Citibank Kazakhstan JSC

Financial Statements
for the year ended
31 December 2017

Contents

«КПМГ Аудит» жауапкершілігі шектеулі серіктестік
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Independent Auditors' Report

To the Shareholders of Citibank Kazakhstan JSC

Opinion

We have audited the financial statements of Citibank Kazakhstan JSC (the "Bank"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

— Identify and assess the risks of material misstatement of the 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 Bank to cease to continue as a going concern.

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

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

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

Ashley Clarke
Engagement Partner

Assel Khairova
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. MФ-0000004 of 6 August 2009

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Assel Khairova
General Director of KPMG Audit LLC
acting on the basis of the Charter

18 April 2018

	Note	2017 '000 KZT	2016 '000 KZT
Interest income	4	18,686,789	15,140,603
Interest expense	4	(3,821,643)	(4,031,916)
Net interest income		**14,865,146**	**11,108,687**
Fee and commission income	5	4,370,378	3,378,760
Fee and commission expense	6	(998,307)	(961,976)
Net fee and commission income		**3,372,071**	**2,416,784**
Net foreign exchange gain	7	18,718,568	21,906,766
Net gain on derivative financial instruments		577,291	6,064,966
Net loss on financial assets at fair value through profit or loss		(24,828)	-
Net realised gain on available-for-sale financial assets		212,691	23,049
Other operating income, net		1,000,543	932,975
Operating income		**38,721,482**	**42,453,227**
Recovery of provision		4,800	-
General administrative expenses	8	(7,788,739)	(7,867,519)
Profit before taxes		**30,937,543**	**34,585,708**
Income tax expense	9	(5,238,699)	(5,751,441)
Profit for the year		**25,698,844**	**28,834,267**
Other comprehensive loss, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		797,660	(346,039)
Other comprehensive income/(loss) for the year		**797,660**	**(346,039)**
Total comprehensive income for the year		**26,496,504**	**28,488,228**

The financial statements as set out on pages 6 to 56 were signed on its behalf by:

Andrey Kurilin
Chief Executive Officer

Natalya Suslova
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Note	2017 ’000 KZT	2016 ’000 KZT
ASSETS			
Cash and cash equivalents	10	374,780,104	460,454,364
Placements with banks	11	430,520	431,764
Derivative instruments at fair value through profit or loss	12	1,001,166	909,003
Financial assets at fair value through profit or loss	13	41,867,814	-
Loans to customers	14	87,835,840	78,886,509
Available-for-sale financial assets	15	17,677,645	35,306,473
Property, equipment and intangible assets	16	550,494	588,408
Current tax assets		2,541,035	4,695,012
Other assets	19	226,853	3,343,338
Total assets		**526,911,471**	**584,614,871**
LIABILITIES			
Derivative instruments at fair value through profit or loss	12	240,883	153,157
Deposits and balances from banks and other financial institutions	17	13,828,072	10,813,813
Current accounts and deposits from customers	18	374,561,482	448,782,247
Deferred tax liability	9	496,192	517,354
Other liabilities	19	2,669,881	2,929,843
Total liabilities		**391,796,510**	**463,196,414**
EQUITY			
Share capital	20	12,497,625	12,497,625
Additional paid-in capital		61,975	61,975
Dynamic reserve		2,380,583	2,380,583
Revaluation reserve for available-for-sale financial assets		(96,591)	(894,251)
Retained earnings		120,271,369	107,372,525
Total equity		**135,114,961**	**121,418,457**
Total liabilities and equity		**526,911,471**	**584,614,871**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	2017 '000 KZT	2016 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	18,573,930	15,053,979
Interest payments	(3,830,642)	(4,077,651)
Fee and commission receipts	4,367,856	3,382,735
Fee and commission payments	(995,046)	(978,056)
Net receipts from foreign exchange and derivatives	20,306,727	29,542,233
Net loss on financial assets at fair value through profit or loss	(24,828)	-
Other receipts	993,460	932,975
General administrative payments	(7,708,525)	(7,790,379)
(Increase)/decrease in operating assets		
Financial assets at fair value through profit or loss	(41,867,814)	-
Placements and loans with banks	-	921,509
Loans to customers	(9,208,723)	4,338,415
Other assets	2,965,649	(2,524,634)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks	3,022,660	5,974,397
Amounts payable under repurchase agreements	-	(4,536,004)
Current accounts and deposits from customers	(73,564,549)	134,016,727
Other liabilities	(76,872)	1,572,990
Net cash (used in)/provided from operating activities before income tax paid	**(87,046,717)**	**175,829,236**
Income tax paid	(3,105,883)	(9,533,782)
Cash flows (used in)/from operating activities	**(90,152,600)**	**166,295,454**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(360,412,707)	(399,403,160)
Sales and redemption of available-for-sale financial assets	379,126,233	373,284,541
Purchases of property, equipment and intangible assets	(42,113)	(135,181)
Sales of property, equipment and intangible assets	11,694	1,137
Cash flows from/(used in) investing activities	**18,683,107**	**(26,252,663)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(12,800,000)	(6,950,000)
Cash flow used in financing activities	**(12,800,000)**	**(6,950,000)**
Net (decrease)/increase in cash and cash equivalents	**(84,269,493)**	**133,092,791**
Effect of changes in exchange rates on cash and cash equivalents	(1,404,767)	(13,414,333)
Cash and cash equivalents at 31 December 2016	460,454,364	340,775,906
Cash and cash equivalents at 31 December 2017 (Note 10)	**374,780,104**	**460,454,364**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

