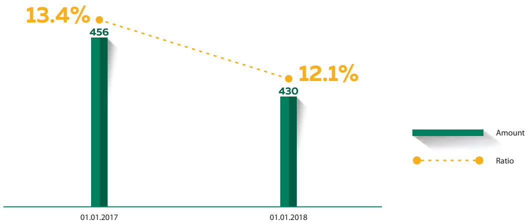
Compared with 2016, loans to customers increased by 37.0% on a gross basis and 40.2% on a net basis, driven by the consolidation of Kazkommertsbank's loan portfolio.

TOTAL GROSS LOANS BY SECTORS, KZT BILLION



The aggregate 90-day NPL ratio for Halyk Bank and Kazkommertsbank was 12.1% at the end of 2017, compared with 13.4% as at 30 September 2017. This decrease was mainly due to the write-off and repayment of problem loans by Halyk Bank and Kazkommertsbank.

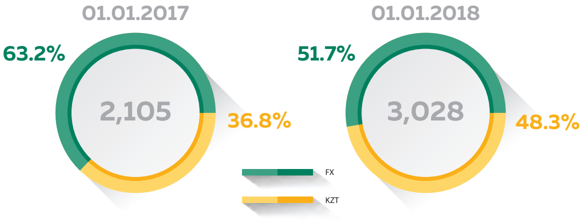
NPL 90 DAYS+, KZT BILLION



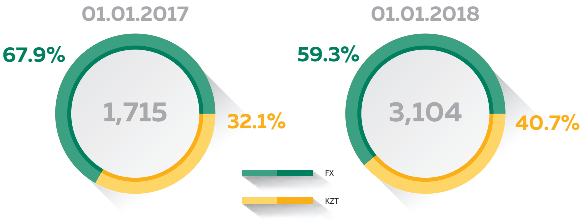
Allowances for loan impairment increased by 11.4% year-on-year in 2017, mainly as a result of additional provisions created against impaired loans in the portfolios of Halyk Bank and Kazkommertsbank.

Deposits of legal entities and individuals rose by 43.8% and 81.0%, respectively, compared with 2016, mainly due to the consolidation of Kazkommertsbank assets and liabilities. As at 31 December 2017, the share of tenge deposits in total corporate deposits was 48.3%, compared with 52.1% as at 30 September 2017 and 36.8% at the end of 2016. Meanwhile, the share of tenge deposits in total retail deposits was 40.7%, compared with 37.7% as at 30 September 2017 and 32.1% at the end of 2016.

DEPOSITS OF LEGAL ENTITIES BY CURRENCY, KZT BILLION



RETAIL DEPOSITS BY CURRENCY, KZT BILLION



Amounts due to credit institutions increased by 57.4% year-on-year in 2017, mainly due to Group REPO transactions with the Kazakhstan Stock Exchange in 4Q 2017 and the consolidation of Kazkommertsbank in 3Q 2017. At the end of 2017, 47.5% of the Group's obligations to financial institutions was represented by loans from the KazAgro national management holding, DAMU development fund and Development Bank of Kazakhstan. They were drawn in 2014-17 as part of government programmes supporting certain sectors of economy.

Compared with 2016, debt securities issued increased by 64.5%, mainly due to the consolidation of Kazkommertsbank's securities portfolio in 3Q 2017. At the end of 2017, the Group's debt securities portfolio was as follows:

Description of security	Nominal amount outstanding	Interest rate	Maturity date
ISSUED BY HALYK BANK			
Eurobond	US$500 mln	7.25% p.a.	January 2021
Local bonds placed with the Unified Accumulative Pension Fund	KZT100 bln	7.5% p.a.	November 2024
Local bonds placed with the Unified Accumulative Pension Fund	KZT131.7 bln	7.5% p.a.	February 2025
ISSUED BY KAZKOMMERTSBANK*			
Eurobond	US$300 mln	8.5% p.a.	May 2018
Eurobond	US$750 mln	5.5% p.a.	December 2022
Subordinated coupon international bonds	US$ 100 mln	USD Libor + 6.1905%	Perpetual
Local bonds	KZT94.2 bln	8.75% p.a.	January 2022
Local bonds	KZT59.9 bln	8.4% p.a.	November 2019
Subordinated coupon bonds	KZT101.1 bln	9.5% p.a.	October 2025
Subordinated coupon bonds	KZT3.5 bln	inflation indexed (currently 8.9% p.a.)	April 2019
Subordinated coupon bonds	KZT10 bln	inflation indexed (currently 8.0 % p.a.)	November 2018

* Excluding debt securities of Kazkommertsbank's Russian subsidiary totalling RUB121.2 million

In 2017, total equity increased by 40.4% year-on-year. This was mainly due to the net profit earned by the Group in the year, as well as the Kazkommertsbank consolidation in 3Q 2017 and the additional capital injection of KZT65.2 billion into it by the Group's major shareholder, Holding Group Almex, on 15 November 2017.

At the end of 2017, the capital adequacy ratios were as follows:

	01.01.2018	01.10.2017*	01.07.2017*	01.04.2017*	01.01.2017
CAPITAL ADEQUACY RATIOS, UNCONSOLIDATED:					
HALYK BANK					
K1-1	21.5%	20.2%	22.1%	21.3%	19.2%
K1-2	21.5%	20.2%	22.1%	21.3%	19.2%
K2	21.4%	20.1%	22.1%	21.3%	19.2%
KAZKOMMERTSBANK					
K1-1	18.0%	13.1%			
K1-2	19.9%	15.0%			
K2	26.9%	10.3%			
CAPITAL ADEQUACY RATIOS, CONSOLIDATED:					
CET	16.9%	15.4%	21.6%	21.5%	19.4%
Tier 1 capital	16.9%	15.8%	21.6%	21.5%	19.4%
Tier 2 capital	18.9%	17.8%	21.6%	21.5%	19.4%

* The regulator increased minimum capital adequacy requirements starting from 1 January 2017: K1 – 9.5%, K1-2 – 10.5% and K2 – 12.0%, including a conservation buffer of 3% and systemic buffer of 1% for each of them.

BUSINESS
REVIEW
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ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK
BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

LEAD FROM THE FRONT!

BUSINESS REVIEW

LOCOMOTIVE

The word "locomotive" combines two Latin words: loco and motivus, denoting the process of shifting from a place. Locomotives vary by type of engine, the most common being the legendary steam trains, electric locomotives and diesel locomotives. At the head of a train, it is the locomotive that sets the movement for other wagons. One interesting note: the power and energy of a locomotive inspired the Lumiere brothers to create the first ever film.

КАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

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

In 2017, the deposit portfolio among second-tier banks in Kazakhstan increased by KZT312 billion (around 3.94%) to KZT8.2 trillion, of which Halyk Bank accounted for KZT1.64 trillion. The Bank retained its leading position with a market share of 19.89%, compared with 20.65% as of 1 January 2017, and a share of term deposits of 19.14%, compared with 19.88% at the start of the year.

The Bank's retail deposits expanded by KZT2,243 million during the reporting period.

In 2017, the Bank introduced a new retail deposit product:

- HALYK-EXCELLENCE DEPOSIT. This product offers customers the ability to open a deposit via the online banking system with a minimum initial deposit/balance of KZT5,000 or US$20.

The deposit is aimed at increasing the number of remote sales channel users and meets clients' expectations for opening deposits without visiting the Bank's branches.

RETAIL LENDING

Halyk Bank's retail loan portfolio grew by 3.7% year-on-year in 2017. The main driver of retail lending was consumer loans, which accounted for more than 72% of the Bank's overall loan portfolio. The total amount of retail loans issued during the year was KZT313 billion.

In 2017, the Bank's share of the retail lending market was 14.98%.

During the reporting period, the Bank introduced the following new retail lending products:

- UNSECURED LOANS WITH LIFE INSURANCE. This product aims to provide retail loans to residents of Kazakhstan who are part of the Bank's payroll project and would like to obtain life insurance in case of an accident. The product was implemented in partnership with Halyk-Life.
- HALYK LIGHT DEFERRED PAYMENT CARD. This card has a set renewable limit for the purchase of goods or services in the Bank's partner network. All purchases are split into equal payments depending on the chosen term of three, six, nine or 12 months. For terms of three or six months, purchases are offered without advance payment or interest. The partner network currently includes more than 350 retail outlets in Almaty and Astana.

Halyk Bank also updated its loyalty programme to reward customers with cash back or bonuses. Throughout the year, the Bank has conducted numerous local and global campaigns focused on individual brands, like Costa, Marwin and Actual Optic, or entire sectors, awarding bonuses for purchases in any store belonging to a given retail segment. The largest campaigns were:

- Bonuses of up to 10% on purchases using Halyk Bank cards in any restaurant or cafe. This campaign covered 22% of all customers using cards for payment.
- Bonuses of up to 3% on purchases using Halyk Bank cards at any fuel station, as well as to purchase air or rail tickets to anywhere in the world. A total of 30% of customers using cards for payments received rewards.
- Bonuses of 3% for purchases in any store selling children's clothing, shoes, toys and stationery supplies. The coverage of customers paying with cards was 15%.
- Cash back of 3% for purchases in any store selling women's, men's and children's clothing and shoes, as well as toys and stationery supplies. The coverage of customers using cards for payment was 15%.
- Bonuses of 3% for shopping at major supermarkets in Kazakhstan, including Magnum, Ramstor, Interfood, Galmart, Lider, Firkan, Korzinka and other major regional stores. These campaigns covered 50% of customers using cards for purchases and two-thirds of card turnover for food products among Halyk Bank customers.

PAYMENT CARDS

As of 1 January 2018, the number of active payment cards issued by second-tier banks was 9,881.7 thousand. Halyk Bank remained the market leader with a share of 40% (3,945.1 thousand).

In 2017, the Bank introduced the following new payment card products:

- MULTI-CURRENCY CARD. This is a debit card with a package of services offering access to three (tenge, US dollar and either euro, rouble or yuan) or five (tenge, US dollar, British pound, euro and either rouble or yuan), as well as a 20-digit card account in tenge and foreign currencies (the tenge account is required). The main advantages of this offering include:
  - Funds are converted within one working day of a payment or transfer
  - Free conversion among accounts
  - When using the payment card, the system independently determines which card account to use depending on the currency of the transaction, eg transactions in the US will be made in U.S. dollars, in euros - in Europe, in yuan - in China and so on.
- NEW MASTERCARD WORLD BLACK EDITION. This is a debit card aimed at the premium segment that is issued as part of a VIP package, including the following main privileges and services:
  - Preferential access to Lounge Key VIP lounges

- Concierge service
- Up to EUR750,000 in insurance from Mastercard
- Up to US$100,000 in insurance from Kazakhinstrakh
- Free SMS notifications

- **UPOP ISSUING PROCESS.** This product offers the possibility to pay on retail sites using the Bank's UnionPay international payment system cards
- **VIP LOUNGES.** On 1 August 2017, the Bank signed an agreement with the Visa and Mastercard payment systems and Lounge Key allowing automatic payment for preferential access to VIP lounges
- **3D SECURE.** In April 2017, the 3D Secure product was introduced to eliminate the inconvenience to customers caused by automatic limits set for online card transactions. The service works as follows:
  - If the retailer's site supports the 3D Secure technology, payment will not be made until the 3D Secure password has been entered and the limit does not need to be removed
  - If the retailer's site does not support the 3D Secure technology, the limit needs to be removed

PAYROLL PROGRAMMES

Payroll programmes are one of the Bank's main strategic services. In 2017, the volume of payroll transfers climbed by 5% year-on-year, while the number of active cards in circulation grew by 2%.

In 2017, a total of 21,870 businesses used our payroll services.

SOCIAL PAYMENTS

As one of the main financial institutions that has been disbursing social payments in Kazakhstan since 1996, Halyk Bank serves around 2.1 million pensioners and recipients of benefits. It accounts for 62% of social payments in Kazakhstan.

PREMIUM ZONES

To improve the level and quality of service for middle-market customers, the Bank has opened premium service zones. As of 1 January 2018, a total of 26 premium zones were serving more than 10,000 customers.

REMOTE SALES CHANNELS

As of 1 January 2018, the share of payments made via remote sales channels totalled 77%. The number of payments via remote sales channels increased by 100,000, or 1% year-on-year, and the volume of payments climbed by KZT20.5 billion tenge, or 32% year-on-year.

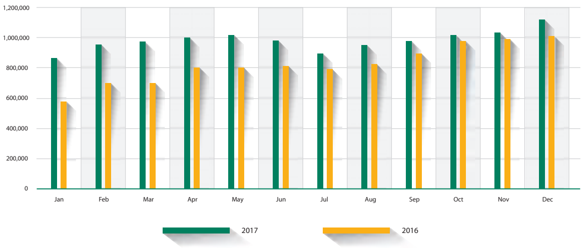
In 2017, the following improvements were made to Halyk Bank's network of payment terminals:

- Cash deposits began to be accepted for credit cards opened by retail customers at Altyn Bank
- The ability was added to generate statements for card, current and savings accounts opened at the Bank
- The fee for retail customers making payments to Zhilstroysberbank was cancelled
- Pilot operations were launched for an updated interface menu for the payment terminals
- The Halyk Electronic Wallet service was expanded to all payment terminals of the Bank
- Cash deposits began to be accepted for debit, credit and virtual cards and retail current and savings accounts opened at Kazkommertsbank

During the reporting period, more than 500 service providers were added to the system.

In 2017, the total number of transactions conducted via the Bank's payment terminal network rose by 19% year-on-year to 11.9 million transactions, compared with 10 million transactions in 2016.

NUMBER OF TRANSACTIONS USING HALYK BANK'S PAYMENT TERMINALS, 2016-17



REMOTE SERVICES FOR INDIVIDUALS

In 2017, the design of MyHalyk online banking platform was updated and optimised. To increase sales of the Bank's products, the ability was added to issue debit cards, with or without a package, open a current account and the new Halyk-Excellence deposit. Registration was also simplified without requiring the addition of a phone number via the Bank's ATMs. New services were also introduced, including SMS notifications, email statements and auto-payments.

These updates were made to the myHalyk mobile application at the same time. The application also received new functions, including fingerprint authorisation, exchange rates, transaction history analytics and other functions. The myHalyk application has been installed more than 1.1 million times in Google Play and the App Store.

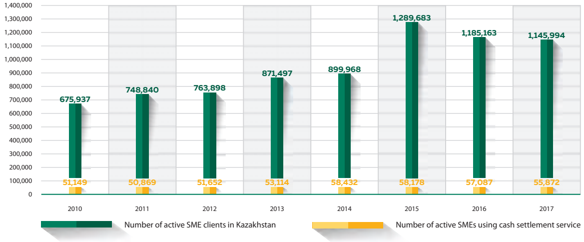
The number of service providers to which customers can submit payments via the online banking platform has been expanded to more than 1,850.

To encourage customers to use remove sales channels and increase loyalty, various campaigns have been conducted and fees have been eliminated for paying utility bills and issuing virtual cards in the retail online banking system.

In 2017, the number of retail customers using remote services climbed by 31% to 1,204 thousand and online banking customers made more than 7.4 million payments and transfers.

SME BANKING

As of 1 January 2018, the Bank had 57,872 SME clients, including 5,309 borrowers, and had issued 16,241 SME loans*.



* According to the Statistic Committee of the Ministry of National Economy's data for 2014, the number of individual entrepreneurs is based on the data of the State Revenue Committee of the Ministry of Finance (excluding agriculture). The sharp increase in 2015 was caused by the enactment of Kazakhstan's "Law on Private Entrepreneurship", which stated that for statistics purposes, data on SMEs could be categorised as such based on number of employees only ("On amending certain legislative acts of the Republic of Kazakhstan to reduce permits and optimise the control and supervisory functions of state bodies"). The information about SMEs takes these changes into account.

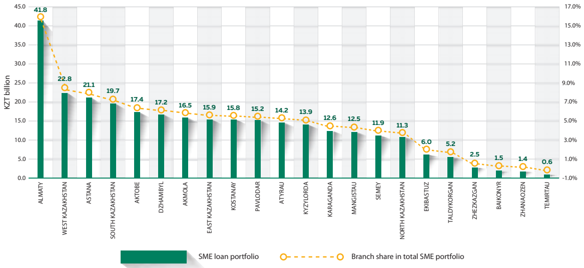
Of the total number of SME clients, there were:

- 13,150 clients using two products, an increase of 0.74% year-on-year from 13,053 in 2016

The following trends were visible in SME lending:

- The Bank's SME loan volumes are increasing steadily, up 46% year-on-year from KZT234.5 billion in 2016 to KZT343.3 billion in 2017
- The Bank is working to improve the quality of its SME loan portfolio, which led to a significant reduction in its problem SME loan portfolio (down 16% year-on-year) and an increase in the standard (non-problem) SME loan portfolio (up 25% year-on-year) since the start of the year
- The Bank is strengthening its position on the documentary market; the annual average portfolio of uncovered (supported by collateral) bank guarantees issued by the Bank surged by 83% year-on-year from KZT10.9 billion in 2016 to KZT19.8 billion in 2017

By region, as of 1 January 2018, the largest shares of the SME portfolio were 14.1% for Almaty region, 7.7% for West Kazakhstan region, 7.1% for Astana region, 6.6% for South Kazakhstan region and 5.9% for Akmola region.



Throughout 2017, Halyk Bank played and continues to play an active role in state programmes together with the Damu Entrepreneurship Development Fund to support business in Kazakhstan.

As of 1 January 2018, 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 KZT263.8 billion (including the corporate loan portfolio), or 14.3% of overall loans from second-tier banks subsidised under the programme, placing it second.

Of the 10,421 participants in the programme approved for loan subsidies, the Bank works with 18.3%, or 1,910 projects, placing it first.

The Bank also provides loans to private businesses guaranteed by the Damu Entrepreneurship Development Fund. Since beginning this, the parties have signed 834 deeds of guarantee, or 22.3% of the 3,747 agreements signed with the fund. At the same time, the amount of guarantees allocated to the Bank by the fund totalled KZT13.5 billion, or 23.5% of the overall KZT 57.5 billion volume of guarantees provided by the fund to customers of second-tier banks. For each of these indicators and overall, the Bank ranks first 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 Entrepreneurship Development Fund. Since April 2014, the government has allocated KZT32 billion for its programme to support SMEs in the processing industry. Through the programme, including funds that have been reused after repayment, the Bank has funded 310 projects for a total of KZT74.6 billion. 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 R egional SME Financing Programme funded by the Damu Entrepreneurship Development Fund and regional governments. As of 31 December 2017, the programme included 10 of Kazakhstan's regions (Almaty region, Aktobe region, Atyrau region, Mangistau region, Kyzylorda region, Western Kazakhstan region, Kostanay region, Northern Kazakhstan region, Dzhambyl region and Eastern Kazakhstan region) and the city of Almaty. The Bank has signed 24 agreements with the fund for a total amount of KZT8.2 billion.

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 1 January 2018, more than 80% of the total funds allocated within the programme had been used.

In August 2017, the Bank began to implement a programme to develop productive employment and mass entrepreneurship. As of 31 December 2017, the bank had placed KZT3.6 billion in 10 of Kazakhstan's regions (Almaty region, Eastern Kazakhstan region, Dzhambyl region, Western Kazakhstan region, Karaganda region, Kyzylorda region, Pavlodar region, Southern Kazakhstan region, Kostanay region and Akmola region) and the cities of Almaty and Astana.

In December 2017, the Bank began to implement the "Nurly Zher" housing construction programme to stimulate home construction by private builders and signed the first subsidy contract.

In Astana in June 2014, Halyk Bank and the National Chamber of Entrepreneurs signed a 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 consideration 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 18,032 clients have been consulted since the memorandum was signed, of which 10,759 (60%) sought consultation regarding government programmes and 7,273 (40%) for other issues. In addition, in 2017, the Bank and the National Chamber of Entrepreneurs conducted the "Smart Customer" seminar, which was attended by 516 potential clients and 216 existing customers.

CORPORATE BANKING

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

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. 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. The Bank offers its clients a range of solutions that are being improved and 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 certain problems.

As a result of this work, Halyk Bank managed to agree about cooperation not only with local businesses but also 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 in Kazakhstan.

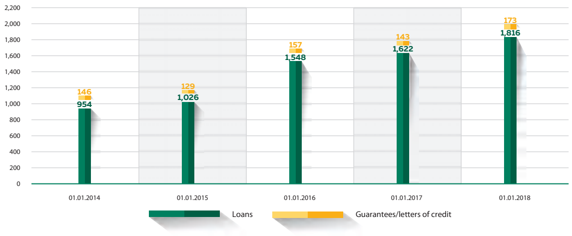
In the corporate cash settlement business, the Bank continues to focus closely on developing remote service technologies, adding new features to its internet banking for legal entities. For most corporate clients, the features of the system have been customised to companies' organisational structures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

Direct integration of 1C Kazakhstan with the online banking system for corporate customers allows direct exchange of payments and statements.

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 has allocated KZT16 billion, while in 2017, 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.

Halyk Bank's independent funding gives it a competitive market advantage and allows it to focus on the most attractive projects, which helped to increase and to improve loan portfolio quality in 2017. The Bank has the highest level of capitalisation among banks in Kazakhstan, which allows it to consider major projects.

CHANGE IN HALYK BANK'S CORPORATE PORTFOLIO (KZT BLN)



The Corporate Banking division delivered solid results overall in 2017. Halyk Bank expanded its major corporate client base, attracted new borrowers and increased its interest income by more than 9%. By the year-end, the corporate client base stood at 1,672 corporate clients, including 279 borrowers, compared with 1,621 corporate customers and 230 borrowers in 2016. 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 develop and 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. In 2017, Halyk Bank counted around 50% of Kazakhstan's major taxpayers and 62 of the 100 largest companies in the country among its clients.

SUBSIDIARIES

ASSETS OF SUBSIDIARIES AS OF 1 JANUARY 2018

Name	Assets, KZT billion	Market share by assets, %
Kazkommertsbank	3,574	14%
Halyk bank Georgia	55	1%
Halyk Finance	32	19%
Altyn Bank	389	2%
Kazakhinstrakh*	52	8%
Moskommertsbank	134	0.029%
Kazkommerts-Policy*	38	6%
Kazkommerts Securities	18	10%
Halyk-Life**	65	23%
Kazkommerts Life**	62	22%
Halyk Bank Kyrgyzstan	26	3%
Halyk Leasing	7	n/a
KUSA KKB-3	25	n/a
Halyk Project	47	n/a
NBK-Bank	34	0.01%

Name	Assets, KZT billion	Market share by assets, %
Kazkommertsbank Tajikistan	28	3.49%
Halyk Collection	4	n/a
Kazteleport	3	n/a
Qpayments	1	n/a
KUSA KKB-1	5	n/a
KUSA KKB-2	21	n/a

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

BANKING

KAZKOMMERTSBANK

Kazkommertsbank is one of the largest financial institutions in Central Asia and has an extensive nationwide branch network. As a universal bank, Kazkommertsbank offers a wide range of banking services to corporate and retail customers, as well as SMEs.

On 5 July 2017, Halyk Bank acquired 96.81% of Kazkommertsbank's common shares from Kenges Rakishev (86.09%) and the Samruk-Kazyna Sovereign Wealth Fund (10.72%).

Following Kazkommertsbank's additional open placement of common shares, the Bank's stake in Kazkommertsbank fell to 74.7% as of 15 November 2017 and Holding Group ALMEX acquired 25.05% of Kazkommertsbank's common shares to become a principal shareholder in the bank.

On 8 December 2017, Halyk Bank's Board of Directors approved the integration of Kazkommertsbank via merger into Halyk Bank, which will be completed after all necessary procedures have been followed, including receiving the relevant approvals with regulatory bodies.

ALTYN BANK (SUBSIDIARY OF HALYK BANK)

Altyn Bank is a universal bank that offers a wide range of products and services to both retail customers and corporate clients.

At the year-end, Altyn Bank had assets of KZT388.6 billion, a gross loan portfolio of KZT118.1 billion and total equity of KZT53.8 billion. In 2017, it generated net income of KZT9.4 billion.

In June 2017, Halyk Bank signed an agreement with CITIC Bank and China Shuangwei Investment Company, Ltd regarding the sale of a 60% stake in Altyn Bank. The deal is expected to be completed in the first half of 2018.

In July 2017, Moody's Investors Service upgraded its standalone credit rating for Altyn bank from "Ba3" to "Ba2" and confirmed the bank's long- and short-term deposit ratings at "Ba2/Not Prime". The outlook on the bank's long-term deposit rating of "Ba2" was changed from "negative" to "stable".

In July 2017, the Altyn-i brand received Global Finance "Digital Banks of Distinction Award" and in October 2017 the magazine recognised Altyn Bank "The Best Subcustodian Bank in Kazakhstan for 2017".

OVERSEAS BANKS

The Bank provides banking services in Russia, Kyrgyzstan, Georgia, and Tajikistan through its subsidiaries in those countries.

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 2017, it had total assets of GEL427.7 million (KZT54,809 million), a gross loan portfolio of GEL333.2 million (KZT42,699 million) and total equity of GEL71.3 million (KZT9,134 million). In 2017, it generated net income of GEL11.86 million (KZT1,552 million). Last year, it launched a new remote banking service for retail and corporate customers.

In December 2017, Fitch Ratings confirmed its long-term issuer default rating for Halyk Bank Georgia of 'BB-', in foreign currency, the outlook 'stable'.

The bank also completed the relocation of its branch in Didube. The new location is better situated in the city and should help attract additional customers.

HALYK BANK KYRGYZSTAN

Halyk Bank Kyrgyzstan is a commercial bank incorporated in Kyrgyzstan that positions itself as a universal bank. As of 31 December 2017, it had total assets of SOM5,424 million (KZT26,197 million), which was SOM84 million (KZT568 million) higher than a year earlier, while its total equity was SOM1,527 million (KZT7,377 million). In 2017, it reported net income of SOM88 million (KZT411 million).

Today, Halyk Bank Kyrgyzstan has four branches in Bishkek and five in major regional centres.

The Bank has worked to expand the range and improve the quality of services provided. It has received a licence from Visa for Trade Acquiring and Online Commerce services and joined the Elkart national card partner network, which allowed it to expand its acquiring network by 200 ATMs and 450 payment terminals throughout the republic and introduced the ability for customers to pay their mobile phone bill via the Bank's ATMs. It has also resumed auto lending.

The Bank has signed an agreement to serve pensioners with Kyrgyzstan's Social

Fund. It has also worked to conclude an agreement with the State Mortgage Company that is planned to be signed in early 2018.

NBK-BANK

NBK-Bank is a 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 2017, it had total assets of RUB5,874 million (KZT33,893 million) and total equity of RUB164 million (KZT946 million). In 2017, its gross loan portfolio totalled RUB4,279 million (KZT24,690 million).

MOSKOMMERTSBANK

Moskommertsbank is a 100% subsidiary of Kazkommertsbank. It is a commercial bank registered in Russia that focuses on SME lending, corporate banking, bank guarantees, acquiring in retail service outlets and retail banking.

As of 31 December 2017, based on unaudited financials, it had assets of RUB23,260 million (KZY138,284 million), a gross loan portfolio of RUB10,046 million (KZT57,965 million) and total equity of RUB2,929 million (KZT20,974 million). In 2017, it reported a net loss of RUB1,836 million (KZT6,459.5 million).

In 2017, Moskommertsbank was recapitalised with RUB1.1 million, increasing its capitalisation from RUB2.9 million to RUB4 million.

KAZKOMMERTSBANK TAJIKISTAN

Kazkommertsbank Tajikistan is a subsidiary of Kazkommertsbank and was the first subsidiary bank in Tajikistan with 100% foreign capital. As of 31 December 2017, it had assets of TJS 731.5 million (KZT27,563 million), total equity of TJS 100.7 million (KZT3,794 million) and a gross loan portfolio of TJS 52.1 million (KZT1,913 million). In 2017, it reported net income of TJS 23.8 million (KZT897 million).

In December 2017, Kazkommertsbank Tajikistan won the Brand of the Year Golden Award in the "Financial services" category. In 2017, it also joined the Mastercard international payment system, began independently issuing banking cards, expanded its POS terminal network and launched an online banking platform.

INSURANCE

KAZAKHINSTRAKH

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

As of 31 December 2017, Kazakhinstrakh was one of the largest general insurance companies in Kazakhstan with net premiums rising by 4% (KZT0.5 billion) to KZT13.1 billion.

At the year-end, Kazakhinstrakh had total assets of KZT51.7 billion for a market share of 8%, while its net income for the year was KZT4.5 billion, ranking it third in terms of assets among general insurance companies.

In April 2017, A.M. BEST confirmed its financial stability rating for Kazakhinstrakh at "B++" (Good) and its issuer credit rating at "bbb", the outlook "stable".

In 2017, Kazakhinstrakh retained its position in the corporate sector while becoming more active in the retail insurance market. It strengthened its position in auto insurance (compulsive insurance for vehicle owners and voluntary auto insurance) and began to promote its retail products via the Bank's and Company's widespread network of offices. In 2017, to further develop its retail insurance business, the Company developed basket insurance products, a unique offering on Kazakhstan's market.

In 2017, Kazakhinstrakh upgraded to a new version of the Siebel CRM insurance accounting system, which greatly simplified the creation of insurance products, allowed the underwriting process to become fully automated and made it possible for system users to generate reporting with in-depth analysis. The new version of Siebel CRM Insurance is also fully integrated with the front office systems of the company and its partners, which allows sales departments to continue working with a familiar interface with no additional time costs.

KAZKOMMERTS-POLICY

Kazkommerts-Policy is a Kazkommertsbank subsidiary and one of Kazakhstan's largest general insurers. It is among the top five general insurance companies in the country in terms of assets, which totalled KZT38.0 billion as of 31 December 2017. In 2017, the company's net premiums rose by 15%, or KZT1.3 billion, to KZT9.5 billion and its net income was KZT3.0 billion.

In December 2017, A.M. BEST confirmed its rating of "B+" for the Kazkommerts-Policy. The company provides Medi-Service medical assistance to more than 72,000 customers and its voluntary medical premiums total KZT3.6 billion.

HALYK-LIFE

Halyk-Life offers various types of personal insurance products, including life, annuity, accident and medical insurance products. As of 31 December 2017, it had total assets of KZT64.7 billion, an increase of nearly a third, or KZT14.6 billion. Halyk-Life holds the leading position on the life insurance market and collected gross premiums totalling around KZT36.7 billion in the reporting period.

In 2017, it generated net income of KZT2 billion and its share of life insurance premiums was 36%, according to the National Bank of Kazakhstan.

In 2017, Halyk-Life launched Halyk-Retail, a joint project with the Bank to insure borrowers. It also established a partnership to ensure borrowers with ATF Bank.

KAZKOMMERTS LIFE

Kazkommerts Life is a subsidiary of Kazkommertsbank that provides life insurance and was established in 2006. It provides a wide range of life insurance products, including unique offerings that have their own specialised after-sales customer service teams and specialised IT programmes.

As of 31 December 2017, it had assets of KZT61.8 billion, up by 12% (KZT6.8 billion) year-on-year. Kazkommerts Life is among the top three life insurance companies in Kazakhstan in terms of assets. In 2017, its gross premiums totalled KZT12.1 billion. It is in fourth place in the national insurance market in terms of gross and net premiums, according to National Bank data. In 2017, it reported net income of KZT3.4 billion.

LEASING

HALYK-LEASING

Halyk-Leasing was one of the first leasing companies in Kazakhstan. Its primary focus is acquiring and transferring special equipment under financial lease, including heavy, construction, roadmaking, industrial, oilfield, mining, extracting and agricultural equipment, as well as commercial vehicles for cargo and passenger transport, etc.

As of 31 December 2017, it had assets of KZT7,063 million and a net loss of KZT818.6 million, of which KZT690 million was related to the gratuitous transfer of the Maraldy Sai Training and Recreation Centre to the Almaty Region Finance Department for charitable needs. The regional administration plans to open a children's health camp at the complex, which will operate year-round.

Halyk Leasing also has a branch in Chelyabinsk, Russia.

INVESTMENT BANKING

HALYK FINANCE

Halyk Finance is one of Kazakhstan's leading investment houses. It provides a full range of brokerage services, asset management, investment research, consulting and underwriting.

As of 31 December 2017, Halyk Finance had total assets of KZT31.8 billion. Its net income in 2017 was KZT3.5 billion.

As of 31 December 2017, Halyk Finance's own investment portfolio was KZT29.6 billion.

In 2017, the company was once again recognised with awards from prominent information agencies and authoritative publications, including Cbonds and EMEA Finance.

In September 2017, Fitch Ratings confirmed its long-term issuer default rating for Halyk Finance at “BB”, in foreign and local currency, the outlook 'stable', and its short-term issuer default rating at “B”, in foreign and local currency.

KAZKOMMERTS SECURITIES

Kazkommerts Securities is a subsidiary of Kazkommertsbank and a leading investment bank in Kazakhstan. The company offers a wide range of brokerage, asset management, investment research, consulting and underwriting services.

As of 31 December 2017, it had assets of KZT17.85 billion. In 2017, it reported net income of KZT2.85 billion.

As of the year-end, Kazkommerts Securities' proprietary investment portfolio stood at KZT17.2 billion.

In 2017, the company was once again recognised with awards from prominent information agencies and authoritative publications, including Cbonds and World Finance.

TELECOMMUNICATIONS

KAZTELEPORT

Kazteleport provides a wide range of telecommunication and IT services, including for Halyk Bank and its subsidiaries, as well as processing services to route authorisation requests among banks connected to Kazteleport. It is working to expand its data processing centre services and launched new cloud offerings in 2017.

In November 2017, Kazteleport registered the new SmartCloud brand, which provides such services as Cloud 1C, virtual data centre (internet as a service) and virtual dedicated server (VDS/VPS) for SME customers.

In late December 2017, it launched a new data processing centre with 20 server stacks that was designed using state-of-the-art technology in its engineering infrastructure and meets all requirements for the availability and security data stored on the servers. The centre is aimed at big data solutions and can store and process petabytes of data.

As of 31 December 2017, Kazteleport had total assets of KZT2,614 million. Its net income in 2017 was KZT404.8 million.

QPAYMENTS

QPayments was previously called Processing Company and is a subsidiary of Kazkommertsbank that provides technical processing support services for processing and storing data, namely collection, processing and storage of data generated by cardholder transactions.

As of 31 December 2017, QPayments had assets of KZT519.5 million and total equity of KZT414.9 million. In 2017, it reported net income of KZT143.7 million. In 2017, it signed an agreement to provide processing services to Al Hilal Islamic Bank.

CASH COLLECTION

HALYK COLLECTION

Halyk Collection is the leader in the market of collection services for banknotes, coins and valuables. It is positioned in Halyk Group as a subsidiary providing services independently while also providing cash to the Bank's sales channels.

As of 31 December 2017, Halyk Collection had total assets of KZT4,302 million. Its net income for 2017 was KZT2,138 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. All of its vehicles are fully armoured and their movement is tracked via GPS monitoring system.

In 2017, to optimise collection services within the Group, Halyk Collection began providing its services to Kazkommertsbank and its customers and Kazkommertsbank's collection service was closed.

SPECIAL PURPOSE ORGANISATIONS

HALYK PROJECT

In 2012, Halyk Bank established its Halyk Project subsidiary to manage distressed assets as part of 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. 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 cleanse the distressed assets from Halyk Bank's loan portfolio, managing or recovering them to minimise Halyk Group's loan losses. It does 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 2017, Halyk Project received 13 projects totalling KZT8.8 billion and sold eight projects totalling KZT1.7 billion and 152 apartments with an overall value of KZT3.8 billion. At the year-end, its portfolio of current assets stood at KZT47 billion.

KUSA KKB-1, KUSA KKB-2 AND KUSA KKB-3

Kazkommertsbank's KUSA subsidiaries were created in 2012-14 as part of 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.

In 2017, Kazkommertsbank received three assets valued at KZT7.1 billion under the programme, of which two accounted for KZT6.9 billion, and sold assets totalling KZT15.3 billion including 354 apartments with an overall value of KZT13.9 billion. At the year-end, its portfolio of current assets stood at KZT42.4 billion.

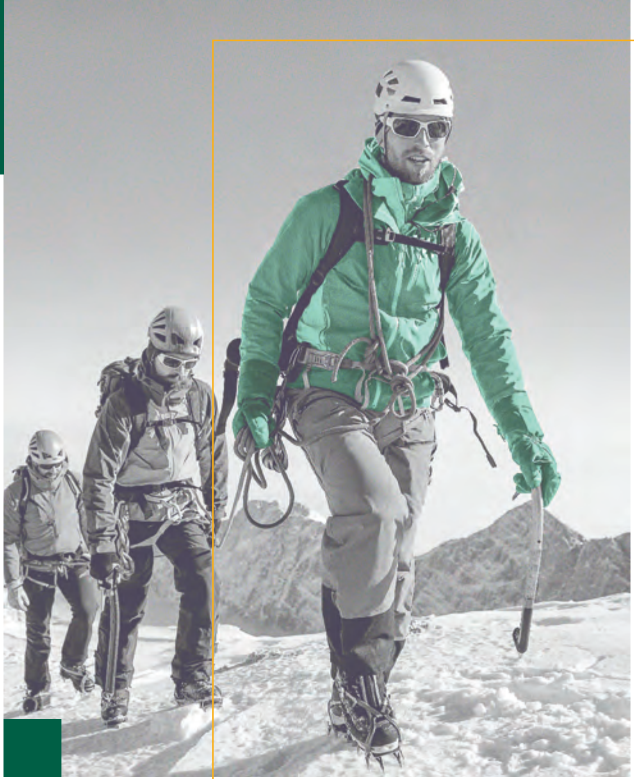
As of 31 December 2017, the overall value of the distressed assets managed by Halyk Group's bad asset management companies was KZT93.4 billion.

WORK WITH MINORITY SHAREHOLDERS

Halyk Bank continuously improves its system for interacting with minority shareholders, which makes it possible for a shareholder to present questions and receive consultations as needed by written request or email.

The channel through which minority shareholders and Halyk Bank communicate is reviewed regularly. The Bank informs shareholders of all material news, information about corporate events and changes in operations affecting the interests of shareholders, as well as planned events on its corporate website and the websites of securities exchanges and depositories of financial statements.

RISK MANAGEMENT 12



LEAD FROM THE FRONT!

RISK MANAGEMENT

LEAD CLIMBER

A climbing team is a group of several people who are connected by one rope to overcome difficult mountainous terrain. A team usually comprises two or three climbers. The reason why climbers connect to each other is so that if one falls, the other members of the climbing team can stop them. The lead climber usually has the most experience and training, is familiar with the climb and chooses the team's route.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

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. The 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 assessement and 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 counterparty limits 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 the 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 a specialised software module that includes automated underwriting, internal and external database checks, scoring estimates of an applicant, etc. 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 and, if necessary, revises, independent decision-making limits and the authority of the credit committees in subsidiary banks.

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, nonperforming loan ratio), the Bank conducts regular stress tests on its loan portfolio. A stress test was conducted in 2017 using rather conservative forecasts for decrease in oil prices and GDP. The stress test results indicated that the Bank's capitalisation is resilient to asset quality deterioration.

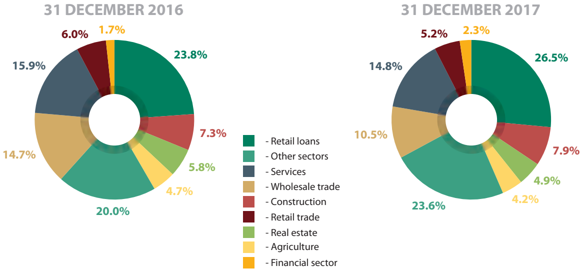
The Risk Analyst rating model that was previously introduced to assess the likelihood of a default and the associated rating on corporate and SME clients is widely used to make lending decisions and conduct stress tests. It is also used as one of the criteria for loan impairment.

As part of the Bank's Analytical CRM project, which is aimed at introducing risk analysis tools, four scoring models have been developed to range risks based on the statistical probability of loan applicant's default. Five statistically significant stress-testing models have been built to study the influence of macroeconomic indicators on NPL trends in the Bank's loan portfolio.

Over 2017, work with problem loans continued, securing repayment through the sale of collateral, claims and lawsuits, transferring assets under the management of Halyk Project and writing off bad debt. These measures have helped to reduce the share of overdue debt.

As of 31 December 2017, retail loans represented a significant share of the loan portfolio (27%), with consumer and mortgage loans accounting for 19% and 8%, respectively. In terms of industry breakdown, the largest segments were services (15%), wholesale trade (11%), construction (8%), real estate (5%) and retail trade (5%).

BREAKDOWN OF HALYK GROUP'S LOAN PORTFOLIO BY SECTOR, %

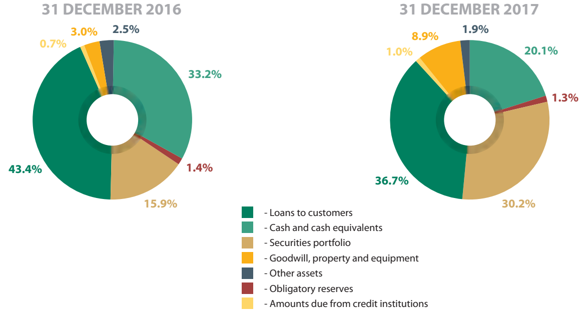


ASSET/LIABILITY MANAGEMENT

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.

The breakdown of the Group's assets in 2016 and 2017 was as follows.

BREAKDOWN OF HALYK GROUP'S ASSETS, %



On 5 July 2017, the Group took control of Kazkommertsbank and has been consolidating its financials since. This event had a significant impact on the size and structure of the Group's balance sheet, increasing Halyk Group's assets by 65.6% year-on-year in 2017. This was mainly due to the securities portfolio increasing by KZT1,820.1 billion (up more than 100% year-on-year due to consolidation of Kazkommertsbank's securities portfolio), the loan portfolio expanding on a net basis by KZT931.5 billion (up 40.2% year-on-year), and goodwill, property and equipment rising by KZT628.0 billion (up more than 100% year-on-year). The latter was due to increase in long-term assets held for sale as a result of the Bank's intended sale of 60% stake in Altyn Bank. The loan portfolio remains the largest item among Halyk Group's assets: as of 31 December 2017, it accounted for 36.7% of the total. Other key assets are cash and cash equivalents (share of 20.1%) and investments in securities (trading and investment portfolio; share of 30.2%).

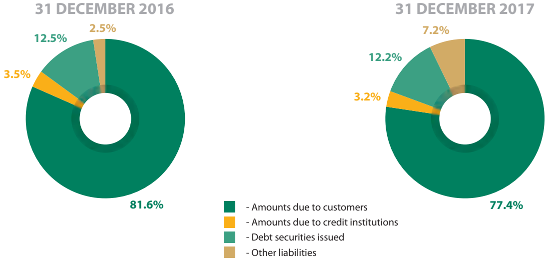
In 2017, the National Bank of Kazakhstan undertook several measures aimed at stabilising the country's money market. Despite the increased activity in bank lending throughout the year, the National Bank maintained a significant presence on the domestic money market, including by continuing to issue short-term sovereign securities, as part of the regulator's monetary policy. Due to this, the Bank mostly placed its tenge liquidity in short-term National Bank notes in 2017, which significantly expanded the securities portfolio.

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 2016 and 2017 was as follows.

BREAKDOWN OF THE GROUP'S LIABILITIES, %



In 2017, the main changes in the breakdown of liabilities were to amounts due to customers. At the year-end, amounts due to customers had increased in absolute terms by KZT2,311.1 billion (up 60.5%) and remained the largest liability item, accounting for 77.4% of total liabilities in 2017, compared with 81.6% in 2016.

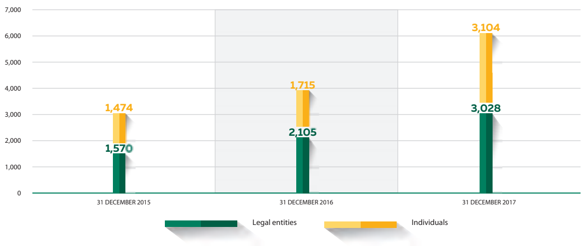
The breakdown of the deposit base was influenced primarily by tenge appreciation and the combined efforts of the government and National Bank of Kazakhstan to reduce the economy's reliance on foreign currencies and improve the population's confidence in the national currency. There was a significant change in the ratio of tenge and foreign-currency deposits, mainly due to the Kazakhstan Deposit Insurance Fund lowering interest rates on retail foreign-currency deposits.

This caused tenge deposits to surge by KZT1,405.7 billion (up more than 100% year-on-year), while foreign-currency deposits rose by just KZT905.4 billion (up 36.3% year-on-year).

The share of term deposits versus current accounts in the deposit base was little changed as of the reporting date, at 71.8% and 28.2%, respectively, compared with 71.7% and 28.3% in 2016.

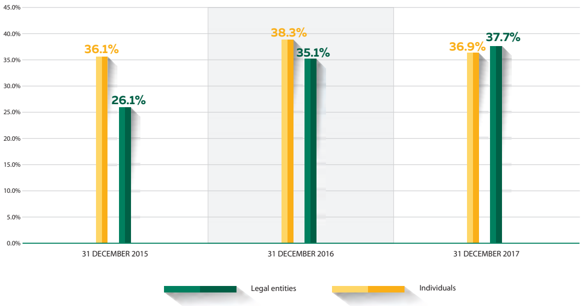
In 2017, amounts due to retail customers increased by 81.0% year-on-year and amounts due to legal entities by 43.8% year-on-year.

AMOUNTS DUE TO THE GROUP'S 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. As of 1 January 2018, Halyk Bank and Kazkommertsbank were market leaders in terms both of retail deposits, with a combined market share of 36.9% (compared with 38.3% at the end of 2016), and of corporate deposits, with a combined market share of 37.7% (compared with 35.1% at the end of 2016).

MARKET SHARE BY AMOUNTS DUE TO CUSTOMERS OF HALYK BANK AND KAZKOMMERTSBANK, %



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 National Bank of Kazakhstan.

MARKET RISK MANAGEMENT

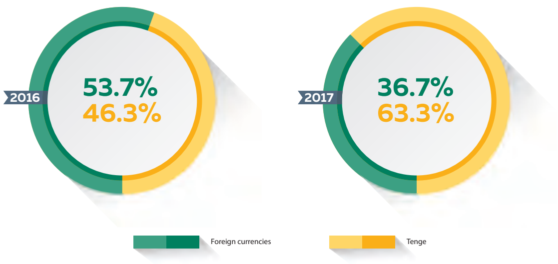
In 2017, the Bank adhered to its conservative policy on currency position management, maintaining neutral positions in all currencies.

In the year, the breakdown of assets by currency changed amid the National Bank of Kazakhstan's efforts to reduce the financial system's reliance of foreign currencies. As a result, the Bank's assets in tenge rose by more than 100% year-on-year and its assets in foreign currencies grew by 6.0% year-on-year.

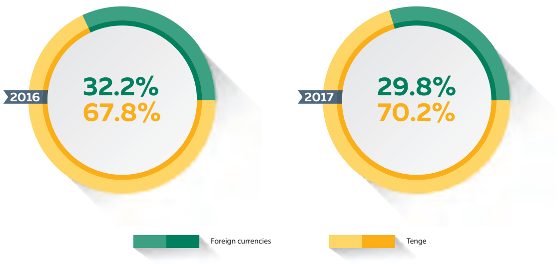
The share of the Group's assets in tenge climbed from 46.3% in 2016 to 63.3% in 2017, while the share of the loan portfolio in tenge grew from 67.8% in 2016 to 70.2% in 2017.

Amid tenge appreciation and moves to improve the attractiveness of retail tenge deposits in 2017, the share of the Group's deposits in tenge increased from 34.6% in 2016 to 44.5% in 2017, while that in foreign currency decreased 65.4% in 2016 to 55.5% in 2017.

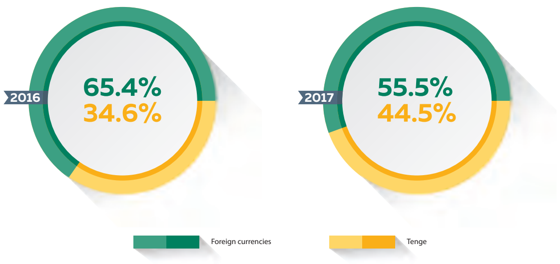
BREAKDOWN OF THE GROUP'S FINANCIAL ASSETS BY CURRENCY, %



BREAKDOWN OF THE GROUP'S NET LOANS BY CURRENCY, %



BREAKDOWN OF AMOUNTS DUE TO THE GROUP'S CUSTOMERS BY CURRENCY, %



To better manage foreign-currency liquidity, on 3 July 2017, Kazkommertsbank and National Bank of Kazakhstan signed a one-year cross-currency swap agreement for the nominal amount of KZT1,000 billion.

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 repricing) 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 and price risks) are established by the authorised bodies 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. The Organisation and Reinforcement of Preventive Action (ORAP) system is a fully functional and widely used tool, and it has covered the most significant areas of the Bank's operations since 2010. In 2017, ORAP covered such business areas as remote banking for individuals and legal entities, as well as new sales channels, services and products.
- The Bank is implementing projects to identify and minimise transaction risks at Halyk Project and for the business process governing the organisation, support and maintenance of the ICM system (cash management) and the processes used to resolve disputes in the self-service terminal network. This work 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 exceeding the regulatory threshold 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 (KRIs). The Bank currently uses more than 25 KRIs in various business lines, which make it possible to identify the most significant risks to the Bank's IT systems and critical business processes.
- The Bank has conducted scenario analysis projects aimed at preventing fraudulent transactions. They have highlighted the main process shortfalls and the departments involved have been provided corresponding recommendations to develop risk-mitigation measures to eliminate or minimise the probability of such a scenario occurring at the Bank.
- The Bank has conducted a self-assessment of its control system to create a risk map and risk matrix.
- 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 that allow the Bank to manage the continuity of its overall operations.

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

In 2017, the Bank's business continuity work included:

- Performing a business impact analysis and an analysis of risks relating to unforeseen eventualities
- Conducting a study (testing) of business continuity and restoration plans, transfers to IT backup systems and servers, test restores of reserve copies from critical information systems, and mobilisation of recovery team members to the Bank's backup facilities to perform operations under simulated disaster conditions
- Transferring a critical business process under simulated disaster conditions from the main server in Almaty to a backup server at the Disaster Recovery site in Astana and then back to the main server in Almaty without losing any transactional data to test the system against unexpected circumstances
- Holding a training session and follow-on test for employees involved in the Bank's business continuity and restoration process
- Updating internal documents, including the Bank's policy and rules governing business continuity and restoration, 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 bodies responsible for implementing continuity processes

IT AND INFORMATION SECURITY RISK MANAGEMENT

In 2017, the Bank continued its efforts to manage information technology ("IT") and information security ("IS") risks and further developed its IT and IS risk management system ("IT and IS RMS"). The Bank undertook the following measures during the reporting period:

- Updated the IT and IS RMS internal documents

- Reviewed and updated the common risk-assessment scale in the Bank's business processes regarding IT and IS risks
- Based on the approved internal documents, performed the full IT and IS risk management cycle (evaluating, processing, monitoring) using the automated banking information system, compiled an IT and IS risk register and map and developed a plan to minimise IT and IS risks
- Reviewed the current IT and IS risk environment at the Bank's subsidiaries
- 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 2017, 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 2020. For example, in 2017, the conservation buffer in the capital adequacy ratio was increased and a systemic buffer was introduced for systemically important banks. The Bank believes that the transition to the new standards has not had a significant 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 National Bank.

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 the "three lines of defence" principle.

- 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, consisting 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's primary methods for managing compliance risk are:

- 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 follow Kazakh legislation and the Bank's internal documents, as well as legislation of other countries governing the activities of the Bank, its structural divisions and employees
- Identifying, evaluating, monitoring and mitigating compliance risks, including when developing and structuring new banking products and services, introducing new business processes and technologies, etc
- 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 the Bank's compliance risks, including appraisal and self-appraisal methods for subdivisions
- Controlling access to insider information, maintaining confidentiality 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 the Bank complies with anti-money laundering/combating the financing of terrorism (AML/CFT) measures

- Ensuring that employees comply with the requirements of internal documents governing 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 assessments/self-assessments 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 monthly and the Board of Directors quarterly for review. Based on the findings, action plans are prepared to mitigate risks identified during the self-assessment and qualified as mid or high level 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 monthly and the Board of Directors quarterly. 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 and the Foreign Account Tax Compliance Act (FATCA). New recruits and existing employees in the subdivisions responsible undergo annual training. In 2017, 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, as well as AML/CFT and FATCA procedures.

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 necessary systems aimed at preventing money-laundering and the financing of terrorism, including various know-your-customer procedures for clients (thier representatives) and beneficiary owners 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
- Conduct 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 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, responsible subdivisions also participate in the process of identifying suspicious non-automated transactions and then forwarding the information to the Compliance Division.

The Bank also complies with international economic sanctions when servicing customers and working with counterparties. For this purpose, it has implemented automatic transaction screening and manual controls. Throughout its operations, the Bank adheres to the principles of transparency, fairness and integration with the global community.

SOCIAL REPORT
13

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

LEAD
FROM THE FRONT!

SOCIAL REPORT

PRIMA BALLERINA

Being a prima ballerina and performing solo in the world's best ballet companies is not only about impeccable technique. One needs one's own signature style, a masterly performance, a unique interpretation of each party and role, unconditional artistry and the elusive magic of talent.

Social responsibility is an integral part of Halyk Bank's business. To ensure that its social and charity projects are purposeful and maximally effective, in spring 2016, Halyk Group's shareholders decided to establish the Halyk charity fund to organise charitable activity on a systemic level.