’000 KZT	**Share capital**	**Additional paid-in capital**	**Dynamic reserve**	**Revaluation reserve for available-for-sale financial assets**	**Retained earnings**	**Total equity**
Balance at 1 January 2016	**12,497,625**	**61,975**	**2,380,583**	**(548,212)**	**85,488,256**	**99,880,227**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	28,834,269	28,834,269
Other comprehensive loss						
Items that are or may be reclassified subsequently to profit or loss:	-	-	-	-	-	-
-Net change in fair value of available-for-sale financial assets	-	-	-	(346,039)	-	(346,039)
Total other comprehensive loss	-	-	-	(346,039)	-	(346,039)
Total comprehensive income for the year	**-**	**-**	**-**	**(346,039)**	**28,834,269**	**28,488,230**
Transactions with owners, recorded directly in equity						
Dividends declared and paid	-	-	-	-	(6,950,000)	(6,950,000)
Balance at 31 December 2016	**12,497,625**	**61,975**	**2,380,583**	**(894,251)**	**107,372,525**	**121,418,457**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	25,698,844	25,698,844
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
-Net change in fair value of available-for-sale financial assets	-	-	-	797,660	-	797,660
Total other comprehensive loss	-	-	-	797,660	-	797,660
Total comprehensive income for the year	**-**	**-**	**-**	**797,660**	**25,698,844**	**26,496,504**
Transactions with owners, recorded directly in equity						
Dividends declared and paid (Note 20)	-	-	-	-	(12,800,000)	(12,800,000)
Balance at 31 December 2017	**12,497,625**	**61,975**	**2,380,583**	**(96,591)**	**120,271,369**	**135,114,961**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Reporting entity

(a) Principal activities

Citibank Kazakhstan JSC (the “Bank“) was established as a joint stock company in the Republic of Kazakhstan. The Bank was granted its general banking license in 1998 and the license for conduction of operations on the securities market in 1999 and these licenses were updated in 2009. The Bank is a member of the state deposit insurance system in the Republic of Kazakhstan.

The principal activities of the Bank are corporate deposit taking, corporate lending, cash management, custody operations, operations with government securities, money market and foreign exchange transactions. The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the “NBRK”).

The address of the Bank’s registered office is: Park Palace, Building A, 2nd floor, 41 Kazybek Bi Str., Almaty, A25T0A1, Republic of Kazakhstan. The majority of the Bank’s assets and liabilities are located in the Republic of Kazakhstan.

(b) Shareholder

The Bank is wholly-owned by Citibank N.A. (the “Shareholder Bank”). As a result the Bank is economically dependent upon the Shareholder Bank. In addition, the activities of the Bank are closely linked with the requirements of the Shareholder Bank and determination of the pricing of the Bank’s services to the Shareholder Bank is undertaken in conjunction with other Shareholder Bank companies.