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 2016-17, Halyk Bank financed the Halyk charity fund.

The financial institution has for many years been implementing important projects – good deeds aimed at supporting socially vulnerable groups of the population, traditional Kazakh sports, arts and culture, health care and education in Kazakhstan. With good deeds, Halyk Bank strives to elevate talent and appreciate art, improve access to sport, rally people together and support them in difficult moments, and pass on knowledge to future generations.

GOOD DEEDS… ELEVATE TALENT AND APPRECIATE ART

Preserving and improving cultural heritage, popularising the arts and developing modern cultural trends are among the key challenges of the Halyk charity fund and Halyk Bank in their 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 2017, the Halyk charity fund was the general sponsor of the fifth theatre season, held under the auspices of the EXPO 2017 international exposition in Astana. The theatre's operas and ballets were at the epicentre of the exhibition's cultural programme. The season was marked by bright premieres, including: the opera Kyz Zhybek; the grand premiere of the outstanding English choreographer Kenneth Macmillan's ballet, Manon; Austrian composer Gustav Mahler's Symphony No 8, which was played in Kazakhstan for the first time with an orchestra of 1,200 musicians. It also featured creative experiments: the ballet Don Quixote; Giuseppe Verdi's opera, Aida, which was performed on an open stage in front of the Palace of Peace and Reconciliation; and the performance of world-famous artist Placido Domingo in the opera La Traviata. A total of KZT140 million was pledged for the theatre's sponsorship.

EXPO YOUNG AMBASSADORS

In June 2017, the Halyk charity fund provided an opportunity for the participants of the EXPO 2017 Young Ambassadors Summer School to visit the EXPO 2017 Astana international exhibition. This included 100 highly talented and diligent schoolchildren who had won various academic competitions, as well as children from socially vulnerable families and rural schools from all over Kazakhstan. The children visited the capital's sights and pavilions and attended master classes on pottery, aircraft modelling, artistic design and drama. A total of about KZT12 million was pledged for the programme's sponsorship.

ALMATY BOTANICAL GARDEN

In May 2017, a summer cinema was opened in the Almaty Botanical Garden. This new cultural space was created by the Halyk charity fund and the Main Botanical Garden Development Fund. Each weekend throughout the summer, the Almaty Botanical Garden opened its doors to the city's residents and visitors for free screenings of Kazakhstan films. A total of roughly KZT10 million was pledged for the cinema's sponsorship.

OTHER PROJECTS

In April 2017, Halyk Bank acted as the general partner for the online broadcast of the finals of the "I am a singer 2017" musical contest, which was held in China and at which Kazakhstan was represented by its citizen Dimash Kudaibergen.

In September 2017, in celebration of Uralsk town festival, the Bank sponsored a statue in the form of a one tenge coin that was placed in the town.

GOOD DEEDS… ACCESSIBLE SPORT FOR EVERYONE

Halyk Bank and the Halyk charity fund believe that creating a robust material base for the successful development of national sports and promoting healthy lifestyles contribute to professional and amateur sporting events and encourage young athletes to represent Kazakhstan in international sport. Special attention is paid to athletes with disabilities.

HALYK LEAGUE

Established in 2005, Halyk League is a social sport project to support an active basketball movement involving young people from sponsored children's homes and boarding schools throughout Kazakhstan. Basketball is a team sport that fosters willpower, tenacity and a team spirit in young people.

The project promotes 18 sponsored children's homes and boarding schools throughout 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 KZT 300 million has been donated to the Halyk League project.

HOPE CUP CHAMPIONSHIP

In May 2017, the National Basketball Federation of Kazakhstan and the Halyk charity fund held their annual basketball championship among children's homes and boarding schools: the 2017 Hope Cup.

The championship took place over a week at the Academy of Sports and Tourism in Almaty's sports facilities 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 KZT27 million was allocated for the championship, which included 190 children from 17 regions of Kazakhstan.

SPECIAL OLYMPICS

The Halyk charity fund in 2017 continued its support of athletes with intellectual disabilities by helping to sponsor the Special Olympics Public Association. Over six years, a total of KZT8.5million in financial aid has been pledged to the organisation. The power of sport has helped these children to open new horizons and reach new success. Representatives of Special Olympics say that they "improve the lives of people around the world, helping them to experience the joy of sport".

GYMNASTICS FEDERATION OF KAZAKHSTAN

Halyk Bank continued its cooperation with the Gymnastics Federation of Kazakhstan in 2017. 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 June 2017, the ninth Asian Rhythmic Gymnastics Championships among seniors and the 15th Asian Rhythmic Gymnastics Championships among juniors took place in Astana. The 150 best gymnasts from 15 countries of the Asian region took part in the competition, winning 54 sets of medals. Kazakhs Sabina Ashirbayeva and Alina Adilkhanova took first and third places in the hoop routine, and Ashirbayeva also won the gold medal in the ball routine. Among the juniors in the individual program, the Kazakh gymnastics proved to be the strongest.

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 KZT 30 million to support the Gymnastics Federation of Kazakhstan.

KAZAKH NATIONAL STUDENT LEAGUE FUTSAL CHAMPIONSHIPS

Since autumn 2016, in an effort to develop and support futsal – the most popular sport among students in Kazakhstan – the Halyk charity fund has been the general sponsor of the National Student League futsal championship (among Kazakhstan's leading universities).

In 2017, the Halyk charity fund continued its sponsorship of the National Student League, which has grown to 69 teams, including nine female futsal clubs. The regional round of league play began in spring in 13 cities throughout Kazakhstan. Almaty alone has 17 teams representing various universities. A total of 70 schools competed in the regional round. In November, the final round brought together the countr y's best 24 teams in Almaty and Caspian University's team won the gold medal.

In August 2018, Almaty will host the World University Futsal Championship.

HALYK ARENA

The 28th World Winter Universiade was held in Almaty in 2017, providing a new stimulus to the continued development of group sports in Kazakhstan.

As part of a programme to create and support sports facilities built in the city ahead of the World Winter Universiade, Halyk Bank signed a sponsorship agreement with the Almaty municipal administration for the city's 3,000 seat ice skating facility, which was named Halyk Arena. This was the first time that a sporting facility was branded with a sponsor's name in Kazakhstan.

More than 100,000 people visited Halyk Arena during the World Winter Universiade's ice hockey championship. This helped to cement the arena's reputation in hockey and it has since become the home base of the Almaty and Aisulu hockey clubs. As part of the cooperation of the Halyk charity fund and Halyk Bank with Halyk Arena, sports programmes including hockey are being developed for the Bank's employees and free group skating events are being organised for Almaty residents.

GOOD DEEDS… TEAM UP AND SUPPORT

In 2017, the Halyk charity fund and Halyk Bank implemented several social projects to support orphans, children with disabilities and World War II survivors and veterans.

Halyk Bank and the Halyk charity fund are always ready to help the people of Kazakhstan who have been affected by natural disasters, helping to repair homes and providing support. After all, by coming together in difficult times, we can move forward and build our own future.

In the spring of 2017, a flood caused by heavy rain in several regions of Kazakhstan left tens of thousands of people homeless. Halyk Group employees felt it was their duty to organise the collection of material aid to the victims. They collected KZT5 million from their own funds and the Halyk charity fund added its own charitable contribution of KZT50 million. The money was sent to support residents of Aktobe, Akmola, Karaganda, Kostanay and North Kazakhstan regions.

Throughout the year, Halyk Bank's employees have played active roles in various charitable campaigns. One was aimed at supporting children from low-income families. Employees of Halyk Bank's Head Office helped to make New Year wishes come true for 100 children from the regional boarding school for children with impaired vision in Issyk as part of the "Tree of Wishes" campaign, in partnership with the Ayala charity fund. The gifts were mostly toys, as well as clothing and other supplies. The Bank's employees also supported the Palliative Care Association of Kazakhstan's "Goodwill Basket" campaign for bedridden patients at the Almaty hospice, collecting special baskets with books, sweets, clothes, hygiene items and essentials.

NEW YEAR MIRACLE

Ahead of the New Year, the Halyk charity fund organised the "New Year Miracle" campaign for children undergoing long-term treatment at medical centres in 22 cities throughout Kazakhstan. As part of the campaign, children were visited by Grandfather Frost and the Snow Maiden, Spider Man, pirates and many other of their favourite heroes, took part in children's entertainment programmes and received memorable gifts (toys, sweets and developmental games). All told, the Halyk charity fund helped New Year miracles come true for more than 2,000 children who celebrated the New Year in hospital. The total budget for the campaign was KZT6.6 million.

NAURYZ

Nauryz is one of the world's olderst holidays. It has been celebrated for more than five thousand years as a symbol of the new year, the renewal of nature, the triumph of love, fertility and friendship.

Each year, Halyk Bank congratulates the people of Kazakhstan on Nauryz, doing its part to support national cultural and historical traditions.

VICTORY MARATHON

Helping World War II veterans and home front 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 2017, more than 315 World War II veterans and home front workers who are Halyk Bank's depositors received more than KZT9.5 million in targeted material aid.

Over the past eight years, Halyk Bank has donated more than KZT96.5 million to veterans' organisations and World War II veterans as part of this programme.

GOOD DEEDS… PASS ON KNOWLEDGE TO FUTURE GENERATIONS

Humanity is in constant motion, developing, accumulating experience and knowledge generation after generation and striving to pass all that has been accumulated to those who follow to help them to not only survive but thrive. New times give birth to new generations, who view the world in another way and have different goals. Much of our ancestors' experience becomes unacceptable as time goes on, but a tremendous amount of their knowledge should act as a foundation for future development. In 2017, the Halyk charity fund and Halyk Bank implemented several educational projects.

HALYK SMART

The topics of innovation and science became especially popular in Kazakhstan ahead of the EXPO 2017 international exhibition in Astana. In June 2017, the Halyk charity fund launched a new project, Halyk Smart, which is an educational channel on YouTube with Russian- and Kazakh-language translations of popular videos from various scientific fields. The project aims to foster interest in science among students, improve their educational level, and help them choose a future profession and apply to universities. The project is especially important for helping to develop the Kazakh language's scientific and technical vocabulary. In just a few months, the channel had gained 20,000 subscribers and its videos had been viewed more than 1.7 million times. The Halyk charity fund sees a great future for the project.

ORPHANAGES

In the spring of 2017, the Halyk charity fund took patronage over Orphanage No 1 in Almaty. In this case, a programmatic approach was applied: in addition to improving the orphanage's facilities, the fund committed itself to support a special educational programme. The main goal of such patronage is to broaden the children's horizons and help them with vocational guidance and further integration into society. A person's social development is a lifelong process but is especially intense during childhood and adolescence, when basic concepts, norms and values are established, and social behaviour motivations are formed. That is why orphaned children's caregivers, psychologists and teachers play such a large role during this period in their lives.

To address this matter, the Halyk charity fund and its partner, the Nursultan Nazarbayev education fund, developed and organised pedagogical and psychological training courses for the orphanages' teachers, as well as classes with psychologists for the children, along with a series of training courses on various subjects, including foreign languages, photography and woodworking. Halyk Bank's employees volunteer to hold financial literacy courses for teenage children at the orphanages and help to introduce them to various everyday situations in which it is important to understand the value of money and learn how to correctly save and spend it.

Halyk Bank also provides systematic support to orphanages. It provides regular help to improve their facilities, including purchasing furniture, equipment, clothes, stationery supplies, and conducts holiday, sport and educational events.

ROAD TO SCHOOL

The Road to School charity drive is aimed at providing support to children from low-income and large families at the start of school year - 1 September and is part of a nationwide programme that the Ministry of Education and Science of Kazakhstan has run for the past nine years.

In 2017, 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 supplies – pledging around KZT7 million overall.

HALYK STUDENTS

Since 2007, Halyk Bank has provided monthly financial support to 37 children's institutions throughout the country as part of the Halyk Students program. The project has helped 31 students at sponsored orphanages and boarding schools to receive higher education and nine of the graduates have been employed at Halyk Bank. Currently, a student at a sponsored orphanage in East Kazakhstan region is studying at Amanzhalov University under the programme. Halyk Bank pays for the student's tuition and provides a monthly stipend.

THE BANK'S HEADCOUNT TRENDS, 2007-17

												Difference	
Business area	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2017	2007
Branches	8,253	8,306	7,792	7,725	7,470	7,394	7,395	7,308	7,367	7,074	7,254	(14.3%)	(999)
Head Office	1,554	1,602	1,522	1,524	1,491	1,496	1,534	1,638	1,744	1,761	1,835	18.1%	282
TOTAL	**9,806**	**9,907**	**9,314**	**9,188**	**8,962**	**8,890**	**8,928**	**8,946**	**9,112**	**8,835**	**9,089**	**(7.3%)**	**(717)**
Difference	687	101	(594)	(126)	(226)	(72)	38	18	166	(276)	254		
% Branches	5%	0.6%	(6.2%)	(0.9%)	(3.3%)	(1.0%)	0.0%	(1.2%)	0.8%	(4.0%)	2.5%		
% Head Office	23%	3.1%	(5.0%)	0.2%	(2.2%)	0.3%	2.6%	6.7%	6.5%	(1.0%)	4.2%		
TOTAL	**8%**	**1%**	**(6%)**	**(1%)**	**(2%)**	**(1%)**	**0.4%**	**0.2%**	**1.9%**	**(3.0%)**	**2.9%**		

PLANTING TREES

Each year, Halyk Bank participates in socially important campaigns in Almaty, one of which has created a tradition of planting trees. In May 2017, the Bank supported the "Be Green" campaign and, together with employees of Halyk Group, helped to improve the landscaping at Almaty's zoo by planting more than 30 saplings on its territory.

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

The Bank works consistently and systematically to optimise and automate its business processes, which helps to improve labour productivity. The Bank's organisational structure and headcount are regularly reviewed to ensure that they correspond with its structure, type and lines of business.

The migration to a self-service HR system, including employee activity and reporting, continues.

To improve the efficiency of its recruitment process, the Bank has developed a list of online assessment questions. This method is applied in the telephone interview process and during face-to-face interviews. It helps to reduce the recruiters' workload, allowing them to evaluate candidates at a distance, and makes it possible to determine as accurately as possible whether the candidates possess the required professional skills for the job they are seeking.

To find young, promising local talent for internships and further employment, the Bank works with leading higher educational institutions in Almaty to hold open house days for students who are nearing graduation. The open house days include a guided tour of the Head Office and a visual demonstration of working conditions at the Bank for the promising young professionals. As part of this initiative, the Bank also plays an active role in job fairs at leading colleges and universities to strengthen the loyalty of young professionals and attract students to internships and entry-level positions at the Bank, demonstrating in practice how it adheres to a policy of openness and its modern approach and interest in working with young professionals.

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.

To ensure the Bank's continued competitiveness on the labour market, a systematic review of staff salaries began on 1 June 2017.

As part of an effort to increase productivity of employees toward achieving the Bank's goals, quarterly bonus payments are made depending on net profit and branch rating.

Recommendations have been made to improve the Bank's staff salary system and a standardised approach to setting salaries when hiring and transferring employees has been determined.

To encourage the best employees, the Bank holds a competition to recognise achievements and give rewards based on the year's results. In 2016, the previous employee achievement programme underwent significant changes. Beginning in 2017, the new format includes three awards:

- Best employee category "Professionalism and Dedication to the Bank's Values" (first-degree nomination)
- Best employee category "Diligence and the Pursuit of Success" (second-degree nomination)
- "Employee of the Year" (third-degree nomination)

Winners in the first- and second-degree nominations were invited to Almaty for an award ceremony to receive their letters of appreciation and awards, a celebratory dinner with the Management Board and a tour of the city.

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 quarterly winners received certificates of achievement signed by their division heads. The annual winners received a money gift card and certificates of achievement signed by the chairperson of the Management Board.

During the year, various bonuses were paid:

1. Bonuses for certain categories of staff to recognise annual performance based on reviews
2. Quarterly staff motivation bonuses
3. One-off bonuses for Kazakhstan Independence Day
4. Staff bonuses for suggesting initiatives to improve the Bank's processes (initiative portal)
5. Bonuses for retail staff at branches for select projects

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
- 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 and employees of the Bank
- Benefits for maternity leave
- Subsidised mortgages for employees
- Partial payment by the Bank for MBA, master's and professional certification

There are regular induction days, at which new employees receive branded goods and materials.

In 2017, state awards were given to the following persons: Marat Almenov, deputy chairman of the Management Board, was awarded the Merey Order; Kuat Kussainbekov and Yertai Salimov, deputy chairmen of the Management Board, were awarded the Honoured Financier Order; and Kudikova Tasbike, Director of the Almaty region branch, and Musakhanova Saule, Director of the Semey district branch, were awarded the Best Financier Medal.

Bank employees have access to information resources: an intranet (Halyk Info), a corporate newspaper (Halyk Janalyk) and the Bank's radio station.

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 8 March; Nauryz; summer nature trip with families; National Currency Tenge Day; New Year
- Contests for employees, a total of six different contests with prizes for employees of the Bank were held during the year
- Tournaments were held among Halyk Group employees: billiards, bowling, carting, karaoke, chess, mini-football at the Chairman's Cup, and the First Cup of Banks intellectual challenge
- The Almaty financial institution employees' Olympics, in which the Bank's team took first place
- A total of 345 Bank employees took part in the "Courage to Win" marathon
- On 26 April 2017, a charity drive was held to collect funds for families affected by floods in Aktobe, Karaganda, Pavlodar, Akmola, Kostanay, North Kazakhstan and East Kazakhstan regions; many departments of the head office, 22 branches and subsidiaries took part and collected KZT5.8 million and US$1,780

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

PERSONNEL DEVELOPMENT

The Bank's personnel training and development policy in 2017 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.

Throughout 2017, the Bank's corporate business trainers conducted systematic work to develop personnel in the following priority areas:

- Improving management skills for middle managers
- Improving sales skills and effective customer service
- Training on the Bank's products (distance learning)
- Training on the Bank's internal rules and standards (distance learning)
- Improving personal effectiveness for members of the staff reserve
- Teaching financial analysis to subsidiary employees

Each part of corporate training is built on a step-by-step approach, training materials are structured according to the level of complexity and depth of detail of the information being covered and are adapted to the needs of each specific target group. This approach ensures that employees continue to improve their professional knowledge and master the practical skills they need on the job.

The most intensive corporate training was held to improve the knowledge and skills in various sales techniques for front office employees of the Bank's branch network. A series of sales training courses was conducted for retail workers, starting with the basics and continuing into advanced retail sales techniques. Internal corporate training sessions were also provided for employees in the SME and operations departments to improve their time management, conflict resolution and business presentation for SME employees.

In 2017, the HR Department continued to conduct systematic training sessions for employees and managers in the staff reserve. Department directors, deputy directors and heads of the units, and directors and deputy directors of branches included in the staff reserve received systematic training aimed at developing their managerial skills and improving their personal effectiveness, motivation and strategic vision of the Bank's processes. An external provider conducted this training for 125 managers of the Head Office and 22 branch directors, while internal business trainers held courses for 145 employees of the Head Office and 85 managers of regional and district branches.

For the first time, business simulation training sessions were held for the heads of independent structural subdivisions of the Head Office. This training allowed them not only to develop their delegation skills, responsibility and decision-making, it also helped participants to take a "helicopter view" of the Bank's business processes.

In 2017, the business trainers conducted the first post-training webinars aimed at reinforcing the knowledge acquired during the seminars and receiving feedback from training participants.

During the reporting period, external providers conducted 24 corporate training sessions for 611 employees of the Head Office and branches. A total of 249 employees of the Head Office attended individual training, of which 161 were free. Mandatory training sessions on HSE, industrial and electrical safety, fire safety basics and other topics were provided for 242 Bank employees. Managers and employees of regional and district branches attended 22 seminars. Training sessions were conducted at 11 of the advisory seminars, five of which were taught by internal business trainers.

The Bank also continued its co-financing programme for employees, including:

- MBA programmes for five Bank managers
- Professional certificates for two employees
- Internships within the organisation for 18 Bank employees

In addition to training Bank employees, the branch network trained 1,247 unaffiliated people with the potential to become cashiers and retail specialists for the mid-class and mass segments and arranged mandatory training on the rules for conducting exchange operations involving foreign currency 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 such training in 2017, caused the number of employees trained and training programs implemented to increase. Overall, the Bank's employees took part in distance learning/testing on different subjects 57,603 times. Therefore, around 6 distance learning events accounted for each of the Bank's employees over the year.

In 2017, the Bank continued working to expand its distance learning system to include Halyk Group subsidiaries Halyk Project, Kazkommertsbank and Halyk Bank Kyrgyzstan.

Halyk Bank continues to strengthen its staff reserve for management positions and planned development of staff in the reserve programme. The staff reserve totalled 484 bank employees in 2017 (including 106 key personnel), who are included in the reserve for 612 positions.

As part of the approved Strategy for 2016-18, 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

14

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

LEAD FROM THE FRONT!

CAPTAIN

The outcome of a sports match depends on not only the personal contribution of each player, but also coordinated work by the entire team. This responsibility is largely entrusted to a leader: the captain. Team spirit, mutual support, self-confidence and the ability to withstand difficulties and failures depend on the policy of captains, who must respond promptly and make decisions in difficult situations, lead, support and inspire team members to conquer new athletic heights.

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 a 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:

- Regular updates to Kazakh legislative requirements relating to the risk management and corporate governance systems of second-tier banks, as well as increased regulatory control over banking activities
- New risks that financial organisations might encounter in the current environment and increase competition for clients
- Its ongoing efforts to build an efficient, transparent, stable and innovative financial institution that adheres to the best practices and standards in corporate governance observed in OECD and G20 countries

COMPLIANCE WITH THE BANK'S CODE OF CORPORATE GOVERNANCE

The Bank's current Code of Corporate Governance, which was approved by the General Shareholder Meeting in December 2006, defines the main standards and principles applied in managing the Bank, including relations between the Board of Directors and Management Board, between shareholders and employees, as well as functioning mechanisms and decision-making procedures of the Bank's internal bodies.

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:

- Shareholders should be realistically able to exercise their rights to take part in managing the Bank
- Shareholders should be realistically able to take part in the distribution of the Bank's net income (receive dividends)
- 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
- The Bank should ensure that all groups of shareholders are treated equally
- There should be maximum transparency regarding the actions of the Bank's employees
- The Board of Directors should conduct the strategic management of the Bank and oversee the Management Board's activities, while its Directors should report to shareholders
- The Management Board should be able to manage the Bank effectively and in good faith and report to the Board of Directors and shareholders
- Ethical standards should be set for shareholders
- There should be an effective system of internal control that is evaluated objectively

The Board of Directors and Management Board confirm that the Bank conducts its activities in accordance with the principles, provisions 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.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

This section has been prepared in accordance with section DT R 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 DT R 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 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 in 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.

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 Shareholder Meeting covers determining the Board's term of authority. The General Shareholder Meeting of 21 April 2017 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 2017, 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 one third of the Board's members must be independent directors. However, the composition of the Board, as appointed by the General Shareholder Meeting on 21 April 2017, 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.

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 of Directors 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 members of the Management Board

The Bank's Code of Corporate Governance can be found on the corporate website: https://halykbank.kz/korporativnoe_upravlenie.

CORPORATE GOVERNANCE EVENTS IN 2017

- There were changes in the composition of the Management Board
- At the General Shareholder Meeting on 21 April 2017, the new composition of the Board of Directors was approved with seven members who will serve three-year terms
- To maintain a high level of competence and awareness among members of the Board of Directors, the Board Book was developed as an introductory course for new Board members, containing information on the Bank's key historical milestones, Halyk Group's development strategy, the Bank's organisational structure, the Bank's key executives and the procedures governing the work of the Board of Directors and Management Board
- 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
- Regulations were developed and approved governing the work of the corporate secretary, including defining new qualification requirements, expanding its functions, and establishing new standards and requirements
- To increase the Bank's transparency and to inform shareholders and investors about corporate events, a new corporate governance section was created on the Bank's website
- Training activities were conducted with the corporate secretaries of Halyk Group and a self-assessment was performed to determine the level of corporate governance at Halyk Group companies based on the evaluation cards and methodology developed by the International Finance Corporation in conjunction with the Kazakhstan Stock Exchange
- The results were reviewed of the Bank's stress-testing that was conducted based on a general economic scenario for 2017 (using 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 Board 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 law, decisions made by such working bodies are brought to the Management Board or Board of Directors for approval.

To ensure best practice in corporate governance, the Board of Directors is assisted by internal and external auditors, compliance controller, chief risk officer, chief legal adviser, a corporate secretary, and others.

The Bank has internal audit, risk management and compliance control services, as well as a corporate secretary responsible for corporate governance issues.

The Bank engages 'Big Four' professional services firms to audit the financial statements of Halyk Group. In 2017, this was carried out by Deloitte.

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

Functions between the Board of Directors and the Management Board are allocated in accordance with Kazakh law.

For instance, the Board of Directors is responsible for the following important issues:

- Defining the priority areas of the Bank's activity; approving the Bank's development strategy; approving a development plan in situations stipulated in Kazakh legislation and as part of approving the development strategy; setting and approving acceptable levels of risk; overseeing the implementation 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 Board
- 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 Board members and employees reporting to the Board of Directors, 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 larger stakes 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 Shareholder Meeting in accordance with Kazakh law and the Charter
- Making 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 making 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

BOARD OF DIRECTORS STRUCTURE

At the Annual General Shareholder Meeting on 21 April 2017, the following decisions were made:

- To determine the composition of Halyk Bank's Board of Directors as seven members
- To determine the term of office for members of Halyk Bank's Board of Directors as three years, to expire at the time of Annual General Shareholder Meeting at which the election of the new Board of Directors takes place
- To elect the following people as members of the Bank's Board of Directors: Alexander Pavlov, Anvar Saidenov, Arman Dunaev, Christof Ruehl and Frank Kuijlaars as independent non-executive directors; Mazhit Yessenbayev as a representative of Holding Group ALMEX; and Umut Shayakhmetova

As at 31 December 2017, the composition of the Board of Directors was as follows:

BOARD OF DIRECTORS COMPOSITION	
NAME	POSITION
ALEXANDER PAVLOV	Chairman, independent non-executive director
ARMAN DUNAEV	Strategic Planning Committee chairman, member of Board of Directors - independent non-executive director
FRANK KUIJLAARS	Nomination and Remuneration Committee chairman, member of Board of Directors - independent non-executive director
MAZHIT YESSENBAYEV	Member of Board of Directors, representative of Holding Group ALMEX
CHRISTOF RUEHL	Audit Committee chairman, member of Board of Directors - Independent non-executive director
ANVAR SAIDENOV	Social Responsibilities Committee chairman, member of Board of Directors - independent non-executive director
UMUT SHAYAKHMETOVA	Member of Board of Directors, 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.

BOARD COMPOSITION

2 directors
5 independent non-executive directors

DIRECTORS' SKILLS AND EXPERIENCE

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:

DIRECTORS' SKILLS AND EXPERIENCE	NUMBER OF DIRECTORS
Banking	7
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

MANAGEMENT BOARD STRUCTURE

In 2017, there were several changes in the Management Board. Aivar Bodanov, deputy chairman of the Management Board, decided to step down from 20 May 2017 and continue his career in a different industry. Askar Smagulov stepped down as deputy chairman from 1 June 2017 at his own initiative. The current composition of the Management Board is as follows:

MANAGEMENT BOARD COMPOSITION

NAME	POSITION
UMUT SHAYAKHMETOVA	Chairperson of the Management Board
MARAT ALMENOV	Deputy chairman Retail Banking and Security and Problem Loans
ALIYA KARPYKOVA	Deputy chairman 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
ASLAN TALPAKOV	Deputy chairman SME Banking, Marketing and PR, and Maintenance
TOTAL	7 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 2017, the Board of Directors held 86 meetings, including 11 in person and 75 in absentia. At the meetings in person, the Board of Directors discussed the most important strategic issues, such as:

- The approval of changes to the Group's development strategy for 2016-18
- The results for 2016 of implementing the Group's strategy for 2016-18
- The results for H1 2017 of implementing the Group's strategy for 2016-18
- The results of the operations and budget execution of the Bank and Halyk Group for 2016 and H1 2017
- The approval of the consolidated budget of Halyk Group (IFRS) and Halyk Bank for 2018
- Status reports regarding the Bank's transformation programme and IT transformation programme through 2020
- Internal audit matters, including the results of the outside assessment by PricewaterhouseCoopers that the internal audit department's activities are in full 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
- Approval of major lending transactions
- Preliminary approval of the Bank's 2016 financial statements and quarterly performance reports of the Management Board
- Stress-testing the Bank's loan portfolio
- Analysis of the Bank's loan portfolio quality
- Analysis of the Bank's related-party and other transactions

Absentee voting was conducted for routine issues that are included in the Board of Directors duties by law or by the Bank's internal documents, and most urgent issues that could not wait until the next ordinary meeting in person.

DETAILED COMMITTEE REPORTS

GENERAL PROVISIONS

The Board committees are consulting and advisory bodies to the Board of Directors. All 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:

NAME	POSITION
CHRISTOF RUEHL	Chairman, independent non-executive director
ALEXANDER PAVLOV	Member, independent non-executive director
ANVAR SAIDENOV	Member, independent non-executive director

All committee members 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 2017, the committee held three meetings in person and 41 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 2016 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 2017, 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 that was conducted among the members of the Board of Directors, the Bank's management and entities that were subject to audit in the reporting year
- Summary reports about significant findings, risks and related recommendations by the internal audit department, as well as decisions made 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

In 2017, the committee worked closely with the internal audit department on matters related to its activities: reviewing the budget and internal audit working plan; discussing personnel matters (new hires, departures and transfers); confirming the independence of the internal audit function; and reviewing the results of PricewaterhouseCoopers' outside assessment of the compliance of the internal audit department's activities with international best practices and the code of ethics for internal auditors.

The committee reviewed a report from the compliance controller on the effectiveness of the compliance risk management system over the first half of 2017.

In 2017, the committee reviewed quarterly research 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:

NAME	POSITION
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 Management Board, and on the salaries of the boards of directors and executive bodies of subsidiaries.

COMMITTEE ACTIVITIES

In 2017, the committee held eight meetings in absentia and none in person.

Recommendations were made to the Board of Directors on the election of the following people to the Board of Directors: Alexander Pavlov, Anvar Saidenov, Arman Dunaev, Christof Ruehl and Frank Kuijlaars as independent non-executive directors; Mazhit Yessenbayev as a representative of Holding Group ALMEX; and Umut Shayakhmetova. Recommendations were also made on: determining the directors' terms of office; the remuneration of independent directors of some subsidiaries; 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 2017 was KZT1,484 million (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:

NAME	POSITION
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 assists the Board of Directors in matters regarding Halyk Group's strategy, analyses reports on strategy implementation, and monitors the external environment and its impact on the Group's strategic plans.

COMMITTEE ACTIVITIES

In 2017, the committee held four meetings in person.

The committee reviewed the results of implementing Halyk Group's strategy for 2016-18 in 2016, as well as the results of implementing Halyk Group's strategy for 2016-18 in H1 2017. The analysis showed satisfactory achievement of the goals set.

In addition, the committee considered reports on the implementation of Bank's transformation programme and IT transformation programme through 2020 (with a frequency not less than once every 6 months).

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 members, apart from the experts, are independent non-executive directors. The members of the committee are:

NAME	POSITION
ANVAR SAIDENOV	Chairman, independent non-executive director
FRANK KUIJLAARS	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 regarding the Bank's 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 expenses budget related to social corporate responsibility for the respective period.

COMMITTEE ACTIVITIES

In 2017, the committee held one meeting in person.

The committee reviewed and considered the following matters:

- The sponsorship and charity report for Halyk Bank and the Halyk charity fund regarding the planned activities and budget for 2017
- The planned sponsorship and charity activities of Halyk Bank and the Halyk charity fund for 2018

RELATIONS WITH MINORITY SHAREHOLDERS

The Bank strives to continuously improve its system for working 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. 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.

KEY CORPORATE EVENTS OF 2017

- On 21 April 2017, the Bank organised and held the Annual General Shareholder Meeting, at which 12 resolutions were passed on issues under consideration, including information about shareholder inquiries regarding actions of the Bank and its officials. The Bank held the Annual General Shareholder Meeting without complaints from shareholders or the regulator.
- Where necessary, employees of the 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 accordance with the resolution of the Annual General Shareholder Meeting on 21 April 2017, the Bank is not accruing or paying dividends on common shares for 2016. 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 individual shareholders in 2017.
- The Bank continued its common share buy-back in 2017, acquiring 71,408 common shares from 18 individual shareholders for a total of KZT3.1 million in the reporting period.
- The Bank considered five official inquiries from shareholders 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 a clear and transparent decision-making mechanism regarding dividend payments, their size, the procedure and timelines of payment considering the following limitations:

- Ensuring that the Bank has an adequate distribution of net profits
- Ensuring that there are no restrictions on the payment of dividends provided for by Kazakhstan's legislation or contained in contracts the Bank has entered with third parties, particularly with foreign financial organisations (covenants)
- 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
- Maintaining (retaining) the Bank's international credit ratings
- Conducting an audit of the Bank's financial statements for the reporting period
- Complying with decisions of the General Shareholder Meeting

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
- In accordance with the Bank's strategic goals, the Board of Directors may propose to the General Shareholder Meeting not to allocate part of the net income for the reporting year, as determined by the Bank's audited consolidated financial statements, to dividend payments on common shares
- Not more frequently than once per calendar year
- Payment of dividends is restricted if the Bank is in default, or if such payment may lead to a default on the Bank's liabilities

Payment of dividends on common shares is subject to the correct shareholder information being in the Bank's shareholder registry system no later than ninety days after the decision to pay dividends has been made.

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	2017 (for 2016)	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	1.8	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

** the Bank had no preferred shares in circulation during the reporting period

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 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 evaluations of the efficiency of risk management, internal control and corporate governance systems.

The diagram below shows the most active bodies, committees and functions of the Bank that participate in the risk management and internal control processes.

'THREE LINES OF DEFENCE' RISK MANAGEMENT SYSTEM

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

- The first line of defence is 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. The divisions themselves manage and monitor the controls, 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 the 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 and operational) and monitoring risks. 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 their respective areas.
- The third line of defence is the internal audit function (see "Internal Audit").

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.

DIVIDEND POLICY

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:

- Secure the mission, values, principles and standards of business ethics and behaviour
- Develop a uniform corporate culture based on high ethical standards, support an atmosphere of trust, mutual respect and decency
- 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
- Assist in interacting effectively with stakeholders
- Prevent violations of the current laws of Kazakhstan by the Bank's 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

In accordance with international standards, the internal audit function's mission is to maintain and increase the value of Halyk Group through objective internal audits and consultations using a risk-based approach and providing recommendations.

To ensure the independence and objectivity of the internal audit, the internal audit department functionally reports to the Board of Directors. Working interaction with members of the Board of Directors is carried out via the Audit Committee and directly.

The department has 48 employees. Internal auditors strive to continuously develop their professional knowledge and skills.

The annual 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, Audit Committee chairman and Management Board chairperson.

For each audit task, the department makes recommendations on eliminating issues, which the Bank considers when undertaking appropriate measures to improve the efficiency of the internal control, risk management and corporate governance systems. 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 is also responsible for improving the structure and methodology of internal audits, including to reflect changes in legislation, international standards and global best practice. The department conducts an annual self-appraisal in accordance with the International Internal Audit Standards and performs other requirements of the Internal Audit Quality Assurance and Improvement Programme.

As per the of its external audit in September 2017, PriceWaterhouseCoopers confirmed full compliance of the Bank's internal audit department with International Standards and Audit Ethics Code.

The department cascades the internal audit procedures and procedures down to the internal audit departments of Halyk Group's subsidiaries.

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, JSC Deposit Insurance Fund and set of documents necessary for approval.

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 of the Board of Directors and the chairperson of the Management Board) are made by the chairman of the Board of Directors based on recommendations of the 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 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:

- 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
- Ensuring that regular communication is maintained between the Bank and its shareholders, between the shareholders and the Board of Directors, internal audit department, Management Board and other functions of the Bank, and between the Bank and its stakeholders
- 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 2018-20:

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 secretary 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 registers of corporate secretaries and of candidates for independent non-executive directorship 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

LEAD
FROM THE FRONT!

RESPONSIBILITY STATEMENT

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ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

LEAD FROM THE FRONT!

RESPONSIBILITY STATEMENT

FIRST VIOLIN

The first violin is the lead musician in an orchestra who often plays the main part and the solos during the melody. The rest of the orchestra follows the first violin's lead. Often, at a concert, the conductor will come on stage and bow to the audience, then shake the hand of the first violin.

1

BE THE LEADER!

LEAD
FROM THE FRONT!

UMUT SHAYAKHMETOVA

CHAIRPERSON OF THE MANAGEMENT BOARD

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.

LEAD
FROM THE FRONT!

OUTLOOK
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ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

LEAD
FROM THE FRONT!

OUTLOOK

PIONEER

The word "pioneer" is of French origin and describes someone blazing new trails in science and art. Pioneers have the task of exploring the unknown, taking risks, setting an example, and inspiring and leading others. In the past, pioneers were those who discovered new lands and opened the way to the Americas.

Halyk Group is a key player in all financial market segments and a rapidly expanding universal financial services group with sufficient financial strength, a solid financial, resource and IT base, qualified personnel and a proven management team.

To continue developing and strengthening the Group's positions, it 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. Potential 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 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

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

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.** Customer satisfaction is paramount: 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
- Be the number one bank of choice in Kazakhstan

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

The Group has completed successfully several projects planned for 2017 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.

Two important events in 2017 had significant impacts on the Group's composition and operations:

- The Bank signed an agreement with Chinese investors CITIC Bank and China Shuangwei Investment Company, Ltd regarding the sale of a 60% stake in its subsidiary, Altyn Bank.
- The Bank finalised the deal to acquire 96.81% of Kazkommertsbank's common shares and recapitalised the bank with KZT185 billion.

On 7 June 2017, the Bank signed an agreement with CITIC Bank and China Shuangwei Investment Company, Ltd regarding the sale of a 60% stake in Altyn Bank. To implement the agreement, the parties will have to obtain approvals from the competent authorities in Kazakhstan, among other things, and fulfil the other usual conditions for such transactions. The deal is slated to be closed in H1 2018.

On 5 July 2017, the Bank purchased 96.81% of Kazkommertsbank's common shares. At the time of acquisition, Kazkommertsbank Group's assets amounted to KZT3,340 billion.

On 12 July 2017, the Bank exercised its pre-emptive right and purchased KZT185 billion in common shares to increase its stake in Kazkommertsbank to 98.79%. On 15 November 2017, Kazkommertsbank conducted a KZT65 billion recapitalisation with the participation of Holding Group ALMEX. The additional financial injections significantly increased Kazkommertsbank's capitalisation, ensured that it remains in compliance with regulatory standards and provided the support needed to achieve the bank's targets.

These events fundamentally changed Halyk Group's positioning on the financial market and key development priorities, requiring adjustments to the current strategy to account for integrating the two banks via the merger of Kazkommertsbank into Halyk Bank.

To implement an event of such magnitude as integrating the country's two largest financial institutions, which requires substantial involvement of internal and external resources, a detailed integration programme for Halyk Bank and Kazkommertsbank has been developed that takes into account key interdependencies, potential risks and financial effects. Implementing the integration programme will be Halyk Group's priority in 2018.

As part of the programme, all managerial processes and systems of the two banks will be fully integrated, including planning, business processes, project management, motivation systems and personnel performance management.

The integration programme solves the following problems:

- Creating, on the Group's basis, a leading platform at the core of the banking sector to support the development of Kazakhstan's economy
- Integrating IT systems and forming a single information space for the Group to ensure the reliable, stable and uninterrupted operations of all systems and applications, considering the current customer base and its expected growth
- Selecting the optimal business processes among those in use at Halyk Bank and Kazkommertsbank and developing new business processes to achieve maximum synergy
- Creating a unified operating model based on aligned, centralised business processes and focused on ensuring business continuity and reducing transaction costs
- Transitioning Kazkommertsbank to Halyk Group's corporate governance standards to build an effective, transparent, stable and innovative banking conglomerate that follows global best practices and corporate governance standards
- Improving the risk management system, considering the Group's expanded business range and geographical presence and focusing on developing an integrated active risk management system that adequately and promptly responds to changes in the external environment
- Maximising the synergies from the integration of Halyk Bank and Kazkommertsbank to increase shareholder value by improving profitability

Implementing the programme will help to improve the Group's key performance indicators, significantly grow the market share of its key products, increase profitability and maintain stable financial ratios, even in a scenario of deteriorating market conditions. This will be achieved through a more focused and effective sales process and by introducing more complex products that surpass the offerings of competitors.

Integrating Kazkommertsbank and its subsidiaries into Halyk Group will launch the Group's transition into a new stage of development as a key player on Kazakhstan's financial market.

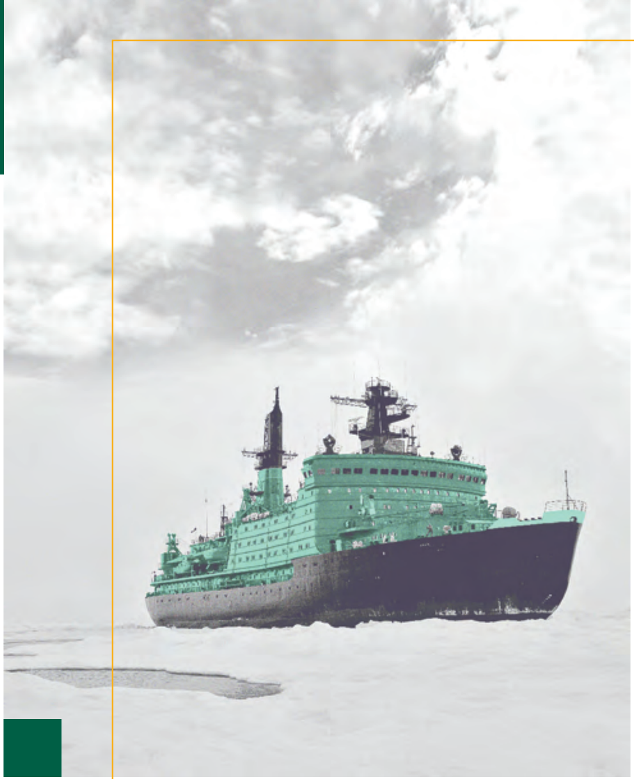
At the same time, the Group will continue the path set out in the 2016-18 strategic cycle, striving to achieve the primary key success targets for each business line. The Group has met the challenges it faced in 2017 and continues to work on its planned strategic initiatives.

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 the leader in Kazakhstan's financial sector.

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015

17

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА



LEAD FROM THE FRONT!

ICEBREAKER

Icebreakers are powerful, uniquely designed ships capable of clearing a path for other ships through ice. The sharp angle of their bow allows them to break the ice cover of frozen rivers, lakes, seas and oceans. The largest icebreakers have nuclear-powered propulsion systems. Icebreakers have powerful reinforced hulls and are equipped with several propellers. In many respects, humankind's ability to explore the Arctic is thanks to these floating giants.

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015

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 2017, 2016 and 2015, 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 2017, 2016 and 2015 were approved by the Management Board on 7 March 2018.

ON BEHALF OF THE MANAGEMENT BOARD:

UMUT B. SHAYAKHMETOVA
Chairperson of the Board

7 March 2018
Almaty, Kazakhstan

PAVEL A. CHEUSSOV
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 115 to 185 form an integral part of these consolidated financial statements.

INDEPENDENT AUDITORS' 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 2017, 2016 and 2015, 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 2017, 2016 and 2015 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.

EMPHASIS OF MATTER

We draw attention to Note 2 to the consolidated financial statements, which describes the planned merger of JSC Kazkommertsbank and JSC Halyk Bank. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
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 2017 amounted to KZT 50,442 million. The recognition of interest income using the effective interest rate method on individually assessed impaired loans is complex and reliant on the quality of underlying source data, which is subject to significant judgements, such as the timing and amount of expected cash flows. Due to the complexity involved, 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 as a key audit matter.	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 and its compliance with the requirements of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") by re-performing a sample of calculations and comparing the results to accounting records. On a sample basis, we tested the completeness and accuracy of the underlying source data, used as inputs into the interest income calculation, including, the timing and amount of expected cash flows, 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 As at 31 December 2017, the Group reported total gross loans of KZT 3,568,263 million, of which KZT 1,190,802 million was subject to collectively assessed impairment, which accounts for 33% of total gross loans. As at 31 December 2017, the amount of allowance for impairment losses resulting from this assessment comprised KZT 107,611 million. Management is required to exercise significant judgement in determining as the amount and timing of recognition of loan impairment provisions. Because of the significance of this judgement and the volume of loans assessed on a collective basis, we identified the loan impairment provisions, assessed on a collective basis, as a key audit matter. For loans assessed on a collective basis, there is a risk of errors in the calculation of provision rates due to the judgemental nature of source data used in the	We obtained an understanding of the management's process of impairment assessment on loans to customers assessed on a collective basis. 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 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, along with allocation of loans to portfolio of loans with similar risk characteristics. We have recalculated the collective loan loss provision models on a sample basis.

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 evaluated the adequacy and completeness of disclosures in the consolidated financial statements relating to the loans to customers in accordance with IFRS requirements. We found no material exceptions in these tests.
Classification and impairment of loans to customers assessed on an individual basis The amount of allowance on individually significant loans is dependent on the accuracy of the classification of these loans as "impaired" or "unimpaired" in the provisioning system of the Group, which is subject to significant judgement and manual adjustment. Moreover, the allowance for loan losses on loans to customers assessed on an individual basis is calculated using a discounted cash flow analysis and 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 pledged collateral. Due to the significance of the allowance for loans, assessed on an individual basis and the degree of subjectivity involved in estimating expected cash flows, we identified as a key audit matter the 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 and evaluated the loan loss provisioning process, particularly over the capture, monitoring and reporting of loans to customers, including classification, along with any manual inputs as part of the process. For a sample of loans classified as "unimpaired" we examined the existence of various impairment indicators required by IAS 39, such as delinquency of interest or principal, restructuring events and certain financial performance indicators, in order to evaluate whether the loans have been appropriately classified. For the specific loan loss provision, on a sample basis we tested the appropriateness of the amount of provision recognised as at the reporting date in accordance with the requirements of IAS 39, 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.
Business combination In July 2017, the Group acquired the controlling interest in JSC Kazkommertsbank, which was considered a significant acquisition for the Group. We identified this acquisition as a key audit matter as the accounting for the transaction was complex and required significant estimates in regards of determining the fair value of acquired assets and liabilities. Refer to Note 5 to the consolidated financial statements for the disclosure of the business combination.	We obtained an understanding of the management's processes related to acquisitions of businesses, purchase price allocation and accounting for business combinations. We evaluated the Group's accounting policy over the business combination against IFRS 3 Business Combinations ("IFRS 3") requirements. With the assistance of our valuation specialists, we assessed the key assumptions used by management, such as evaluating the cash flow forecasts used in the measurement of loans to customers, interest rates charged on amounts due to customers and valuation methods used for debt securities issued. We tested the identification of assets and liabilities acquired and their valuation against available market data. We found that management's assumptions used in determining the fair value of acquired assets and liabilities are within a reasonable range of our expectations. We evaluated the adequacy and completeness of disclosures in the consolidated financial statements relating to the business combination in accordance with IFRS 3 requirements. 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 judgement 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
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate
No.MF-0000116
dated 22 November 2012

MARK SMITH
Engagement partner
Chartered Accountant
Institute of Chartered
Accountants of Scotland
License № M21857
Glasgow, Scotland

NURLAN BEKENOV
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 2018
Almaty, Republic of Kazakhstan

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017, 2016 AND 2015
(Millions of Kazakhstani Tenge)

ASSETS	NOTES	31 December 2017	31 December 2016	31 December 2015
Cash and cash equivalents	6	1,780,548	1,774,519	1,404,680
Obligatory reserves	7	111,039	76,122	68,389
Financial assets at fair value through profit or loss	8	144,976	328,737	177,070
Amounts due from credit institutions	9	87,736	35,542	44,993
Available-for-sale investment securities	10	2,565,425	599,624	378,520
Precious metals		5,111	1,684	2,436
Loans to customers	11,38	3,251,102	2,319,583	2,176,069
Investment property	12	37,517	30,146	24,658
Commercial property	13	48,774	10,202	9,632
Current income tax assets	23	15,320	3,222	16,469
Deferred income tax assets	23	517	831	1,919
Property and equipment	14	137,684	94,897	82,462
Intangible assets	15	8,251	9,179	8,659
Goodwill		3,085	4,954	4,954
Insurance assets	17	40,162	28,354	23,857
Other assets	18	68,129	20,590	18,766
		8,305,376	5,338,186	4,443,533
Assets held for sale	16	552,405	10,297	11,405
TOTAL ASSETS		**8,857,781**	**5,348,483**	**4,454,938**

LIABILITIES AND EQUITY	NOTES	31 December 2017	31 December 2016	31 December 2015
Amounts due to customers	19,38	6,131,750	3,820,662	3,043,731
Amounts due to credit institutions	20	255,151	162,134	168,258
Financial liabilities at fair value through profit or loss	8	5,831	2,841	5,593
Debt securities issued	21	962,396	584,933	597,525
Current income tax liability	23	2,720	3,311	379
Deferred tax liability	23	8,789	23,181	37,362
Provisions	22	16,098	987	982
Insurance liabilities	17	139,543	64,374	50,983
Other liabilities	24	66,419	20,467	20,197
		7,588,697	4,682,890	3,925,010
Liabilities directly associated with assets classified as held for sale	16	334,627	-	-
TOTAL LIABILITIES		**7,923,324**	**4,682,890**	**3,925,010**
EQUITY				
Share capital	25	143,695	143,695	143,695
Share premium reserve		1,839	1,911	2,039
Treasury shares		(104,234)	(103,121)	(103,175)
Retained earnings and other reserves		820,716	623,108	487,369
		862,016	665,593	529,928
Non-controlling interest		72,441	-	-
TOTAL EQUITY		**934,457**	**665,593**	**529,928**
TOTAL LIABILITIES AND EQUITY		**8,857,781**	**5,348,483**	**4,454,938**

ON BEHALF OF THE MANAGEMENT BOARD:

UMUT B. SHAYAKHMETOVA
Chairperson of the Board

7 March 2018
Almaty, Kazakhstan

PAVEL A. CHEUSSOV
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 115 to 185 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015

(Millions of Kazakhstani Tenge, Except for Earnings per Share which is in Tenge)

CONTINUING OPERATIONS	NOTES	Year ended 31 December 2017	Year ended 31 December 2016*	Year ended 31 December 2015*
Interest income	27,38	506,328	332,563	244,040
Interest expense	27,38	(257,805)	(160,549)	(100,678)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	27	248,523	172,014	143,362
Impairment charge	22	(67,302)	(25,308)	(11,280)
NET INTEREST INCOME		181,221	146,706	132,082
Fee and commission income	28	87,640	57,697	51,918
Fee and commission expense	28	(26,732)	(11,295)	(10,150)
Fees and commissions, net		60,908	46,402	41,768
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	29	31,423	(12,710)	197,930
Net realised gain/(loss) from available-for-sale investment securities		1,064	2,623	(246)
Net foreign exchange (loss)/gain	30	(4,949)	18,506	(173,259)
Insurance underwriting income	31	55,108	28,071	25,574
Other income		23,618	6,486	8,700
OTHER NON-INTEREST INCOME		106,264	42,976	58,699
Operating expenses	32	(107,352)	(66,995)	(65,395)
Impairment loss of assets held for sale	16	(4,978)	(1,564)	-
Recoveries of provisions/(provisions)	22	1,737	(44)	(368)
Insurance claims incurred, net of reinsurance	17,31	(48,615)	(24,799)	(22,793)
NON-INTEREST EXPENSES		(159,208)	(93,402)	(88,556)
INCOME BEFORE INCOME TAX EXPENSE		189,185	142,682	143,993
Income tax expense	23	(25,598)	(22,183)	(30,411)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		163,587	120,499	113,582

DISCONTINUED OPERATIONS	NOTES	Year ended 31 December 2017	Year ended 31 December 2016*	Year ended 31 December 2015*
Profit for the year from discontinued operations	16	9,876	10,913	6,730
NET PROFIT		**173,463**	**131,412**	**120,312**
Attributable to:				
Non-controlling interest		101	-	-
Common shareholders		173,362	131,412	118,913
Preferred shareholders		-	-	1,399
		173,463	131,412	120,312
EARNINGS PER SHARE (in Kazakhstani Tenge)	33			
Basic earnings per share		15.77	11.96	10.67
Diluted earnings per share		15.77	11.95	10.16
Basic earnings per share from continuing operations		14.88	10.99	10.41
Diluted earnings per share from continuing operations		14.88	10.99	10.36

*Recalculated due to presentation of JSC Altyn Bank as discontinued operations. For further reference, please see note 16.

ON BEHALF OF THE MANAGEMENT BOARD:

UMUT B. SHAYAKHMETOVA
Chairperson of the Board

7 March 2018
Almaty, Kazakhstan

PAVEL A. CHEUSSOV
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 115 to 185 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015

(Millions of Kazakhstani Tenge)

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Net profit	173,463	131,412	120,312
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX: **Items that will not be subsequently reclassified to profit or loss:** (Loss)/gain resulting on revaluation of property and equipment (2017, 2016, 2015 – net of tax – KZT 222 million, KZT 192 million, KZT nil)	(113)	539	56
Items that may be subsequently reclassified to profit or loss: Gain/(loss) on revaluation of available-for-sale investment securities (2017, 2016, 2015 – net of tax –KZT nil)	33,733	7,131	(14,529)
Reclassification adjustment relating to available-for-sale investment securities disposed of in the year (2017, 2016, 2015 – net of tax – KZT nil)	(1,064)	(2,623)	246
Reclassification adjustment relating to available-for-sale investment securities impaired during the year (2017, 2016, 2015 – net of tax – KZT nil)	(1,141)	(783)	4,171
Exchange differences on translating foreign operations (2017, 2016, 2015 – net of tax – KZT nil)	1,473	402	5,540
Other comprehensive income/(loss) for the year	32,888	4,666	(4,516)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**206,351**	**136,078**	**115,796**
Attributable to:			
Non-controlling interest	2,942	-	-
Common shareholders	203,409	136,078	114,449
Preferred shareholders	-	-	1,347
	206,351	**136,078**	**115,796**

ON BEHALF OF THE MANAGEMENT BOARD:

UMUT B. SHAYAKHMETOVA
Chairperson of the Board

7 March 2018
Almaty, Kazakhstan

PAVEL A. CHEUSSOV
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 115 to 185 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015
(Millions of Kazakhstani Tenge)

	Share capital Common shares	Share premium reserve	Treasury 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 2016	143,695	1,911	(103,121)	5,097	(15,679)	16,609	617,081	665,593	-	665,593
Net income	-	-	-	-	-	-	173,362	173,362	101	173,463
Other comprehensive income	-	-	-	1,473	28,687	(113)	-	30,047	2,841	32,888
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**-**	**1,473**	**28,687**	**(113)**	**173,362**	**203,409**	**2,942**	**206,351**
Treasury shares purchased	-	(72)	(1,675)	-	-	-	-	(1,747)	-	(1,747)
Treasury shares sold	-	-	562	-	-	-	-	562	-	562
Insurance bonuses to the insured	-	-	-	-	-	-	(171)	(171)	-	(171)
Purchase of additional share capital of JSC Kazkommertsbank	-	-	-	-	-	-	(1,387)	(1,387)	7	(1,380)
Sale of shares in JSC Kazkommertsbank to JSC HG ALMEX (See note 2)	-	-	-	-	-	-	(4,243)	(4,243)	69,492	65,249
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	(1,026)	1,026	-	-	-
31 DECEMBER 2017	**143,695**	**1,839**	**(104,234)**	**6,570**	**13,008**	**15,470**	**785,668**	**862,016**	**72,441**	**934,457**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015
(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**
Treasury shares purchased	-	-	-	(32)	(427)	-	-	-	-	-	(459)
Treasury shares sold	-	-	-	-	481	-	-	-	-	-	481
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(333)	(333)
Exchange of preferred shares to common shares	60,124	(46,891)	(13,233)	(96)	(63,201)	(63,201)	-	-	-	-	(96)
Insurance bonuses to the insured	-	-	-	-	-	-	-	-	-	(6)	(6)
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 (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015

(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	-	-	-	-	(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**	**2,039**	**(39,974)**	**(63,201)**	**4,695**	**(19,404)**	**16,416**	**485,662**	**529,928**

* 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

7 March 2018
Almaty, Kazakhstan

PAVEL A. CHEUSSOV
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 115 to 185 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015

(Millions of Kazakhstani Tenge)

	NOTES	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES:				
Interest received from financial assets at fair value through profit or loss		2,348	124	109
Interest received from cash equivalents and amounts due from credit institutions		23,610	13,732	5,972
Interest received on available-for-sale investment securities		23,730	17,684	23,378
Interest received on investments held to maturity		-	1,201	-
Interest received from loans to customers		315,392	255,539	199,298
Interest paid on amounts due to customers		(201,006)	(116,406)	(63,712)
Interest paid on amounts due to credit institutions		(4,213)	(7,596)	(5,081)
Interest paid on debt securities issued		(63,365)	(47,828)	(26,113)
Fee and commission received		86,662	58,498	53,280
Fee and commission paid		(26,214)	(12,009)	(10,837)
Insurance underwriting income received		49,056	23,994	21,636
Ceded reinsurance share paid		(2,374)	(2,660)	(2,439)
Receipts/(payments for) from financial derivatives		11,955	(10,592)	39,122
Other income received		23,618	6,384	8,595
Operating expenses paid		(87,001)	(67,580)	(62,789)
Insurance claims paid		(34,553)	(16,602)	(8,834)
Cash flows from operating activities before changes in net operating assets		117,645	95,883	171,585
Changes in operating assets and liabilities: (Increase)/decrease in operating assets:				
Obligatory reserves		(31,604)	(7,733)	(20,164)
Financial assets at fair value through profit or loss		408,395	(127,891)	(7,589)
Amounts due from credit institutions		(26,757)	9,082	(7,481)
Precious metals		(168)	997	(483)
Loans to customers		(311,999)	(126,924)	(216,366)
Assets held for sale		(2,219)	-	(2,607)
Insurance assets		12,493	(1,100)	(245)
Other assets		(3,472)	(6,269)	7,401
(Decrease)/increase in operating liabilities:				
Amounts due to customers		48,893	750,365	287,505
Amounts due to credit institutions		37,972	(9,224)	50,928
Financial liabilities at fair value through profit or loss		(187)	(2,755)	10,923
Insurance liabilities		(6,454)	7,944	1,832
Other liabilities		(67,957)	(133)	4,307
Cash inflow from operating activities before income tax		174,581	582,242	279,546
Income tax paid		(52,365)	(20,331)	(25,222)
Net cash inflow from operating activities		122,216	561,911	254,324
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net cash inflow on acquisition of a subsidiary	5	678,622	-	901
Purchase and prepayments for property and equipment and intangible assets		(13,862)	(15,386)	(17,131)
Proceeds on sale of property and equipment and intangible assets		1,403	2,859	4,438
Proceeds on sale of investment property		-	1,695	-
Capital expenditures on commercial property		(830)	(2,817)	-
Proceeds on sale of commercial property		3,918	2,247	-
Proceeds on sale of available-for-sale investment securities		1,244,554	34,196	175,365
Purchase of available-for-sale investment securities		(1,753,899)	(186,905)	(76,157)
Purchase of investments held to maturity		-	(43,601)	-
Net cash inflow/(outflow) from investing activities		159,906	(207,712)	87,416

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015
(Millions of Kazakhstani Tenge)

	NOTES	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from sale of shares in JSC Kazkommertsbank to JSC HG ALMEX	2	65,249	-	-
Purchase of additional share capital of JSC Kazkommertsbank	2	(4,940)	-	-
Payment of compensation for exchange of preferred shares to common shares		-	(96)	-
Proceeds on sale of treasury shares		562	481	927
Purchase of treasury shares		(1,747)	(459)	(24,508)
Dividends paid – preferred shares		-	(333)	(2,543)
Dividends paid – common shares		-	-	(34,257)
Buy-back of JSC Accumulated Pension Fund of Halyk Bank shares		-	-	(708)
Proceeds on debt securities issued		-	25,888	115,852
Redemption and repayment of debt securities issued	21	(197,892)	(43,561)	(7,627)
Net cash (outflow)/inflow from financing activities		(138,768)	(18,080)	47,136
Effect of changes in foreign exchange rates on cash and cash equivalents		5,411	33,720	475,267
Net change in cash and cash equivalents		148,765	369,839	864,143
CASH AND CASH EQUIVALENTS, beginning of the year	**6**	**1,774,519**	**1,404,680**	**540,537**
CASH AND CASH EQUIVALENTS, end of the year*	**6**	**1,923,284**	**1,774,519**	**1,404,680**

* As at 31 December 2017, cash and cash equivalents includes cash and cash equivalents of asset held for sale of KZT 142,736 million (Note 16).

During the years ended 31 December 2017, 2016 and 2015 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

7 March 2018
Almaty, Kazakhstan

PAVEL A. CHEUSSOV
Chief Accountant

7 March 2018
Almaty, Kazakhstan

The notes on pages 115 to 185 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015
(Millions of Kazakhstani Tenge)

1. PRINCIPAL ACTIVITIES

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

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

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

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

As at 31 December 2017, the Bank operated through its head office in Almaty and its 45 regional branches (including 23 regional branches of JSC Kazkommertsbank ("KKB")), 122 sub-regional offices sand 532 cash settlement units (including 187 cash settlement units of KKB) (31 December 2016 – 22, 122, 365, respectively, 31 December 2015 – 22, 122, 377, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 40 Al-Farabi Avenue, Almaty, A26M3K5, Republic of Kazakhstan.

As at 31 December 2017, the number of the Group's full-time equivalent employees was 18,410 (31 December 2016 – 11,402, 31 December 2015 - 11,827).

The consolidated financial statements of the Group for the years ended 31 December 2017, 2016, and 2015 were authorised for issue by the Management Board on 7 March 2018.

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 2014-2016, the oil price decreased significantly, which led to a significant decrease in the national export revenue. On 20 August 2015, the Government and the NBRK 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 2017, the base rate set by the NBRK was 10.25% ± 1% (12% ± 1% as at 31 December 2016). During the year ended 2017, the decrease of the base rate decelerated. Due to relatively high cost of funding during 2017, the demand for new loans continued to be relatively low, while KZT liquidity in the banking system demonstrated excess levels, including on the back of dedollarisation of the client deposit base. Short-term notes of the NBRK remain the key instrument to withdraw excess tenge liquidity from the system. Compared to the end of 2016, the operating environment for the year ended 31 December 2017, has not changed significantly.

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.

OWNERSHIP

As at 31 December 2017, 2016 and 2015, the Group was owned by the following shareholders, which own individually more than 5% of the issued shares of the Group:

31 DECEMBER 2017

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	8,086,451,772	73.6%	8,086,451,772	73.6%
Unified Accumulative Pension Fund Joint Stock Company	716,281,746	6.5%	716,281,746	6.5%
GDR holders	1,852,878,720	16.8%	1,852,878,720	16.8%
Other	338,204,581	3.1%	338,204,581	3.1%
TOTAL SHARES IN CIRCULATION (ON CONSOLIDATED BASIS)	**10,993,816,819**	**100%**	**10,993,816,819**	**100%**

31 DECEMBER 2016

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

31 DECEMBER 2015

	Total shares	Stake in total shares in circulation	Common shares	Stake in common 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%**

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.

CONSOLIDATED SUBSIDIARIES

These consolidated financial statements include the following subsidiaries:

SUBSIDIARIES	HOLDING %			COUNTRY	INDUSTRY
	31 December 2017	31 December 2016	31 December 2015		
JSC Kazkommertsbank*	74.72	-	-	Kazakhstan	Banking
JSC Halyk-Leasing	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecom-munications
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	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
JSC Kazakhinstrakh	100	100	100	Kazakhstan	Insurance
JSC 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

*See Note 5.
**See Note 16.

On 5 July 2017, the Bank completed acquisition of 96.81% of ordinary shares in KKB, including 86.09% from Mr.K.Rakishev and 10.72% from JSC "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna"). The Bank acquired these 96.81% ordinary shares in KKB for KZT 2.

On 10 July 2017, to comply with the legislative requirements of the Republic of Kazakhstan, the Bank made a tender offer to the shareholders of KKB for the purchase of outstanding common shares (including global depositary receipts ("GDR"), the underlying assets of which are common shares of KKB) and preference shares (including GDRs, the underlying assets of which are preference shares of KKB).

On 12 July 2017, the Bank realised its pre-emptive right and purchased 1,296,698,676 ordinary shares of KKB for a total of KZT 185 billion, increasing its stake in the issued capital of KKB to 98.79%.

As at 29 August 2017, the Bank completed its transactions for the purchase of KKB's 13,687,609 ordinary shares at KZT 142.67 per share, 31,311 preference shares at KZT 71.55 per share, 3,081,552 GDR representing such KKB's issued ordinary shares at USD 0.86 per GDR and 14,655,549 GDR representing such KKB's issued preference shares at USD 0.43 per GDR. Total consideration paid for KKB shares amounted to KZT 4,940 million.

On November 15, 2017, KKB placed 700,171,633 ordinary shares for a total of KZT 65.2 billion, which were acquired by JSC HG ALMEX, after agreement with the NBRK. Following the results of the transaction on purchase and sale of ordinary shares, the share of JSC HG ALMEX in KKB is equal to 25.05%.

On 8 December 2017, the Board of Directors of the Bank approved integration scenario of the Bank and KKB, which suggests voluntary reorganisation of the Bank and KKB by merging KKB into the Bank. The integration is expected to be completed in the second half of 2018, after performing all the necessary procedures, including the receipt of the required approvals from regulatory authorities.

As at 31 December 2017, the Bank held 74.72% of KKB's outstanding ordinary shares and 23.55% of KKB's outstanding preference shares.

For further information about the purchase of KKB, please see Note 5.

As at 31 December 2017, the portion of non-controlling interest in KKB was 25.28%, which is considered as a significant non-controlling interest for the Group.

As at 31 December 2017, there were no dividends declared by this subsidiary.

The summarised financial information of KKB below represents the amounts before intragroup eliminations.

31 DECEMBER 2017	
Total assets	3,574,378
Total liabilities	3,306,238
Total equity	268,140
Net cash inflow from operating activities	1,793,933
Net cash outflow from investing activities	(1,379,162)
Net cash outflow from financing activities	(1,823)

On 7 June 2017, the Bank signed an agreement with China CITIC Bank Corporation Limited and China Shuangwei Investment Co., Ltd. on the sale of 60% in share capital of JSC Altyn Bank. To implement the agreements reached, the parties, among other things, will have to obtain necessary approvals from the competent authorities of the Republic of Kazakhstan and meet other conditions customary for such transactions.

Additional approvals from People's Republic of China regulatory authorities were obtained and the Management expects that all outstanding regulatory approvals will be provided in Q2 2018.

According to the decision of the Group's management, investments in JSC Altyn Bank have been reclassified into an asset held for sale in accordance with IFRS 5 as at 31 December 2017.

For further information, please see Note 16.

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.

NON-CONTROLLING INTERESTS

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent.

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

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 the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group. Transactions with non-controlling shareholders are presented as financing activities in the consolidated statement of cash flows.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, 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" ("IAS 12");
- 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" ("IFRS 2") 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" ("IFRS 5") 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 interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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

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, Tajikistan 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 KZT/USD 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 tax 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 on shares purchased by the Group's subsidiaries are eliminated upon 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 in 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 2017 was – KZT 332.33 to USD 1 (at 31 December 2016 – KZT 333.29; at 31 December 2015 – KZT 340.01).

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 the Group 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.

AMENDMENTS TO IFRSS AFFECTING AMOUNTS REPORTED IN THE FINANCIAL STATEMENTS

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

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

AMENDMENTS TO IAS 7 DISCLOSURE INITIATIVE

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

The Group's liabilities arising from financing activities consist of debt securities issued and a reconciliation between the opening and closing balances is provided in Note 21. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 21, the application of these amendments has had no impact on the Group's consolidated financial statements.

AMENDMENTS TO IAS 12 RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES

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

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

ANNUAL IMPROVEMENTS TO IFRSS - 2014-2016 CYCLE

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to

IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see the list of new and revised IFRSs in issue but not yet effective below).

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

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

NEW AND REVISED IFRSS IN ISSUE BUT NOT YET EFFECTIVE

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

- IFRS 9 Financial Instruments1;
- IFRS 15 Revenue from Contracts with Customers (and the related Clarifications)1;
- IFRS 16 Leases2;
- IFRS 17 Insurance Contracts3;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration1;
- IFRIC 23 Uncertainty Over Income Tax Treatments2;
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions1;
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture4;
- Amendments to IAS 40 – Transfers of Investment Property1;
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts1;
- Amendments to IFRS 9 – Prepayment Features With Negative Compensation2;
- Amendments to IAS 28 – Long-Term Interests in Associates and Joint Ventures2;
- Annual Improvements to IFRSs 2014-2016 Cycle1;
- Annual Improvements to IFRSs 2015-2017 Cycle2.

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 9 FINANCIAL INSTRUMENTS

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

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) 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.

From 1 January 2018, the Group started applying IFRS 9 Financial Instruments. This standard suggests changes in classification principles of financial instruments and replacement of "incurred losses" model applied by IAS 39 with "expected losses" model.

CLASSIFICATION AND MEASUREMENT

For financial assets accounting IFRS 9 provides for 3 classification categories:

- instruments estimated at amortised value;
- instruments estimated at fair value, which changes are reflected in other comprehensive income;
- Instruments estimated at fair value, which changes are reflected in profit or loss statement for the reporting period.

In accordance with IFRS 9 recommendations the Group uses the following financial assets management business models:

- **Retention of an asset to obtain the cash flows stipulated by the contract.** This business model suggests financial asset management aims to realize cash flows by receiving principal and interest payments over the life of the financial instrument. Within the framework of this business model, holding a financial asset to maturity is a priority, but early disposal is not prohibited.
- **Retention of an asset with a view for obtaining contractual cash flows and sale of financial assets.** This business model assumes that the management of financial assets is aimed at both obtaining contractual cash flows and sale of financial assets. Within the framework of this business model, the receipt of cash from the sale of a financial asset is a priority, which is characterized by a greater frequency and volume of sales compared to "holding an asset to receive contractual cash flows" business model.
- **Retention of an asset for other purposes.** Within the framework of this business model, financial assets can be managed with the following purposes:
  - management with a view to selling cash flows through the sale of financial assets;
  - liquidity management to meet daily funding needs;
  - a portfolio, which management and performance is measured on a fair value basis;
  - a portfolio, which matches the definition of held for trading. Financial assets are deemed to be held for trading if they were acquired mainly with a view to subsequent disposal in the near future (up to 180 days), gaining short-term profit, or represent derivative financial instruments (except for a financial guarantee or derivative financial instrument that was designated as a hedging instrument).

In accordance with IFRS 9, financial assets are classified as follows:

- bank loans and contingent liabilities classified as assets at amortised cost are contained within the framework of a business model which aims to receive cash flows exclusively for repayment of unpaid interest and principal stipulated by loan agreement;
- balances on correspondent accounts, interbank loans/deposits, repo transactions are classified, as a rule, as assets, estimated at amortised cost, since they are managed within the framework of a business model, which aims to receive cash flows stipulated by the contract;
- debt securities may be classified into any of the three classification categories, taking into account the selected business model and compliance with the SPPI criterion;
- equity securities are generally classified as instruments at fair value through profit or loss;
- trading securities and derivatives are classified as financial assets at fair value through profit or loss.

Financial assets are segmented by stages in accordance with the following approach:

- Stage 1: There is no significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the next 12 months;
- Stage 2: Significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the life of a financial asset;
- Stage 3: Financial asset is in default or has signs of impairment.

IMPAIRMENT

Calculation of financial assets impairment was made taking into account the following factors:

- In order to calculate the expected credit losses, the Bank performs loan assessment on an individual basis and on a group basis depending on general credit risk features.
- Expected credit losses represent estimates of expected credit losses weighted at

probability of a default and calculated as present value of all expected losses in amounts due. Calculations are based on justified and verified information, which may be received without any significant costs or efforts. Calculation of the present value of the expected future cash flows of the secured financial asset reflects the cash flow that may result from foreclosure, less the cost of obtaining and selling collateral, regardless of whether the recovery is probable or not. The allowance is based on the Group's own experience in assessing losses and management assumptions about the level of losses likely to be recognised on assets in each category of a credit risk, based on debt servicing capabilities and borrower's credit track record.

- Impairment for treasury operations (investments in debt securities, reverse repurchase transactions, interbank loans and deposits, correspondent account transactions, accounts receivable under treasury transactions) is calculated taking into account the counterparty's rating, probability of default, duration of a transaction and the extent of loss in case of a default.
- Assets classified at fair value through profit or loss are not subject to impairment under IFRS 9.
- The estimated credit losses for treasury operations are estimated on an individual basis (except for individual claims in the form of receivables).

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

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

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

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

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

The management intends to use the full prospectively method of transition to IFRS 15.

Apart from providing more extensive disclosures on the Group's revenue transactions, the management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.

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, 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 is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until management completes their review.

IFRS 17 INSURANCE CONTRACTS

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

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

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

The management of the Group anticipates that the application of IFRS 17 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:
   - the original liability is derecognised;
   - 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
   - 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 IAS 40 TRANSFERS OF INVESTMENT PROPERTY

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

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

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

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.

IFRIC 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

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

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

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

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

IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS

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

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

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

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

AMENDMENTS TO IFRS 4 APPLYING IFRS 9 FINANCIAL INSTRUMENTS WITH IFRS 4 INSURANCE CONTRACTS

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

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

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

AMENDMENTS TO IFRS 9 PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

The narrow-scope amendments remedy an unintended consequence to the notion of 'reasonable additional compensation'. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

In addition to that, the IASB considered the accounting for financial liabilities that are modified or exchanged that do not lead to derecognition and as a result included in the Basis for Conclusion two paragraphs on that matter. In those paragraphs the Board observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed it will lead to an immediate gain or loss in profit or loss.

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of 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.

AMENDMENTS TO IAS 28 LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES

The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of 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 other long-term interests in associates and joint ventures, except for the equity investments accounted for using the equity method.

ANNUAL IMPROVEMENTS TO IFRSS 2014-2016 CYCLE

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

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

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

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

ANNUAL IMPROVEMENTS TO IFRSS 2015-2017 CYCLE

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

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

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

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

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

The management 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. In determining the impairment allowance for loans and receivables, management makes the following assumptions: migration rates for collectively assessed loans are estimated based on a constant rate of historic loss migration for the past 12 months; the projected cash flows for repayment from the sale of pledged property take into account the possible expenses and period to sell, which are based on collateral realization statistics.

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 2017 is KZT 317,161 million (31 December 2016 is KZT 284,752 million, 31 December 2015: KZT 305,114 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 2017, 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.

5. ACQUISITION

The Group acquired the following subsidiary during the year ended 31 December 2017.

	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Consideration transferred in KZT
2017				
JSC Kazkommertsbank	Banking	5 July 2017	96.81%	2

KKB is consolidated from 5 July 2017, on which date the control was transferred to the Group. The assets and liabilities of KKB were recognized at fair value. The income statement of KKB up to acquisition was not recognized.

ASSETS	FAIR VALUE AT ACQUISITION
Cash and cash equivalents	678,622
Obligatory reserves	3,313
Financial assets at fair value through profit or loss	197,071
Amounts due from credit institutions	24,675
Available-for-sale investment securities	1,434,422
Precious metals	3,065
Loans to customers	780,866
Assets held-for-sale	138,568
Property and equipment	49,009
Intangible assets	3,199
Deferred income tax assets	1,779
Insurance assets	15,211
Other assets	99,811
TOTAL ASSETS	**3,429,611**
LIABILITIES	
Amounts due to customers	2,584,187
Amounts due to credit institutions	70,650
Financial liabilities at fair value through profit or loss	3,132
Debt securities issued	579,662
Provisions	17,362
Deferred tax liability	200
Insurance liability	66,931
Other liabilities	107,487
TOTAL LIABILITIES	**3,429,611**
Total identifiable net assets at fair value	-
Non-controlling interest measured at fair value	7

Fair value of cash and cash equivalents received at acquisition amounted to KZT 678,622 million as disclosed in the table above.

The assets acquired and liabilities assumed are assessed at fair value as at the acquisition date in accordance with IFRS 3 requirements.

Management considered that the carrying amounts of cash and cash equivalents and obligatory reserves approximate their fair values at acquisition date due to its short-term maturity.

Property and assets held for sale were assessed using market comparable approach that reflects transaction prices for similar properties at acquisition date.

For 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 of date of acquisition. For loans where such estimation was not applicable, the estimate was made based on the discounting of future cash flows from realization of collateral.

For amounts due from credit institutions and amounts due to credit institutions maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted as of date of acquisition using market rates.

Interest rates charged to customers closely approximate market interest rates and, accordingly, the carrying amount of customers' accounts approximate its fair value.

To determine the fair value of the bonds issued by KKB, the Group used the relevant KASE quotes. Where the Group believes that KASE quotes do not reflect actual price of the securities (in case of low volume speculative transactions at non-market price) it uses different valuation methods. For example, to determine the fair value of some securities issued by KKB the Group based its valuation on the current yield to maturity (using base rate and credit spread). Other similar valuation methods would include such criteria as maturity, cash flow structure, currency and credit risk.

On acquisition date, net deferred tax assets of KKB included deductible temporary difference amounted to KZT 44,013 million of recognized tax losses carried forward and taxable temporary difference of KZT 44,013 million related to the fair value adjustment on customer accounts.

IMPACT OF ACQUISITIONS ON THE RESULTS OF THE GROUP

Given the system limitations in allocating the significant impairment losses on financial assets between accounting periods, recorded by KKB during the year ended 31 December 2017, it is impracticable to determine the pro forma impact to the 2017 revenues and net income if the acquisition had occurred on 1 January 2017.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2017	31 December 2016	31 December 2015
Cash on hand	190,396	149,124	118,891
RECORDED AS LOANS AND RECEIVABLES IN ACCORDANCE WITH IAS 39:			
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	214,596	181,144	116,478
Short-term deposits with OECD based banks	150,656	428,526	125,808
Overnight deposits with OECD based banks	36,584	79,992	-
Correspondent accounts with NBRK	699,256	915,675	1,019,059
Short-term deposits with NBRK	61,378	4,002	310
Short-term deposits with Kazakhstan banks (incl. loans under reverse repurchase agreements)	373,956	2,592	11,518
Correspondent accounts with non-OECD based banks	20,439	11,459	12,206
Short-term deposits with non-OECD based banks	33,233	2,005	410
Overnight deposits with NON-OECD based banks	54	-	-
	1,780,548	**1,774,519**	**1,404,680**
Cash and cash equivalents of JSC Altyn Bank	142,736	-	-
TOTAL PER CONSOLIDATED STATEMENT OF CASH FLOWS	**1,923,284**	**1,774,519**	**1,404,680**

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

	KZT	31 December 2017 Foreign currencies	KZT	31 December 2016 Foreign currencies	KZT	31 December 2015 Foreign currencies
Short-term deposits with OECD based banks	-	0.8%-1.8%	-	0.7%-1.5%	-	0.3%-0.9%
Overnight deposits with OECD based banks	-	1.4%-1.5%	-	0.5%-0.7%	-	-
Short-term deposits with NBRK	9.3%	-	11.0%	-	-	4.0%
Short-term deposits with Kazakhstan banks	9.0%-12.3%	-	12.5%	-	10%-150%	0.3%-2.5%
Short-term deposits with non-OECD based banks	-	1.7%	-	6.6%-7.0%	-	3.0%
Overnight deposits with NON-OECD based banks	-	1.7%-1.8%	-	-	-	-

Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2017, 2016 and 2015, are as follows:

	Carrying amount of loans	31 December 2017 Fair value of collateral	Carrying amount of loans	31 December 2016 Fair value of collateral	Carrying amount of loans	31 December 2015 Fair value of collateral
Treasury bills of the Ministry of Finance of Kazakhstan	228,642	228,516	1,591	1,591	8,320	10,012
Notes of NBRK	132,879	132,791	-	-	-	-
Equity securities	11,122	11,080	-	-	-	-
	372,643	**372,387**	**1,591**	**1,591**	**8,320**	**10,012**

As at 31 December 2017, 2016 and 2015, maturities of loans under reverse repurchase agreements are less than one month.

7. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2017	31 December 2016	31 December 2015
RECORDED AS LOANS AND RECEIVABLES IN ACCORDANCE WITH IAS 39:			
Cash and due from banks allocated to obligatory reserves	111,039	76,122	68,389
OBLIGATORY RESERVES	**111,039**	**76,122**	**68,389**

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the National Banks of the Republic of Kazakhstan, Kyrgyzstan, Georgia, Tajikistan and the Central Bank of Russian Federation. As at 31 December 2017, obligatory reserves of the Bank's subsidiaries – JSC Kazkommertsbank, OJSC Halyk Bank Kyrgyzstan, JSC NBK-Bank and JSC Halyk Bank Georgia, JSC Commercial Bank Moskommertsbank and CJSC Kazkommertsbank Tajikistan comprised KZT 48,196 million (31 December 2016 – KZT 12,767 million, 31 December 2015 – KZT 9,340 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 2017	31 December 2016	31 December 2015
FINANCIAL ASSETS HELD FOR TRADING:			
Treasury bills of the Ministry of Finance of Kazakhstan	44,171	-	-
Derivative financial instruments	39,723	77,776	175,313
Corporate bonds	21,212	743	909
Equity securities of Kazakhstan corporations	14,478	88	106
Notes of NBRK	8,310	249,574	-
Bonds of Kazakhstan banks	5,547	137	293
Bonds of JSC Development Bank of Kazakhstan	5,252	215	199
Bonds of foreign organizations	5,126	102	124
Equity securities of foreign organizations	675	102	78
Equity securities of Kazakhstan banks	482	-	48
	144,976	**328,737**	**177,070**

Financial liabilities at fair value through profit or loss comprise:

	31 December 2017	31 December 2016	31 December 2015
FINANCIAL LIABILITIES HELD FOR TRADING:			
Derivative financial instruments	5,831	2,841	5,593

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 2017	31 December 2016	31 December 2015
Treasury bills of the Ministry of Finance of Kazakhstan	5.6%	-	-
Corporate bonds	8.6%	6.6%	6.6%
Notes of NBRK	10.3%	13.2%	-
Bonds of Kazakhstan banks	11.1%	9.7%	10.5%
Bonds of JSC Development Bank of Kazakhstan	7.1%	5.9%	5.3%
Bonds of foreign organizations	7.0%	6.9%	6.3%

Derivative financial instruments comprise:

Foreign currency contracts	31 December 2017			31 December 2016			31 December 2015		
	Notional amount	Asset	Fair value Liability	Notional amount	Asset	Fair value Liability	Notional amount	Asset	Fair value Liability
Swaps	1,172,217	39,671	5,828	228,905	77,655	2,833	454,075	175,308	1,043
Spots	10,309	23	3	3,583	14	8	28,627	5	265
Forwards	4,085	29	-	4,644	107	-	14,546	-	4,285
		39,723	**5,831**		**77,776**	**2,841**		**175,313**	**5,593**

As at 31 December 2017, swaps contracts included a one-year cross-currency swap deal concluded between KKB and NBRK on 3 July 2017 for the notional amount of KZT 1,000,000 million. The purpose of the deal is the placement of excess foreign currency liquidity.

As at 31 December 2017, 2016 and 2015, the Group used quoted market prices from independent information sources for all of its financial assets at fair value through profit or loss, except for derivative financial instruments, which are valued using valuation models based on observable and unobservable market data.

During 2015, 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 2017	31 December 2016	31 December 2015
RECORDED AS LOANS AND RECEIVABLES IN ACCORDANCE WITH IAS 39:			
Term deposits	59,711	11,256	25,584
Loans to credit institutions	18,719	18,678	14,307
Deposit pledged as collateral for derivative financial instruments	9,306	5,608	5,109
	87,736	**35,542**	**45,000**
Less - Allowance for loan impairment (Note 22)	-	-	(7)
	87,736	**35,542**	**44,993**

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

	31 December 2017		31 December 2016		31 December 2015	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Term deposits	0.4-15.0	2018	0.5-18.0	2017-2018	1.0-27.0	2016-2017
Loans to credit institutions	8.5-16.0	2018	8.2-10.3	2017	8.2	2017
Deposit pledged as collateral for derivative financial instruments	1.1-1.8	2046	0.2-1.8	2018	0.2-1.8	2016

10. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2017	31 December 2016	31 December 2015
Treasury bills of the Ministry of Finance of Kazakhstan*	1,366,494	138,018	165,040
Notes of NBRK	459,895	199,390	-
Corporate bonds	280,106	103,464	141,428
Treasury bills of the USA	264,821	91,534	-
Bonds of foreign organizations	82,935	3,138	9,336
Bonds of JSC Development Bank of Kazakhstan	66,792	37,640	35,976
Bonds of Kazakhstan banks	25,017	10,223	17,606
Treasury bills of Hungary	7,987	7,762	-
Equity securities of Kazakhstan corporations	3,407	4,719	3,024
Treasury bills of Georgia	2,156	2,116	2,755
Equity securities of foreign corporations	1,756	95	2,140
Treasury bills of the Kyrgyz Republic	1,710	705	208
Notes of National Bank of Kyrgyz Republic	1,400	-	354
Treasury bills of the Russian Federation	909	820	653
Equity securities of Kazakhstan banks	40	-	-
	2,565,425	**599,624**	**378,520**

*Including Treasury bills of the Ministry of Finance of Kazakhstan for KZT 1,061,654 million as at 31 December 2017 acquired by KKB on special terms on 3 July 2017 with the maturity 2022-2027 for total cash consideration of KZT 1,000,000 million. Special terms include the following: securities are restricted in use and the subsidiary does not have the right to sell the securities within two years without the consent of NBRK, the Ministry of Finance of Kazakhstan and Parent company. However, these securities can be used in repo transactions for liquidity management purposes.

As at 31 December 2017, 2016 and 2015, available-for-sale investment securities included treasury bills of the Ministry of Finance of Kazakhstan at fair value of KZT 92,719 million, KZT 15,201 million, and KZT 51,763 million, respectively, pledged under repurchase agreements with the other banks (see Note 20). All repurchase agreements as at 31 December 2017, 2016 and 2015 mature before 3 January 2018, 4 January 2017, and 5 January 2016, 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 2017		31 December 2016		31 December 2015	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	7.0	2018-2045	5.7	2017-2031	5.6	2016-2045
Notes of NBRK	10.0	2018	13.4	2017	-	-
Corporate bonds	7.0	2018-2047	5.8	2017-2031	6.9	2016-2029
Treasuty bills of the USA	1.0	2018	0.4	2017	-	-
Bonds of foreign organisations	8.0	2018-2046	6.3	2017-2024	5.0	2016-2022
Bonds of JSC Development Bank of Kazakhstan	5.7	2020-2032	4.5	2022-2026	4.5	2022-2026
Bonds of Kazakhstan banks	11.3	2018-2024	11.2	2017-2049	12.1	2016-2049
Treasury bills of Hungary	3.2	2023	3.2	2023	-	-
Treasury bills of Georgia	10.8	2019-2025	10.4	2017-2024	10.1	2016-2024
Treasury bills of the Kyrgyz Republic	6.1	2018-2021	10.2	2017	12.4	2016
Notes of National Bank of Kyrgyz Republic	2.8	2018	-	-	10.5	2016
Treasury bills of the Russian Federation	8.1	2021	8.1	2021	9.8	2021

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 held to maturity investment portfolio to the available-for-sale investment portfolio. As a result, the Group may not classify any financial assets as held to maturity investments within next two financial periods after the reclassification date.

11. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2017	31 December 2016	31 December 2015
RECORDED AS LOANS AND RECEIVABLES IN ACCORDANCE WITH IAS 39:			
Originated loans to customers	3,547,621	2,602,381	2,477,685
Overdrafts	20,642	1,954	3,498
	3,568,263	**2,604,335**	**2,481,183**
Less – Allowance for loan impairment losses (Note 22)	(317,161)	(284,752)	(305,114)
LOANS TO CUSTOMERS	**3,251,102**	**2,319,583**	**2,176,069**

As at 31 December 2017, loans to customers before allowance for impairment losses include loans of face value of KZT 1,640,206 million acquired from KKB. These loans are presented in the table above at their unamortized fair value of KZT 804,022 million.

Weighted average interest rate on loans to customers is calculated as interest income on loans to customers divided by monthly average balances of loans to customers. As at 31 December 2017, average interest rate on loans was 13.0% (for the year ended 31 December 2016 – 13.0%, 31 December 2015 – 12.5%).

As at 31 December 2017, the Group's loan concentration to the ten largest borrowers was KZT 617,144 million, which comprised 17% of the Group's total gross loan portfolio (as at 31 December 2016 – KZT 494,953 million, 19%; as at 31 December 2015 – KZT 512,128 million, 21%,) and 66% of the Group's total equity (as at 31 December 2016 – 74%; as at 31 December 2016 – 97%).

As at 31 December 2017, the allowance for loan impairment losses created against these loans was KZT 55,654 million (as at 31 December 2016 – KZT 49,762 million, as at 31 December 2015 – KZT 60,965 million).

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2017	31 December 2016	31 December 2015
Loans collateralised by guarantees	1,246,368	646,702	511,561
Loans collateralised by pledge of real estate or rights thereon	819,512	895,955	940,171
Consumer loans issued within the framework of payroll projects*	446,823	405,196	373,211
Loans collateralised by cash	302,871	223,675	192,185
Loans collateralised by pledge of corporate shares	108,995	133,988	144,541
Loans collateralised by pledge of inventories	92,997	48,790	48,313
Loans collateralised by pledge of equipment	36,643	8,849	10,865
Loans collateralised by mixed types of collateral	63,607	39,617	48,490
Loans collateralised by pledge of vehicles	29,956	42,997	70,227
Loans collateralised by pledge of agricultural products	7,413	6,311	5,742
Unsecured loans	413,078	152,255	135,877
	3,568,263	2,604,335	2,481,183
Less - Allowance for loan impairment losses (Note 22)	(317,161)	(284,752)	(305,114)
LOANS TO CUSTOMERS	**3,251,102**	**2,319,583**	**2,176,069**

*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 2017	%	31 December 2016	%	31 December 2015	%
Retail loans:						
- consumer loans	679,674	19%	433,291	17%	407,905	16%
- mortgage loans	265,454	8%	187,772	7%	197,165	8%
	945,128		621,063		605,070	
Services	527,618	15%	413,150	16%	394,027	16%
Wholesale trade	376,064	11%	383,261	15%	442,797	18%
Construction	282,412	8%	191,171	7%	168,393	7%
Retail trade	185,733	5%	157,146	6%	150,353	6%
Real estate	174,221	5%	150,662	6%	157,413	6%
Metallurgy	153,761	4%	23,290	1%	25,610	1%
Agriculture	150,186	4%	121,368	5%	118,948	5%
Transportation	131,843	4%	101,965	4%	59,415	2%
Energy	95,838	3%	69,690	3%	28,628	1%
Financial services	83,193	2%	44,645	2%	39,394	2%
Food industry	78,417	2%	34,797	1%	31,897	1%
Oil and gas	73,620	2%	33,815	1%	36,777	2%
Mining	63,555	2%	78,528	3%	54,936	2%
Hotel industry	63,241	2%	34,706	1%	32,581	1%
Communication	49,731	1%	61,461	2%	60,483	2%
Chemical industry	38,036	1%	28,051	1%	14,678	1%
Machinery	33,377	1%	22,559	1%	15,499	1%
Light industry	17,255	0%	8,911	0%	7,004	0%
Other	45,034	1%	24,096	1%	37,280	2%
	3,568,263	**100%**	**2,604,335**	**100%**	**511,561**	**100%**

As at 31 December 2017, accrued interest on loans comprised KZT 145,535 million (31 December 2016 – KZT 142,046 million, 31 December 2015 – KZT 138,495 million).

During the years ended 31 December 2017, 2016 and 2015, the Group received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 2017, 2016 and 2015, such assets of KZT 142,833 million (including KKB for KZT 132,985 million), KZT 2,726 million, and KZT 7,401 million, respectively, are included in assets held for sale.

As at 31 December 2017, 2016 and 2015, loans to customers included loans of KZT 340,445 million, KZT 149,024 million, and KZT 188,582 million, respectively, which terms were renegotiated. Otherwise, these loans would be past due or impaired.

12. INVESTMENT PROPERTY

	2017	2016	2015
As at 1 January	30,146	24,658	5,684
Additions	6,543	5,924	18,861
Acquisitions through business combination	2,044	-	-
Disposals	(2,411)	(1,499)	(2)
Transferred from non-current assets held for sale	475	-	-
Transferred from property and equipment	564	976	58
Gain on revaluation of investment property	70	56	57
Capitalised expenses	43	22	-
Translation differences	43	9	-
AS AT 31 DECEMBER	**37,517**	**30,146**	**24,658**

During the years ended 31 December 2017, 2016 and 2015, the Group foreclosed collateral it held as a security for loans to customers. As a result, the Group received investment property of KZT 6,543 million, KZT 5,924 million, and KZT 18,861 million, respectively.

As at 31 December 2017, 2016 and 2015, 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 2017, 2016 and 2015, investment property rental income earned was KZT 1,760 million, KZT 1,571 million, and KZT 1,120 million, respectively.

Operating expenses arising from the investment property that generated rental income during the years ended 31 December 2017, 2016 and 2015 were KZT 671 million, KZT 861 million, and KZT 497 million, respectively.

Investment property owned by the Group was revalued by independent appraisers as at 31 December 2017, 2016 and 2015. 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 2017, 2016 and 2015 of KZT 35 million, KZT 56 million, and KZT 57 million, respectively.

As at 31 December 2017, 2016 and 2015, the fair value measurements of the Group's investment property of KZT 37,517 million, KZT 30,146 million, and KZT 24,658 million, respectively, are categorised into Level 3 (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 2017, 2016 and 2015, it recognised capitalised expenses of KZT 830 million, KZT 2,818 million and KZT 2,146 million, respectively. During 2017, the Group transferred completed property to original investors for KZT 1,989 million and sold property for KZT 2,232 million. As at 31 December 2017, the carrying amount of construction in progress and finished construction was KZT 3,039 million and KZT 3,772 million, respectively. During 2017, the Group also incorporated commercial property for KZT 41,963 million as a result of the acquisition of subsidiary JSC Kazkommertsbank.

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 2016	77,854	2,754	24,773	1	16,694	122,076
Additions	777	483	1,607	394	2,454	5,715
Disposals	(550)	(619)	(8,032)	(277)	(2,282)	(11,760)
Write-off at revaluation	-	-	(5)	-	(1)	(6)
Transferred to investment property	(564)	-	-	-	-	(564)
Reclassified as held for sale	(3,239)	(102)	(609)	-	(960)	(4,910)
Acquisition through business combination	38,052	441	8,489	-	2,027	49,009
Impairment	(88)	-	(3)	-	(70)	(161)
Transfers*	-	32	493	-	(807)	(282)
Translation differences	151	5	33	-	64	253
31 December 2017	112,393	2,994	26,746	118	17,119	159,370
ACCUMULATED DEPRECIATION:						
31 December 2016	484	1,645	17,041	-	8,009	27,179
Charge	1,304	359	2,987	-	1,488	6,138
Disposals	(7)	(432)	(7,958)	-	(2,137)	(10,534)
Write-off at revaluation	-	-	(5)	-	(1)	(6)
Reclassified as held for sale	(35)	(51)	(389)	-	(500)	(975)
Transfers*	-	29	431	-	(677)	(217)
Translation differences	20	4	30	-	47	101
31 December 2017	1,766	1,554	12,137	-	6,229	21,686
NET BOOK VALUE:						
31 DECEMBER 2017	**110,627**	**1,440**	**14,609**	**118**	**10,890**	**137,684**

	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		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**

*Transfers to/from Other assets.
**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 2017, the fair value measurements of the Group's buildings and construction, are categorised into Level 2 and Level 3, in the amount of KZT 75,562 million and KZT 35,065 million, respectively (31 December 2016: KZT 77,256 million and KZT 114 million, respectively; 31 December 2015: KZT 55,249 million and KZT 76 million, respectively). A description of the measurement hierarchy is disclosed in Note 37.

As at 31 December 2017, the total fair value of buildings and construction was KZT 110,627 million. As at 31 December 2017, the carrying amount of property and equipment that would have been recognised had the assets been carried under the cost model is KZT 95,855 million.

15. INTANGIBLE ASSETS

The movements in intangible assets are as follows:

	Software	Licensing agreements for the right to use the software	Customer deposit intangibles	Other intangible assets	Total
COST:					
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
Additions	1,191	234	-	1,054	2,479
Disposals	(26)	(159)	-	(58)	(243)
Transfers	815	(19)	-	(796)	-
Reclassified as held for sale	(2,530)	-	(2,226)	-	(4,756)
Acquisition through business combination	1,402	1,033	-	764	3,199
Translation differences	28	4	-	2	34
31 December 2017	13,999	6,496	-	1,127	21,622
ACCUMULATED AMORTISATION:					
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
Charge	3,313	180	-	61	3,554
Disposals	(25)	(41)	-	-	(66)
Reclassified as held for sale	(933)	-	(931)	-	(1,864)
Translation differences	18	(1)	-	-	17
31 December 2017	10,900	2,399	-	72	13,371
NET BOOK VALUE:					
31 DECEMBER 2015	**4,416**	**2,444**	**1,740**	**59**	**8,659**
31 DECEMBER 2016	**4,592**	**3,142**	**1,295**	**150**	**9,179**
31 DECEMBER 2017	**3,099**	**4,097**	**-**	**1,055**	**8,251**

16. ASSETS HELD FOR SALE

After the default of some counterparties on loans to customers, the Group recognised the property pledged as collateral for those 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 2017	31 December 2016	31 December 2015
Assets classified as held for sale related to JSC Altyn Bank	391,445	-	-
Land plots	114,267	8,962	10,432
Real estate	43,290	1,335	973
Movable property	3,403	-	-
TOTAL ASSETS CLASSIFIED AS HELD FOR SALE	**552,405**	**10,297**	**11,405**
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**334,627**	**-**	**-**

In October 2017, the Group performed an independent valuation of its assets held for sale and based on the results recognised an impairment loss of KZT 4,978 million.

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 2017, 2016 and 2015.

The fair value of the Group's non-current assets held for sale was determined by independent appraisers. Income approach, comparative approach and cost based approach were used to estimate the fair value of those non-current assets. To estimate 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 2017, 2016 and 2015 are as follows:

	Level 2	Level 3
31 DECEMBER 2015		
Land plots	-	10,432
Real estate	968	5
31 DECEMBER 2016		
Land plots	-	8,962
Real estate	507	828
31 DECEMBER 2017		
Land plots	-	114,267
Real estate	23,657	19,633
Movable property	-	3,403

The major classes of assets and liabilities of JSC Altyn Bank as at 31 December 2017 were as follows:

	31 December 2017
Cash and cash equivalents	149,170
Financial assets at fair value through profit or loss	7
Available-for-sale investment securities	115,715
Loans to customers	115,955
Property, equipment and intangible assets	5,252
Goodwill	1,869
Other assets	3,477
Assets of JSC Altyn Bank classified as held for sale	391,445
Amounts due to customers	318,900
Amounts due to credit institutions	12,624
Other liabilities	3,103
Liabilities of JSC Altyn Bank directly associated with assets classified as held for sale	334,627
NET ASSETS OF JSC ALTYN BANK CLASSIFIED AS HELD FOR SALE	**56,818**

The combined results of the discontinued operations of JSC Altyn Bank included in the consolidated statement of profit or loss are set out below:

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	25,416	22,434	10,816
Interest expense	(12,800)	(10,492)	(3,874)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	12,616	11,942	6,942
Recovery of provisions/(impairment charge)	361	(372)	(837)
NET INTEREST INCOME	12,977	11,570	6,105
Fee and commission income	1,743	1,648	1,390
Fee and commission expense	(988)	(796)	(687)
Fees and commissions, net	755	852	703
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	1,474	(952)	(5,606)
Net realized gain/(loss) from available-for-sale investment securities	-	2,483	(6)
Net foreign exchange gain	1,056	4,117	12,237
Other income	42	5	337
OTHER NON-INTEREST INCOME	2,572	5,653	6,962
Operating expenses	(6,286)	(6,400)	(5,410)
(Other provisions)/recovery of other provisions	(34)	22	9
NON-INTEREST EXPENSES	(6,320)	(6,378)	(5,401)
INCOME BEFORE INCOME TAX EXPENSE	9,984	11,697	8,369
Income tax expense	(108)	(784)	(1,639)
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	**9,876**	**10,913**	**6,730**

CASH FLOWS FROM DISCONTINUED OPERATIONS:	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Net cash inflow from operating activities	17,805	14,322	149,746
Net cash outflow from investing activities	(68,973)	(26,375)	(18,842)
Net cash flow from financing activities	-	2,514	-
NET CASH OUTFLOW	**(51,168)**	**(9,539)**	**130,904**

17. INSURANCE ASSETS AND LIABILITIES

Insurance assets comprised the following:

	31 December 2017	31 December 2016	31 December 2015
Unearned reinsurance premium	17,893	15,519	12,859
Reinsurance amounts	8,987	2,294	1,557
	26,880	**17,813**	**14,416**
Premiums receivable	13,282	10,541	9,441
INSURANCE ASSETS	**40,162**	**28,354**	**23,857**

Insurance liabilities comprised the following:

	31 December 2017	31 December 2016	31 December 2015
Reserves for insurance claims	99,597	33,731	24,797
Gross unearned insurance premium reserve	29,172	23,120	19,043
	128,769	**56,851**	**43,840**
Payables to reinsurers and agents	10,774	7,523	7,143
INSURANCE LIABILITIES*	**139,543**	**64,374**	**50,983**

* Including acquisition of insurance liabilities through business combination for KZT 67,767 million as at 31 December 2017.

INSURANCE RISK

The Group establishes underwriting guidelines and limits, which stipulate the approval process for risks and their limits. These limits are being continuously monitored. The Group's direct insurance business is spread throughout the Republic of Kazakhstan. The Group'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 2017, 2016 and 2015, were as follows:

	2017	2016	2015
Reserves for claims, beginning of the year	33,731	24,797	18,360
Reserves for claims, reinsurance share, beginning of the year	(2,294)	(1,557)	(2,221)
Net reserves for claims, beginning of the year	31,437	23,240	16,139
Plus claims incurred	48,615	24,799	22,793
Less claims paid	(27,282)	(16,602)	(15,692)
Plus acquisition of reserves through business combination	37,840	-	-
Net reserves for claims, end of the year	90,610	31,437	23,240
Reserves for claims, reinsurance share, end of the year	8,987	2,294	1,557
RESERVES FOR CLAIMS, END OF THE YEAR	**99,597**	**33,731**	**24,797**

The movements on unearned insurance premium reserve for the years ended 31 December 2017, 2016 and 2015, were as follows:

	2017	2016	2015
Gross unearned insurance premium reserve, beginning of the year	23,120	19,043	15,105
Unearned insurance premium reserve, reinsurance share, beginning of the year	(15,519)	(12,859)	(10,420)
Net unearned insurance premium reserve, beginning of the year	7,601	6,184	4,685
Change in unearned insurance premium reserve	6,052	4,077	3,938
Change in unearned insurance premium reserve, reinsurance share	(2,374)	(2,660)	(2,439)
Net change in unearned insurance premium reserve	3,678	1,417	1,499
Net unearned insurance premium reserve, end of the year	11,279	7,601	6,184
Unearned insurance premium reserve, reinsurance share, end of the year	17,893	15,519	12,859
GROSS UNEARNED INSURANCE PREMIUM RESERVE, END OF THE YEAR	**29,172**	**23,120**	**19,043**

18. OTHER ASSETS

Other assets comprise:

	31 December 2017	31 December 2016	31 December 2015
OTHER FINANCIAL ASSETS RECORDED AS LOANS AND RECEIVABLES IN ACCORDANCE WITH IAS 39:			
Debtors on banking activities*	33,084	8,397	8,171
Debtors on non-banking activities	13,037	1,212	1,802
Accrued commission income	4,895	1,652	806
Other	363	12	15
	51,379	**11,273**	**10,794**
Less – Allowance for impairment (Note 22)	(5,921)	(4,516)	(4,568)
	45,458	**6,757**	**6,226**
OTHER NON-FINANCIAL ASSETS:			
Prepayments for investment property**	11,816	7,559	-
Advances for taxes other than income tax	3,767	1,077	753
Prepayments for property and equipment	1,679	1,263	7,601
Inventory	1,335	1,323	1,039
Other investments	1,335	168	65
Other	3,621	2,443	3,082
	22,671	**13,833**	**12,540**
	68,129	**20,590**	**18,766**

* Debtors on banking activities represent debtors on sale of assets in installments recorded on the books of the Group as a result of KKB acquisition.

** As at 31 December 2017 and 2016, the Bank made prepayments for investment property, which subsequently will be transferred to the subsidiary.

19. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2017	31 December 2016	31 December 2015
RECORDED AT AMORTISED COST:			
TERM DEPOSITS:			
Individuals	2,691,886	1,470,536	1,276,609
Legal entities	1,705,971	1,267,589	868,833
	4,397,857	**2,738,125**	**2,145,442**
TERM DEPOSITS:			
Individuals	1,321,530	837,625	701,468
Legal entities	412,363	244,912	196,821
	1,733,893	**1,082,537**	**898,289**
	6,131,750	**3,820,662**	**3,043,731**

As at 31 December 2017, the Group's ten largest groups of related customers accounted for approximately 32% of the total amounts due to customers (31 December 2016 – 32%; 31 December 2015 – 28%), where each group of related customers represents customers related to each other within that group.

As at 31 December 2017, amounts due to customers included amounts held as collateral of KZT 83,501 million (31 December 2016 – KZT 19,648 million, 31 December 2015 – KZT 25,105 million).

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 2017	%	31 December 2016	%	31 December 2015	%
Individuals and entrepreneurs	3,104,249	51%	1,715,448	45%	1,473,430	48%
Oil and gas	712,840	12%	743,744	19%	604,738	20%
Government	489,422	8%	86,162	2%	20,309	1%
Metallurgy	358,939	6%	77,103	2%	48,406	1%
Other consumer services	208,610	4%	171,245	5%	142,768	5%
Wholesale trade	199,766	3%	166,918	4%	151,395	5%
Construction	138,326	2%	81,113	2%	82,841	3%
Healthcare and social services	129,962	2%	61,184	2%	65,434	2%
Transportation	125,828	2%	185,039	5%	131,926	4%
Financial sector	90,204	2%	215,936	6%	112,462	4%
Education	86,508	1%	35,723	1%	23,547	1%
Communication	81,260	1%	52,550	1%	15,714	1%
Energy	44,568	1%	33,729	1%	45,280	1%
Insurance and pension funds activity	17,779	0%	13,281	0%	8,368	0%
Other	343,489	6%	181,487	5%	117,113	4%
	6,131,750	**100%**	**3,820,662**	**100%**	**3,043,731**	**100%**

20. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2017	31 December 2016	31 December 2015
RECORDED AT AMORTISED COST:			
Loans and deposits from Kazakhstan banks (incl. loans under repurchase agreements)	105,166	21,924	53,945
Loans from JSC Entrepreneurship Development Fund DAMU	79,971	36,552	32,882
Loans from JSC Development Bank of Kazakhstan	37,434	21,372	19,365
Correspondent accounts	23,953	27,882	8,420
Loans from JSC National Managing Holding KazAgro	3,869	38,534	41,866
Loans and deposits from non-OECD based banks	2,227	7,109	8
Loans from other financial institutions	2,148	2,903	1,791
Loans and deposits from OECD based banks	383	5,858	6,976
Overnight deposits	-	-	3,005
	255,151	**162,134**	**168,258**

As at 31 December 2017, loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") included long-term loans of KZT 79,566 million at a 1.0%-4.5% interest rate maturing in 2018-2035 with an early recall option (31 December 2016 – KZT 36,367 million, 31 December 2015 – KZT 32,721 million). These loans were received in accordance with the Government program ("the Program") to finance small and medium enterprises ("SME") operating in certain industries. According to the loan agreements 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 2017, loans from JSC Development Bank of Kazakhstan ("DBK") included long-term loans of KZT 32,012 million (31 December 2016 – KZT 16,000 million, 31 December 2015 – KZT 16,000 million) at a 2.0%-7.9% interest rate maturing in 2019-2035, to finance corporate enterprises operating in manufacturing industries, as well as a long-term loan of KZT 5,300 million (31 December 2016 – KZT 5,300 million, 31 December 2015 – KZT 3,300 million) 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.

As at 31 December 2017, loans from JSC National Managing Holding KazAgro ("KazAgro") included a long-term loan of KZT 3,865 million at a 3.0% interest rate maturing in 2022 (31 December 2016 – KZT 38,483 million, 31 December 2015 – KZT 41,810 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.

On 3 July 2017, the Group made an early repayment of its indebtedness to KazAgro for KZT 31,873 million due to exclusion of several loans from KazAgro financing programme.

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 2017		31 December 2016		31 December 2015	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Loans and deposits from Kazakhstan banks (incl. loans under repurchase agreements)	1.0%-9.5%	2018	8.8%-11.1%	2017	3.2%-11.4%	2016
Loans from JSC Entrepreneurship Development Fund DAMU	1.0%-4.5%	2018-2035	2.0%	2017-2035	2.0%	2016-2035
Loans from JSC Development Bank of Kazakhstan	1.0%-7.9%	2019-2035	1.0%-2.0%	2034-2035	1.0%-2.0%	2016-2035
Loans from JSC National Managing Holding KazAgro	3.0%	2022	3.0%	2019-2022	3.0%	2019-2022
Loans and deposits from non-OECD based banks	1.0%-9.5%	2018-2022	1.0%-10.0%	2017-2021	0.7%-7.0%	2016-2017
Loans from other financial institutions	10.0%	2023	5.0%-10.0%	2017-2023	4.8%-6.2%	2016
Loans and deposits from OECD based banks	3.1%	2018	2.6%-6.5%	2017-2023	1.1%-6.5%	2016-2023
Overnight deposits	-	-	-	-	60.0%	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 2017, 2016 and 2015, are as follows:

	31 December 2017		31 December 2016		31 December 2015	
	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	92,719	90,046	15,201	15,009	51,763	45,242
	92,719	**90,046**	**15,201**	**15,009**	**51,763**	**45,242**

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2017, 2016 and 2015 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 2017:	
Carrying amount of transferred assets	92,719
Carrying amount of associated liabilities	90,046
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

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 2017, 2016 and 2015, 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 2017	31 December 2016	31 December 2015
RECORDED AT AMORTISED COST:			
SUBORDINATED DEBT SECURITIES ISSUED:			
KZT denominated bonds, fixed rate	77,330	-	4,989
USD denominated bonds, floating rate	18,776	-	-
KZT denominated bonds, indexed to inflation	12,976	-	-
KZT denominated bonds, indexed to reverse inflation	-	-	4,051
Total subordinated debt securities outstanding	109,082	-	9,040
UNSUBORDINATED DEBT SECURITIES ISSUED:			
USD denominated bonds	464,435	359,355	363,829
KZT denominated bonds	388,526	225,578	224,656
RUB denominated bonds	353	-	-
Total unsubordinated debt securities outstanding	853,314	584,933	588,485
TOTAL DEBT SECURITIES OUTSTANDING	**962,396**	**584,933**	**597,525**

On 3 May 2017, the Group repaid in full at maturity its 10-year 7.25% coupon rate USD638,029,000 Eurobond issue.

On 9 November 2016, the Group made a voluntary prepayment of KZT 5,000 million subordinated bonds 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 2017		31 December 2016		31 December 2015	
	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year
SUBORDINATED DEBT SECURITIES ISSUED:						
KZT denominated bonds, fixed rate	9.5%	2025	-	-	13%	2018
USD denominated bonds, floating rate	Libor+6.2%	perpetual	-	-	-	-
KZT denominated bonds, indexed to inflation	1%+Inflation rate	2018-2019	-	-	-	-
KZT denominated bonds, indexed to reverse inflation	-	-	-	-	15% less inflation rate	2016
UNSUBORDINATED DEBT SECURITIES ISSUED:						
USD denominated bonds	5.5%-8.5%	2018-2022	7.3%	2017-2021	7.3%	2017-2021
KZT denominated bonds	7.5%-8.8%	2019-2025	7.5%	2024-2025	7.5%	2024-2025
RUB denominated bonds	5.5%-12.0%	2019	-	-	-	-

As at 31 December 2017, accrued interest on debt securities issued was KZT 10,754 million (as at 31 December 2016 – KZT 11,894 million, as at 31 December 2015 – KZT 11,990 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 2017, 2016 and 2015, the Group was in compliance with the covenants of the agreements the Group has with trustees and holders of the notes.

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2017	Financing cash flows	Non-cash changes			31 December 2017
			Acquisition of subsidiary (Note 5)	Foreign exchange movement	Changes in amortised cost	
Debt securities issued	584,933	(197,892)	579,662	(2,671)	(1,636)	962,396

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 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)
Additional provisions recognised	(334,456)	(200)	(495)	(14,250)	(349,401)
Recoveries of provisions	269,246	99	1,636	11,118	282,099
Write-offs	37,215	101	388	2,064	39,768
Disposal of a subsidiary	2,603	-	-	7	2,610
Foreign exchange differences	(7,017)	-	(98)	(344)	(7,459)
31 December 2017	(317,161)	-	(2,453)	(5,921)	(325,535)

During the years ended 31 December 2017, 2016 and 2015, the Group has written-off loans of KZT 37,215 million, KZT 44,793 million, and KZT 46,584 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:

	2017	2016	2015
At the beginning of the year	(987)	(982)	(407)
Provisions	(2,810)	(878)	(999)
Recoveries of provisions	4,547	856	640
Acquisition of a subsidiary*	(17,336)	-	-
Disposal of a subsidiary	501	-	-
Write-offs	50	-	-
Foreign exchange differences	(63)	17	(216)
AT THE END OF THE YEAR	**(16,098)**	**(987)**	**(982)**

* Provision created by KKB against guarantees prior to the acquisition date, 5 July 2017.

23. TAXATION

The Bank and its subsidiaries, other than JSC NBK-Bank, OJSC Halyk Bank Kyrgyzstan, JSC Halyk Bank Georgia, CJSC Kazkommertsbank Tajikistan and JSC Commercial Bank Moskommertsbank, are subject to taxation in Kazakhstan. JSC NBK-Bank and JSC Commercial Bank Moskommertsbank are 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. CJSC Kazkommertsbank Tajikistan is subject to income tax in the Republic of Tajikistan.

The income tax expense comprises:

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Current tax charge	38,817	36,205	4,695
Deferred income tax (benefit)/expense relating to origination and reversal of temporary differences*	(13,219)	(14,022)	25,716
INCOME TAX EXPENSE	**25,598**	**22,183**	**30,411**

* Recalculated due to presentation of JSC Altyn Bank as discontinued operations. For further reference, please see note 16.

Deferred income tax (benefit)/expense relating to temporary differences is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Unused tax losses of the prior year recognised in the current year	-	3,531	-
Property and equipment, accrued depreciation	1,676	3,007	(715)
Fair value of derivatives and investments available for sale	(14,608)	(18,546)	30,156
Loans to customers, allowance for impairment losses	(258)	(1,975)	519
Tax loss carry forward	-	-	(3,531)
Deferred tax related to acquisition through business combination	1,638	-	-
Other	(1,667)	(39)	(713)
DEFERRED INCOME TAX (BENEFIT)/EXPENSE	**(13,219)**	**(14,022)**	**25,716**

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2017, 2016 and 2015. Income on state and other qualifying securities is tax exempt.

The tax rates in the Russian Federation, the Republic of Kyrgyzstan, Georgia and the Republic of Tajikistan are 20%, 10%, 15% and 23%, 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 2017	Year ended 31 December 2016	Year ended 31 December 2015
Income before income tax expense	189,185	142,682	143,993
Statutory tax rate	20%	20%	20%
Income tax expense at the statutory rate	37,837	28,536	28,799
Tax-exempt interest income and other related income on state and other qualifying securities	(14,233)	(9,109)	(2,815)
Income of subsidiaries taxed at different rates	(299)	(93)	(30)
Income on dividends taxed at emitter	(66)	(56)	(72)
Tax-exempt interest income on financial lease	(3)	(7)	(35)
NON-DEDUCTIBLE EXPENDITURES:			
- other provisions	609	118	2,570
- charity	328	127	100
- general and administrative expenses	202	127	197
Other	1,223	2,540	1,697
INCOME TAX EXPENSE	**25,598**	**22.183**	**30,411**

Deferred tax assets and liabilities comprise:

	31 December 2017	31 December 2016	31 December 2015
TAX EFFECT OF DEDUCTIBLE TEMPORARY DIFFERENCES:			
Tax loss carry forward*	45,491	408	3,531
Bonuses accrued	3,246	1,821	1,936
Fair value of derivatives	1,334	1,737	1,305
Vacation pay accrual	474	361	349
Other	2,439	19	113
Deferred tax asset	52,984	4,346	7,234
TAX EFFECT OF TAXABLE TEMPORARY DIFFERENCES:			
Fair value adjustment on customer accounts*	(43,633)	-	-
Property and equipment, accrued depreciation	(12,740)	(8,400)	(5,054)
Allowance for loans to customers	(3,920)	(3,895)	(3,966)
Fair value of derivatives and investments available-for-sale	(744)	(13,929)	(31,260)
Core deposit intangible	-	(258)	(348)
Other	(219)	(214)	(2,049)
Deferred tax liability	(61,256)	(26,696)	(42,677)
NET DEFERRED TAX LIABILITY	**(8,272)**	**(22,350)**	**(35,443)**

* Amounts recorded on the books of the Group as a result of KKB acquisition.

Current income tax assets and liabilities comprise:

	31 December 2017	31 December 2016	31 December 2015
Current income tax refund receivable	15,320	3,222	16,469
Current income tax payable	(2,720)	(3,311)	(379)
CURRENT INCOME TAX ASSET/(LIABILITY)	**12,600**	**(89)**	**16,090**

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 2017	31 December 2016	31 December 2015
Deferred tax asset	517	831	1,919
Deferred tax liability	(8,789)	(23,181)	(37,362)
NET DEFERRED TAX LIABILITY	**(8,272)**	**(22,350)**	**(35,443)**

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.

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:

	2017	2016	2015
Net deferred tax liability at the beginning of the year	22,350	35,443	10,226
Deferred tax (benefit)/expense	(13,219)	(13,543)	24,869
Deferred tax related to acquisition through business combination	(1,638)	-	-
Deferred tax related to disposal of a subsidiary	557	-	-
Credited to other comprehensive income at the date of property and equipment revaluation	222	192	-
Deferred tax on core deposit intangible	-	258	348
NET DEFERRED TAX LIABILITY AT THE END OF THE YEAR	**8,272**	**22,350**	**35,443**

24. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2017	31 December 2016	31 December 2015
OTHER FINANCIAL LIABILITIES:			
Salary payable	18,240	11,205	10,790
Liabilities on preferred shares*	12,149	-	-
Creditors on bank activities	7,539	800	488
Creditors on non-banking activities	5,250	782	299
Settlements on card transactions	4,318	-	-
Payable for general and administrative expenses	1,994	612	779
Others	883	583	375
	50,373	**13,982**	**12,731**
OTHER NON-FINANCIAL LIABILITIES:			
Amounts due to original investors on commercial property	9,589	2,271	4,050
Taxes payable other than income tax	4,088	2,832	2,183
Other prepayments received	2,369	1,382	1,233
	16,046	**6,485**	**7,466**
TOTAL OTHER LIABILITIES	**66,419**	**20,467**	**20,197**

* Preferred shares containing a liability component and assuming obligatory dividend payment of a predetermined guaranteed size.

25. EQUITY

The number of shares authorised, issued and fully paid as at 31 December 2017, 2016 and 2015, were as follows:

31 December 2017	Share capital authorised	Share capital authorised and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	25,000,000,000	(12,311,142,941)	12,688,857,059	(1,695,040,240)	10,993,816,819
31 December 2016	**Share capital authorised**	**Share capital authorised and not issued**	**Fully paid and issued share capital**	**Share capital repurchased**	**Outstanding shares**
Common	25,000,000,000	(12,311,142,941)	12,688,857,059	(1,695,237,728)	10,993,619,331
31 December 2015	**Share capital authorised**	**Share capital authorised and not issued**	**Fully paid and issued share capital**	**Share capital repurchased**	**Outstanding shares**
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

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 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	-	-
Purchase of treasury shares	(4,925,498)	-	-	(1,675)	-	-
Sale of treasury shares	5,122,986	-	-	562	-	-
31 December 2017	10,993,816,819	-	-	39,461	-	-

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 2017, 2016 and 2015, share capital comprised KZT 143,695 million. As at 31 December 2017, the Group held 1,695,040,240 shares of the Group's common shares as treasury shares for KZT 104,234 million (31 December 2016 – 1,695,237,728 for KZT 103,121 million, 31 December 2015 – 219,067,900 for KZT 103,175 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 2017 for the year ended 31 December 2016	Paid in 2016 for the year ended 31 December 2015	Paid in 2015 for the year ended 31 December 2014
Dividend paid per one preferred share, (convertible and non-convertible), tenge	n/a	16.00	13.44
Dividend paid per one common share	n/a	n/a	3.14

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 2017	31 December 2016	31 December 2015
Guarantees issued	300,565	173,226	186,306
Commercial letters of credit	70,454	27,026	17,064
Commitments to extend credit	59,056	15,445	35,178
Financial commitments and contingencies	430,075	215,697	238,548
Less: cash collateral against letters of credit	(50,144)	(10,034)	(18,675)
Less: provisions (Note 22)	(16,098)	(987)	(982)
FINANCIAL COMMITMENTS AND CONTINGENCIES, NET	**363,833**	**204,676**	**218,891**

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 2017, uncovered guarantees issued for the ten largest groups of customers/groups of customers accounted for 46% of the Group's total financial guarantees (31 December 2016 – 70%; 31 December 2015 – 74%) and represented 15% of the Group's total equity (31 December 2016 – 18%; 31 December 2015 – 26%).

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 2017, the ten largest unsecured letters of credit accounted for 44% of the Group's total commercial letters of credit (31 December 2016 – 61%; 31 December 2015 – 93%) and represented 3% of the Group's total equity (31 December 2016 – 2%; 31 December 2015 – 3%).

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 2017, the Group had capital expenditures commitments in respect of construction in progress for KZT 2,480 million (31 December 2016 – KZT 157 million; 31 December 2015 – KZT 7,861 million).

OPERATING LEASE COMMITMENTS

There were no material operating lease commitments under irrevocable operating leases outstanding as at 31 December 2017, 2016 and 2015.

27. NET INTEREST INCOME

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
INTEREST INCOME COMPRISES:			
Interest income on financial assets recorded at amortised cost:			
- interest income on individually assessed unimpaired assets	166,058	142,556	101,951
- interest income on collectively assessed assets	151,460	109,418	94,556
- interest income on individually assessed impaired assets	50,442	31,587	26,883
Interest income on available-for-sale investment securities	129,637	22,996	20,581
Interest income on financial assets at fair value through profit or loss	8,731	26,006	69
TOTAL INTEREST INCOME	**506,328**	**332,563**	**244,040**
INTEREST INCOME ON FINANCIAL ASSETS RECORDED AT AMORTISED COST:			
Interest income on loans to customers	343,796	268,989	219,584
Interest income on cash and cash equivalents and amounts due from credit institutions	24,164	12,170	3,806
Interest income on held to maturity investments	-	1,201	-
TOTAL INTEREST INCOME ON FINANCIAL ASSETS RECORDED AT AMORTISED COST	**367,960**	**282,360**	**223,390**
INTEREST INCOME ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:			
Interest income on financial assets held for trading	8,731	26,006	69
Total interest income on financial assets at fair value through profit or loss	8,731	26,006	69
Interest income on available-for-sale investment securities	129,637	24,197	20,581
TOTAL INTEREST INCOME	**506,328**	**332,563**	**244,040**

INTEREST EXPENSE COMPRISES:			
Interest expense on financial liabilities recorded at amortised cost	(257,805)	(160,549)	(100,678)
TOTAL INTEREST EXPENSE	**(257,805)**	**(160,549)**	**(100,678)**
INTEREST EXPENSE ON FINANCIAL LIABILITIES RECORDED AT AMORTISED COST COMPRISE:			
Interest expense on amounts due to customers	(191,715)	(108,838)	(61,308)
Interest expense on debt securities issued	(61,729)	(45,822)	(34,256)
Interest expense on amounts due to credit institutions	(4,361)	(5,889)	(5,114)
Total interest expense on financial liabilities recorded at amortised cost	(257,805)	(160,549)	(100,678)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	**248,523**	**172,014**	**143,362**

28. FEES AND COMMISSIONS

Fee and commission income is derived from the following sources:

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Payment cards maintenance	23,332	11,116	9,430
Bank transfers - settlements	18,943	14,438	13,421
Cash operations	18,159	10,353	9,210
Servicing customers' pension payments	7,776	6,953	5,867
Bank transfers – salary projects	7,261	6,912	6,862
Letters of credit and guarantees issued	5,406	3,818	3,124
Maintenance of customer accounts	3,006	1,884	1,496
Other	3,757	2,223	2,508
	87,640	**57,697**	**51,918**

Fe e and commission expense is derived from the following sources:

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Payment cards	(12,024)	(2,001)	(1,432)
Deposit insurance	(10,729)	(5,327)	(4,697)
Bank transfers	(1,364)	(593)	(430)
Foreign currency operations	(803)	(557)	(919)
Commission paid to collectors	(342)	(427)	(437)
Other	(1,470)	(2,390)	(2,235)
	(26,732)	**(11,295)**	**(10,150)**

29. NET GAIN/(LOSS) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
NET GAIN/(LOSS) ON OPERATIONS WITH FINANCIAL ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR TRADING:			
Unrealised net gain/(loss) on derivative and trading operations	19,468	(7,339)	157,326
Realised net gain on trading operations	11,162	112	33
Realised net gain/(loss) on derivative operations	793	(5,483)	40,571
TOTAL NET GAIN/(LOSS) ON OPERATIONS WITH FINANCIAL ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR TRADING	**31,423**	**(12,710)**	**197,930**

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 (LOSS)/GAIN

Net foreign exchange (loss)/gain comprises:

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Dealing, net	26,055	13,935	1,864
Translation differences, net	(31,004)	4,571	(175,123)
TOTAL NET FOREIGN EXCHANGE (LOSS)/GAIN	**(4,949)**	**18,506**	**(173,259)**

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 2017	Year ended 31 December 2016	Year ended 31 December 2015
Insurance premiums written, gross	76,212	58,906	47,151
Change in unearned insurance premiums, net	3,235	(1,933)	(1,731)
Ceded reinsurance share	(24,339)	(28,902)	(19,846)
Total insurance underwriting income	55,108	28,071	25,574
Insurance payments	(16,746)	(9,907)	(10,081)
Commissions to agents	(17,713)	(7,319)	(5,855)
Insurance reserves	(14,156)	(7,573)	(6,857)
Total insurance claims incurred, net of reinsurance	(48,615)	(24,799)	(22,793)
NET INSURANCE INCOME	**6,493**	**3,272**	**2,781**

32. OPERATING EXPENSES

Operating expenses comprises:

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Salaries and other employee benefits	51,124	38,551	37,958
Depreciation and amortisation expenses	9,692	6,169	5,663
Taxes other than income tax	7,038	3,456	3,405
Professional services	4,895	564	651
Security	3,662	1,963	1,885
Rent	3,512	1,734	1,570
Repair and maintenance	3,451	2,006	1,848
Information services	3,314	2,219	1,380
Utilities	2,876	1,630	1,457
Communication	2,829	1,577	1,527
Insurance agents fees	1,888	489	569
Charity	1,643	639	509
Write-off and impairment of property and equipment, intangible assets and investment property	1,555	654	271
Advertisement	1,481	759	1,201
Stationery and office supplies	1,249	892	691
Business trip expenses	958	590	696
Transportation	696	502	465
Social events	142	77	84
Hospitality expenses	81	77	110
Other	5,266	2,447	3,455
	107,352	**66,995**	**65,395**

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 on common shares may not exceed dividend payments 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.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
BASIC EARNINGS PER SHARE			
Net income for the year attributable to equity holders of the parent	173,362	131,412	118,913
Less: Dividends paid on preferred shares	-	(333)	(2,543)
Earnings attributable to common shareholders	173,362	131,079	116,370
Earnings for the year from continuing operations	163,587	120,499	113,582
Earnings for the year from discontinuing operations	9,876	10,913	6,730
Weighted average number of common shares for the purposes of basic earnings per share	10,994,491,507	10,960,026,244	10,910,049,314
BASIC EARNINGS PER SHARE (IN TENGE)	**15.77**	**11.96**	**10.67**
BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS (IN TENGE)	**14.88**	**10.99**	**10.41**
BASIC EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS (IN TENGE)	**0.90**	**1.00**	**0.62**
DILUTED EARNINGS PER SHARE			
Earnings used in the calculation of basic earnings per share	173,362	131,079	116,370
Add: Dividends paid on convertible preferred shares	-	9	1,078
Less: Amounts payable to convertible preferred shareholders upon conversion	-	(96)	(6,091)
Earnings used in the calculation of total diluted earnings per share	173,362	130,992	111,357
Earnings for the period from continuing operations	163,587	120,499	113,582
Earnings for the period from discontinuing operations	9,876	10,913	6,730
Weighted average number of common shares for the purposes of basic earnings per share	10,994,491,507	10,960,026,244	10,910,049,314
Weighted average number of common shares that would be issued for the convertible preferred shares	-	160,984	51,401,960
Weighted average number of common shares for the purposes of diluted earnings per share	10,994,491,507	10,960,187,228	10,961,451,274
DILUTED EARNINGS PER SHARE (IN TENGE)	**15.77**	**11.95**	**10.16**
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS (IN TENGE)	**14.88**	**10.99**	**10.36**
DILUTED EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS (IN TENGE)	**0.90**	**1.00**	**0.61**

As required by KASE rules for listed companies, the book value of one share per each class of shares as at 31 December 2017, 2016 and 2015, is disclosed as follows:

31 DECEMBER 2017			
Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share, in KZT
Common	10,993,816,819	926,206	84.25
		926,206	

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	

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 2017

	Maximum exposure	Net exposure after offset	Collateral pledged
Cash equivalents*	1,590,152	1,590,152	372,643
Obligatory reserves	111,039	111,039	-
Financial assets at fair value through profit or loss (less equity securities)	129,341	129,341	-
Amounts due from credit institutions	87,736	87,736	-
Available-for-sale investment securities (less equity securities)	2,560,222	2,560,222	-
Loans to customers	3,251,102	3,251,102	2,838,024
Other financial assets	45,458	45,458	-
	7,775,050	7,775,050	3,210,667
Commitments and contingencies	413,977	413,977	50,144

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 (less equity securities)	594,810	594,810	-
Loans to customers	2,319,583	2,319,583	2,167,328
Other financial assets	6,757	6,757	-
	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 (less equity securities)	373,356	373,356	-
Loans to customers	2,176,069	2,176,069	2,040,192
Other financial assets	6,226	6,226	-
	4,131,660	4,131,660	2,048,512
Commitments and contingencies	237,566	237,566	18,675

* 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 2017 Total
Cash equivalents*	110,970	76,897	162,142	1,110,837	87,307	41,999	1,590,152
Obligatory reserves	-	-	-	101,881	9,158	-	111,039
Financial assets at fair value through profit or loss	1	-	113	95,570	46,797	2,495	144,976
Amounts due from credit institutions	440	211	14,616	12,029	57,379	3,061	87,736
Available-for-sale investment securities	324,164	-	-	2,035,381	187,232	21,101	2,567,878
Other financial assets	-	-	-	-	-	51,379	51,379
Commitments and contingencies	-	-	-	-	-	430,075	430,075
	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

* 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 Bank and its subsidiaries, except for KKB is using an internal rating model to classify loans in different risk categories. The rating model of KKB is described in details below.

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 2017	31 December 2016	31 December 2015
1-3	-	-	-
4	118,566	118,300	158,907
5	538,343	461,059	270,049
6	533,758	421,288	500,177
7	412,326	425,337	412,839
8-10	172,698	148,467	162,838
Loans to corporate customers that are individually assessed for impairment	1,775,691	1,574,451	1,504,810
Loans to SME customers and retail business that are individually assessed for impairment	176,503	138,108	127,503
Loans to customers that are collectively assessed for impairment	812,048	891,776	848,870
	2,764,241	2,604,335	2,481,183
Less – Allowance for loan impairment (Note 22)	(277,491)	(284,752)	(305,114)
LOANS TO CUSTOMERS	**2,486,750**	**2,319,583**	**2,176,069**

INTERNAL RATING MODEL OF KKB

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

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

KKB uses the rating model for the classification of unimpaired loans to corporate borrowers.

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

KKB uses the classification of unimpaired loans to customers as follows:

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

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

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

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

	31 December 2017
Collectively assessed unimpaired loans	421,045
BBB-, BBB	36,746
BB+, BB, BB-	21,649
B+, B, B-	7,908
C	1,204
Unimpaired loans to customers of KKB (less allowances)	488,552
Impaired loans to customers of KKB (less allowances)	275,800
TOTAL LOANS TO CUSTOMERS OF KKB (LESS ALLOWANCES)	**764,352**

As at 31 December 2017, allowances for impairment losses on KKB loans comprised KZT 39,670 million, including KZT 23,095 million related to collectively assessed loans.

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 collectively assessed for impairment		
	Unimpaired financial assets		Impaired financial assets				
	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	31 December 2017 Total
Amounts due from credit institutions	87,736	-	-	-	-	-	87,736
Available-for-sale investment securities	2,565,425	-	2,453	(2,453)	-	-	2,565,425
Loans to customers	1,731,919	(16,444)	645,542	(193,106)	1,190,802	(107,611)	3,251,102
Other financial assets	45,458	-	5,921	(5,921)	-	-	45,458

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		
	Unimpaired financial assets		Impaired financial assets				
	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross 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 collectively assessed for impairment		
	Unimpaired financial assets		Impaired financial assets				
	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross 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

As at 31 December 2017, the carrying amount of unimpaired overdue loans was KZT 6,165 million (31 December 2016 – KZT 769 million; 31 December 2015 – KZT 11,119 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 2017

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,746,100	34,448	-	-	-	1,780,548
Obligatory reserves	67,863	7,264	25,913	4,372	5,627	111,039
Financial assets at fair value through profit or loss	88,026	165	37,695	9,040	10,050	144,976
Amounts due from credit institutions	41,090	26,417	14,838	3,056	2,335	87,736
Available-for-sale investment securities	370,578	166,677	347,918	639,530	1,040,722	2,565,425
Loans to customers*	297,204	276,167	1,911,598	598,089	168,044	3,251,102
Other financial assets	22,224	1,245	3,868	18,121	-	45,458
	2,633,085	**512,383**	**2,341,830**	**1,272,208**	**1,226,778**	**7,986,284**
FINANCIAL LIABILITIES:						
Amounts due to customers	2,856,379	415,118	1,449,676	1,065,364	345,213	6,131,750
Amounts due to credit institutions	162,072	189	2,340	8,723	81,827	255,151
Financial liabilities at fair value through profit or loss	244	-	492	5,095	-	5,831
Debt securities issued	13,030	4,046	114,024	578,030	253,266	962,396
Other financial liabilities	31,529	3,034	3,370	260	12,180	50,373
	3,063,254	**422,387**	**1,569,902**	**1,657,472**	**692,486**	**7,405,501**
NET POSITION	**(430,169)**	**89,996**	**771,928**	**(385,264)**	**534,292**	
ACCUMULATED GAP	**(430,169)**	**(340,173)**	**431,755**	**46,491**	**580,783**	

31 DECEMBER 2016

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

31 DECEMBER 2015	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,404,000	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**	

* Loans to customers in the column "3 months to 1 year" include loans with non-standard repayment schedule

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).

FINANCIAL AND CONTINGENT LIABILITIES	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
Amounts due to customers	2,856,545	423,508	1,495,277	1,169,878	453,040	6,398,248
Amounts due to credit institutions	163,467	5,130	4,222	13,277	114,284	300,380
Debt securities issued	21,823	15,357	162,061	783,357	322,025	1,304,623
Other financial liabilities	31,529	3,034	3,370	260	12,180	50,373
Guarantees issued	300,565	-	-	-	-	300,565
Commercial letters of credit	70,454	-	-	-	-	70,454
Commitments to extend credit	59,056	-	-	-	-	59,056
	3,503,439	**447,029**	**1,664,930**	**1,966,772**	**901,529**	**8,483,699**
Derivative financial assets	1,147,769	-	-	38,877	-	1,186,646
Derivative financial liabilities	1,110,842	-	-	41,912	-	1,152,754

FINANCIAL AND CONTINGENT LIABILITIES	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2016 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

FINANCIAL AND CONTINGENT LIABILITIES	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2015 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

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. In 2017, the Group reassessed possible changes in interest rates in tenge taking into account the dynamics of the NBRK base rate during 2017 year.

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 2017, 2016 and 2015, 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 2017, 2016 and 2015 is as follows:

	31 December 2017		31 December 2016		31 December 2015	
	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%	Interest rate KZT +4% CCY +2%	Interest rate KZT -4% CCY -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Loans to customers	2,196	(2,196)	2,043	(2,043)	1,682	(1,682)
KZT	-	-	485	(485)	n/a	n/a
CCY	2,196	(2,196)	1,558	(1,558)	n/a	n/a
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	8	(8)	10	(10)	-	-
KZT	-	-	-	-	n/a	n/a
CCY	8	(8)	10	(10)	n/a	n/a
NET IMPACT ON INCOME BEFORE TAX	**2,188**	**(2,188)**	**2,033**	**(2,033)**	**1,682**	**(1,682)**

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 2017, 2016 and 2015 is as follows:

	31 December 2017		31 December 2016		31 December 2015	
	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Loans to customers	2,196	(2,196)	2,043	(2,043)	1,682	(1,682)
KZT	-	-	485	(485)	n/a	n/a
CCY	2,196	(2,196)	1,558	(1,558)	n/a	n/a
Available-for-sale investment securities	(158,682)	158,682	(30,105)	30,105	(30,024)	30,024
KZT	(127,858)	127,858	(14,173)	14,173	-	-
CCY	(30,824)	30,824	(15,932)	15,932	-	-
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	8	(8)	10	(10)	-	-
KZT	-	-	-	-	n/a	n/a
CCY	8	(8)	10	(10)	n/a	n/a
NET IMPACT ON EQUITY	**(156,478)**	**156,478**	**(28,052)**	**28,052**	**(28,342)**	**28,342**

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 2017	USD	EURO	RUR	Other	Total foreign currencies	KZT	Total
FINANCIAL ASSETS:							
Cash and cash equivalents	1,109,425	46,437	45,162	61,609	1,262,633	517,915	1,780,548
Obligatory reserves	39,987	648	1,081	1,945	43,661	67,378	111,039
Financial assets at fair value through profit or loss	10,674	-	2,628	283	13,585	131,391	144,976
Amounts due from credit institutions	20,107	1,002	17,897	-	39,006	48,730	87,736
Available-for-sale investment securities	571,589	7,818	6,151	11,890	597,448	1,967,977	2,565,425
Loans to customers	888,479	40,131	22,775	14,149	965,534	2,285,568	3,251,102
Other financial assets	1,785	2,466	2,220	114	6,585	38,873	45,458
	2,642,046	**98,502**	**97,914**	**89,990**	**2,928,452**	**5,057,832**	**7,986,284**
FINANCIAL LIABILITIES:							
Amounts due to customers	3,192,513	118,900	56,485	34,852	3,402,750	2,729,000	6,131,750
Amounts due to credit institutions	25,698	690	281	943	27,612	227,539	255,151
Financial liabilities at fair value through profit or loss	-	-	213	-	213	5,618	5,831
Debt securities issued	483,213	-	353	-	483,566	478,830	962,396
Other financial liabilities	14,369	279	684	628	15,960	34,413	50,373
	3,715,793	**119,869**	**58,016**	**36,423**	**3,930,101**	**3,475,400**	**7,405,501**
NET POSITION – ON-BALANCE	**(1,073,747)**	**(21,367)**	**39,898**	**53,567**	**(1,001,649)**	**1,582,432**	**580,783**
NET POSITION – OFF-BALANCE	**1,103,118**	**21,258**	**(37,399)**	**(47,001)**	**1,039,976**	**(995,954)**	
NET POSITION	**29,371**	**(109)**	**2,499**	**6,566**	**38,327**	**586,478**	

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	747,042	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**	**4,255,907**
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**	

SENSITIVITY ANALYSIS OF CURRENCY RISK

The table below indicates the currencies in which the Group had significant exposure at 31 December 2017, 2016 and 2015, 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 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. Changes of the possible movement of the currency rate from 30% to 15% in 2017 were associated with the decrease in the volatility of the exchange rate.

The impact on income before tax and equity, based on asset values as at 31 December 2017, 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 2017		31 December 2016		31 December 2015	
	+15% KZT/USD	-15% KZT/USD	+30% KZT/USD	-30% KZT/USD	+25% KZT/USD	-25% KZT/USD
Impact on income before tax	4,406	(4,406)	2,446	(2,446)	6,533	(6,533)
	31 December 2017		31 December 2016		31 December 2015	
	+15% KZT/EURO	-15% KZT/EURO	+30% KZT/EURO	-30% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO
Impact on income before tax	(16)	16	197	(197)	120	(120)
	31 December 2017		31 December 2016		31 December 2015	
	+15% KZT/RUR	-15% KZT/RUR	+30% KZT/RUR	-30% KZT/RUR	+25% KZT/RUR	-25% KZT/RUR
Impact on income before tax	375	(375)	1,364	(1,364)	2,989	(2,989)

The impact on equity is as follows:

	31 December 2017		31 December 2016		31 December 2015	
	+15% KZT/USD	-15% KZT/USD	+30% KZT/USD	-30% KZT/USD	+25% KZT/USD	-25% KZT/USD
Impact on equity	4,406	(4,406)	2,446	(2,446)	6,533	(6,533)
	31 December 2017		31 December 2016		31 December 2015	
	+15% KZT/EURO	-15% KZT/EURO	+30% KZT/EURO	-30% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO
Impact on equity	(16)	16	197	(197)	120	(120)
	31 December 2017		31 December 2016		31 December 2015	
	+15% KZT/RUR	-15% KZT/RUR	+30% KZT/RUR	-30% KZT/RUR	+25% KZT/RUR	-25% KZT/RUR
Impact on equity	375	(375)	1,364	(1,364)	2,989	(2,989)

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 securities 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 2017, 2016 and 2015, 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 2017, 2016, and 2015. 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.

	31 December 2017	31 December 2016	31 December 2015
COMPOSITION OF REGULATORY CAPITAL **CET 1 (2016 AND 2015: TIER 1)** Common shares, net of treasury shares	39,461	40,574	40,520
Share premium	1,839	1,911	2,039
Retained earnings of prior years	538,944	412,310	291,998
Net income for the current year	173,362	131,412	120,312
Accumulated disclosed reserves*	73,362	73,359	73,353
Non-controlling interest	72,441	-	-
Property and available-for-sale investment securities revaluation reserves	28,478	930	1,707
Less: goodwill and intangible assets (2015: goodwill)	(11,336)	(14,133)	(4,954)
Less: cumulative translation reserve	(6,570)	(5,097)	-
COMMON EQUITY TIER 1 (CET 1) CAPITAL (2015: total qualifying tier 1 capital)	909,981	641,266	524,975
ADDITIONAL TIER 1	-	-	n/a
TIER 2 Subordinated debt	109,082	-	5,508
Total qualifying for Tier 2 capital	109,082	-	5,508
Less: investments in associates	-	-	(65)
TOTAL REGULATORY CAPITAL	**1,019,063**	**641,266**	**530,418**
Risk weighted assets	5,395,725	3,303,428	2,922,029
CET 1 CAPITAL ADEQUACY RATIO	**16.9%**	**19.4%**	**n/a**
TIER 1 CAPITAL ADEQUACY RATIO	**16.9%**	**19.4%**	**18.0%**
TOTAL CAPITAL ADEQUACY RATIO	**18.9%**	**19.4%**	**18.2%**

* As at 31 December 2017, accumulated disclosed reserves comprised of KZT 19,568 million dynamic reserve and KZT 53,794 million capital reserve (31 December 2016: 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)

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, which since 1 January 2017 have been raised to the level of 9.5%, 10.5% and 12.0%, respectively. 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.

Investment banking represents services on sale and purchase of securities on the market.

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 2017, 2016 and 2015.

Segment information for the main reportable business segments of the Group as at 31 December 2017, 2016 and 2015 and for the years then ended, is set out below:

	Retail banking	Corporate banking	SME banking	Investment banking*	Unallocated	Total
AS AT 31 DECEMBER 2017 AND FOR THE YEAR THEN ENDED						
External revenues	202,012	208,150	61,304	151,708	83,744	706,918
TOTAL REVENUES	**202,012**	**208,150**	**61,304**	**151,708**	**83,744**	**706,918**
TOTAL REVENUES COMPRISE:						
- Interest income	129,814	191,646	46,501	138,367	-	506,328
- Fee and commission income	62,404	9,140	13,533	-	2,563	87,640
- Net realised gain from available-for-sale investment securities	-	-	-		-	1,064
- Net gain from financial assets and liabilities at fair value through profit or loss	9,794	5,995	1,243	12,267	2,124	31,423
- Recovery of provisions	-	1,369	27	10	331	1,737
- Insurance underwriting income and other income	-	-	-	-	78,726	78,726
TOTAL REVENUES	**202,012**	**208,150**	**61,304**	**151,708**	**83,744**	**706,918**
- Interest expense	(116,689)	(71,830)	(7,558)	(61,728)	-	(257,805)
- (Impairment charge)/recovery of provisions	(5,672)	(33,675)	(30,615)	10	2,650	(67,302)
- Fee and commission expense	(24,101)	(1,258)	(347)	(34)	(992)	(26,732)
- Operating expenses	(58,423)	(6,242)	(17,478)	(5,659)	(19,550)	(107,352)
- Impairment loss of assets held for sale	-	-	-	-	(4,978)	(4,978)
- Net foreign exchange gain/(loss)	7,975	(9,633)	9,937	(11,047)	(2,181)	(4,949)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(48,615)	(48,615)
TOTAL EXPENSES	**(196,910)**	**(122,638)**	**(46,061)**	**(78,458)**	**(73,666)**	**(517,733)**
SEGMENT RESULT	**5,102**	**85,512**	**15,243**	**73,250**	**10,078**	**189,185**
Income before income tax expense						189,185
Income tax expense					(25,598)	(25,598)
Profit from discontinued operation						9,876
NET INCOME						**173,463**
Total segment assets	860,802	4,023,358	528,025	2,786,877	658,719	8,857,781
Total segment liabilities	3,170,388	2,863,345	659,120	1,000,269	230,202	7,923,324
OTHER SEGMENT ITEMS:						
Capital expenditures					(13,862)	(13,862)
Depreciation and amortisation					(9,692)	(9,692)

	Retail banking	Corporate banking	SME banking	Investment banking*	Unallocated	Total
AS AT 31 DECEMBER 2016 AND FOR THE YEAR THEN ENDED						
External revenues	172,209	144,785	46,648	48,678	33,626	445,946
TOTAL REVENUES	**172,209**	**144,785**	**46,648**	**48,678**	**33,626**	**445,946**
TOTAL REVENUES COMPRISE:						
- Interest income	102,124	148,012	32,222	50,205	-	332,563
- Fee and commission income	42,725	5,474	8,645	241	612	57,697
- Net realised gain from available-for-sale investment securities	-	-	-	2,623	-	2,623
- Net foreign exchange gain/(loss)	27,360	(8,701)	5,781	(4,391)	(1,543)	18,506
- Insurance underwriting income and other income	-	-	-	-	34,557	34,557
TOTAL REVENUES	**172,209**	**144,785**	**46,648**	**48,678**	**33,626**	**445,946**
- Interest expense	(65,525)	(44,636)	(4,566)	(45,822)	-	(160,549)
- (Impairment charge)/recovery of provisions	(6,229)	(12,434)	(6,661)	697	(681)	(25,308)
- Fee and commission expense	(10,307)	(247)	(201)	(181)	(359)	(11,295)
- Operating expenses	(35,993)	(3,754)	(11,200)	(1,791)	(14,257)	(66,995)
- 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)	29,273	(5,246)	12,077	3,767	(12,710)
- (Provisions)/recoveries of provisions	-	(56)	18	-	(6)	(44)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(24,799)	(24,799)
TOTAL EXPENSES	**(170,635)**	**(31,854)**	**(27,856)**	**(35,020)**	**(37,899)**	**(303,264)**
SEGMENT RESULT	**1,574**	**112,931**	**18,792**	**13,658**	**(4,273)**	**142,682**
Income before income tax expense						142,682
Income tax expense					(22,183)	(22,183)
Profit from discontinued operation						10,913
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	1,982,006	289,008	584,932	118,744	4,682,890
OTHER SEGMENT ITEMS:						
Capital expenditures					(15,386)	(15,386)
Depreciation and amortisation					(6,161)	(6,161)

	Retail banking	Corporate banking	SME banking	Investment banking*	Unallocated	Total
AS AT 31 DECEMBER 2015 AND FOR THE YEAR THEN ENDED						
External revenues	623,116	(137,645)	94,996	(55,837)	3,532	528,162
TOTAL REVENUES	**623,116**	**(137,645)**	**94,996**	**(55,837)**	**3,532**	**528,162**
TOTAL REVENUES COMPRISE:						
- Interest income	89,507	106,830	27,054	20,649	-	244,040
- Fee and commission income	38,550	4,578	7,874	779	137	51,918
- Net gain/(loss)from financial assets and liabilities at fair value through profit or loss	495,059	(249,053)	60,068	(77,265)	(30,879)	197,930
- Insurance underwriting income and other income	-	-	-	-	34,274	34,274
TOTAL REVENUES	**623,116**	**(137,645)**	**94,996**	**(55,837)**	**3,532**	**528,162**
- Interest expense	(40,210)	(22,974)	(3,238)	(34,256)	-	(100,678)
- (Impairment charge)/recovery of provisions	(10,841)	12,585	(11,230)	(1,310)	(484)	(11,280)
- Fee and commission expense	(9,044)	(244)	(183)	(21)	(658)	(10,150)
- Operating expenses	(36,325)	(4,403)	(7,108)	(4,031)	(13,528)	(65,395)
- Net realised loss from available-for-sale investment securities	-	-	-	(246)	-	(246)
- Net foreign exchange (loss)/gain	(485,238)	261,721	(56,820)	76,518	30,560	(173,259)
- Provisions	-	(319)	(41)	-	(8)	(368)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(22,793)	(22,793)
TOTAL EXPENSES	**(581,658)**	**246,366**	**(78,620)**	**36,654**	**(6,911)**	**(384,169)**
SEGMENT RESULT	**41,458**	**108,721**	**16,376**	**(19,183)**	**(3,379)**	**143,993**
Income before income tax expense						143,993
Income tax expense					(30,411)	(30,411)
Profit from discontinued operation						6,730
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	1,484,783	259,757	597,755	114,402	3,925,010
OTHER SEGMENT ITEMS:						
Capital expenditures					(17,131)	(17,131)
Depreciation and amortisation					(5,663)	(5,663)

* Due to material changes in investment banking item for the year ended 31 December 2017, the Group showed it as a separate segment and recalculated segment results for the years ended 31 December 2016 and 2015, respectively.

GEOGRAPHICAL INFORMATION

Information for the main geographical areas of the Group is set out below as at 31 December 2017, 2016 and 2015, and for the years then ended.

	Kazakhstan	OECD	Non-OECD	Total
2017				
Total assets	7,833,566	768,199	256,016	8,857,781
External revenues	666,849	20,206	19,863	706,918
Capital expenditure	(13,862)	-	-	(13,862)
2016				
Total assets	4,450,495	795,651	102,337	5,348,483
External revenues	421,326	12,352	12,268	445,946
Capital expenditure	(15,386)	-	-	(15,386)
2015				
Total assets	4,101,191	262,578	91,169	4,454,938
External revenues	520,867	609	6,686	528,162
Capital expenditure	(17,131)	-	-	(17,131)

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 2017, 2016 and 2015, before any allowances for impairment losses:

	Fair value at						
Financial Assets/Liabilities	31 December 2017	31 December 2016	31 December 2015	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)	105,253	250,961	1,757	Level 1	Quoted bid prices in an active market. 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). 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.	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss (Note 8)	147	1,093	1,509	Level 2		Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss (Note 8)	39,576	76,683	173,804	Level 3		KZT implied rate	The greater the KZT implied rate – the smaller the fair value
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**144,976**	**328,737**	**177,070**				
Derivative financial liabilities at fair value through profit or loss(Note 8)	5,339	2,841	5,593	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). Future cash flows in USD discounted using LIBOR rate obtained from available sources. Future cash flows in KZT discounted using internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to zero at initial recognition.	Not applicable	Not applicable
Derivative financial liabilities at fair value through profit or loss (Note 8)	492	-	-	Level 3		KZT implied rate	The internal rate of return on KZT is calculated at the initial recognition of the instrument and is not subsequently recalculated
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**5,831**	**2,841**	**5,593**				
Non-derivative available-for-sale investment securities (Note 10)	1,501,882	597,682	378,174	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)	1,061,654	-	-	Level 2	Quoted bid prices in a market that is not active.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities (Note 10)	1,871	1,860	248	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)	18	82	98	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	**2,565,425**	**599,624**	**378,520**				

There were no transfers between Level 1 and Level 2 during the years ended 31 December 2017, 2016 and 2015.

	Financial assets at fair value through profit or loss (Level 3)	Available-for-sale investment securities equity securities (Level 3)	Derivative financial liabilities at fair value through profit or loss (Level 3)
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**	**-**
Additions on acquisition of a subsidiary	39,576	-	4,385
Gain/(loss) to profit or loss	3,651	(3)	1,529
Settlements*	(80,334)	(61)	(5,422)
31 DECEMBER 2017	**39,576**	**18**	**492**

* As at 31 December 2017, 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 2017		31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS						
Amounts due from credit institutions	87,736	85,199	35,542	35,430	44,993	45,058
Loans to customers	3,251,102	3,396,385	2,319,583	2,178,539	2,176,069	2,106,902
FINANCIAL ASSETS						
Amounts due from credit institutions	6,131,750	6,176,030	3,820,662	3,972,622	3,043,731	3,197,750
Amounts due from credit institutions	255,151	231,465	162,134	190,971	168,258	193,863
Loans to customers	962,396	1,034,387	584,933	586,378	597,525	611,607

31 DECEMBER 2017	Level 1	Level 2	Level 3	Total fair value
FINANCIAL ASSETS				
Amounts due from credit institutions	-	85,199	-	85,199
Loans to customers	-	-	3,396,385	3,396,385
FINANCIAL LIABILITIES				
Amounts due to customers	-	6,176,030	-	6,176,030
Amounts due to credit institutions	-	231,465	-	231,465
Debt securities issued	1,034,387	-	-	1,034,387

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

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 2017, 2016 and 2015, the Group had the following transactions outstanding with related parties:

	31 December 2017		31 December 2016		31 December 2015	
	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	2,350	3,568,263	2,148	2,604,335	3,537	2,481,183
- the parent	-		-		8	
- entities with joint control or significant influence over the entity	2,193		2,024		3,426	
- key management personnel of the entity or its parent	115		94		90	
- other related parties	42		30		13	
Allowance for impairment losses	(10)	(317,161)	(21)	(284,752)	(47)	(305,114)
- the parent	-		-		(1)	
- entities with joint control or significant influence over the entity	(10)		(21)		(46)	
Amounts due to customers	156,137	6,131,750	197,569	3,820,662	181,164	3,043,731
- the parent	29,773		99,641		116,204	
- entities with joint control or significant influence over the entity	3,175		4,086		12,525	
- key management personnel of the entity or its parent	9,003		9,538		9,818	
- the parent	114,186		84,304		42,617	

Included in the consolidated statement of profit or loss for the years ended 31 December 2017, 2016 and 2015, are the following amounts which arose due to

	Year ended 31 December 2017		Year ended 31 December 2016		Year ended 31 December 2015	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	156	506,328	309	332,563	444	244,040
- entities with joint control or significant influence over the entity	141		295		431	
- key management personnel of the entity or its parent	10		10		11	
- other related parties	5		4		2	
Interest expense	(3,518)	(257,805)	(8,525)	(160,549)	(3,196)	(100,678)
- the parent	(2,535)		(6,848)		(2,499)	
- entities with joint control or significant influence over the entity	(3)		(14)		(6)	
- key management personnel of the entity or its parent	(198)		(404)		(265)	
- other related parties	(782)		(1,259)		(426)	

	Year ended 31 December 2017		Year ended 31 December 2016		Year ended 31 December 2015	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:	1,922	51,124	1,800	38,551	1,433	37,958
- Salaries and other employee benefits	1,922		1,800		1,433	

39. SUBSEQUENT EVENTS

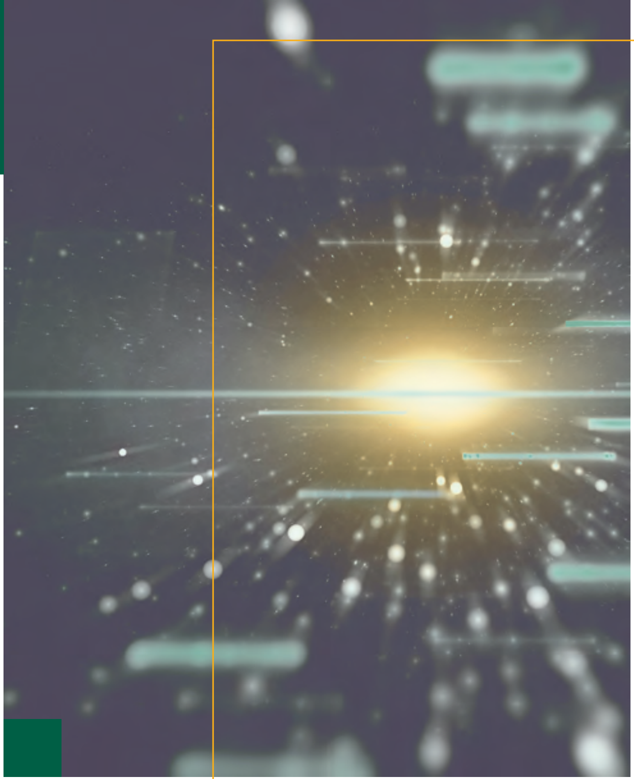
On 8 January 2018, the Board of Directors of the Bank decided to reorganize JSC NBK-Bank in the form of merger to the Commercial Bank Moskommertsbank (JSC), subsidiary of JSC Kazkommertsbank.

On 22 January 2018, the Board of Directors of the Bank approved voluntary reorganization of JSC Kazakhinstrakh in the form of merger of JSC Insurance Company Kazkommerts Policy, subsidiary of JSC Kazkommertsbank, to JSC Kazakhinstrakh.

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

INFORMATION FOR SHAREHOLDERS 18

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА



LEAD
FROM THE FRONT!

VELOCITY OF LIGHT (PHOTON)

While it is hard to believe, studies of the speed of light began in the 17th century. Several hundreds of year later, the genius Albert Einstein was the first to establish that light is the absolute criterion for limiting velocity of particle motion. Today, the speed of light (almost 300,000 km/s) is not only a fundamental constant in physics, the subject of endless research by scientists around the world and a popular topic for fantastic work, but also a symbol of speed and efficiency. In the fast-paced modern age, success often depends on doing things at lightning speed, known as the "speed of light".

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
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REGISTERED WITH

The Ministry of Justice of the Republic of Kazakhstan

REGISTERED NUMBER

3898-1900-AO

DATE OF RE-REGISTRATION

12 November 2003

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PRUDENTIAL REGULATION AUTHORITY (PRA)
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