(c) Kazakhstan business environment

The Bank’s operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of Kazakhstan, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Kazakhstan. The financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Bank. The future business environment may differ from management’s assessment.

2 Basis of accounting

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

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

The KZT is also the Bank’s presentation currency for the purposes of these financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

2 Basis of accounting, continued

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual result could differ from those estimates.

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in Note 14 “Loans to customers” and Note 27 “Fair value of financial instruments”.

(e) Changes in accounting policies and presentation

The Bank has adopted the following amendments to standards with a date of initial application of 1 January 2017:

> *Disclosure Initiative (Amendments to IAS 7).* IAS 7 *Statement of Cash Flows* has been amended as part of the IASB’s broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the KZT - the functional currency of the Bank (the functional currency) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

The exchange rates between the USD and the KZT and the EUR and the KZT as at 31 December 2017 and 2016 were as follows:

Currency	**2017**	**2016**
1 United States Dollar	332.33	333.29
1 Euro	398.23	352.42

3 Significant accounting policies, continued

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative that is a financial guarantee contract or designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Amortised cost

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

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Fair value measurement principles, continued

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

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

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vii) Derecognition , continued

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

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

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments, which values are dependent upon or derived from one or more underlying assets.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(x) Placements with banks

In the normal course of business, the Bank maintains nostro accounts, loans, and deposits for various periods of time with other banks. Placements with banks with a fixed maturity terms are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Placements with banks are carried net of any allowance for impairment loss, if any.

(xi) Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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 realise the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Offices	50 years;
Leasehold improvements	10 years;
Computers	3 years;
Fixtures and fittings	5 years;
Vehicles	5 years.

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life of 5 years.

(f) Impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

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

3 Significant accounting policies, continued

(f) Impairment, continued

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

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

(i) Financial assets carried at amortised cost

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

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

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

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

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

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

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

3 Significant accounting policies, continued

(f) Impairment, continued

(iii) Available-for-sale financial assets

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

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

(iv) Non financial assets

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

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

(g) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(h) Credit related commitments

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

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

3 Significant accounting policies, continued

(h) Credit related commitments, continued

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

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

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;

- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;

- commitments to provide a loan at a below-market interest rate.

(i) Share capital

(i) Ordinary shares

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

(ii) Dividends

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(j) Taxation

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

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

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

3 Significant accounting policies, continued

(j) Taxation, continued

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided. Dividend income is recognised in profit or loss on the date that the dividend is declared.

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

(l) Fiduciary assets

The Bank provides custody services for assets held by clients in Kazakhstan securities market. These assets and the income arising there from are excluded from these financial statements as they are not assets of the Bank. Commissions received from such business are shown within fee and commission income in the profit or loss.

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

The following standards are expected to have a material impact on the Bank's financial statements in the period of initial application.

IFRS 9 Financial instruments

The new standard includes a new model for classification and measurement of financial assets, a forward-looking 'expected loss' impairment model for debt instruments and a substantially reformed approach to hedge accounting (as the Bank does not conduct hedge accounting, this change will have no impact on the Bank). The standard replaces the existing guidance in IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 is effective from 1 January 2018.

- Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction to retained earnings, as at 31 December 2017, of approximately KZT 178,755 thousand. This is primarily driven by increase in the allowance for credit losses under the new impairment requirements. The Bank will continue to monitor and refine the impact of IFRS 9 in early 2018.

The assessment above may not be fully representative of the impact as at 1 January 2018 because, although at an advanced stage, the Bank is still finalising its implementation efforts and assessments.

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted

IFRS 9 Financial instruments, continued

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics (whether the contractual cash flows are solely payments of principal and interest (SPPI)).

The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

The expected impact to the Company due to the changes to classification and measurement of financial instruments from the adoption of IFRS 9 as at 1 January 2018 is highlighted below:

1) *The transition to IFRS 9 will not result in any significant changes to the measurement basis of the financial instruments of the Company.*

The assessment above may not be fully representative of the impact as at 1 January 2018 because, although at an advanced stage, the Company is still finalising its implementation efforts and assessments.

Impairment

IFRS 9 introduces an expected credit loss (ECL) impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in the earlier recognition of credit losses going forward.

Scope

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment. The Bank has decided not to designate any equity securities as FVOCI. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as FVOCI, and off-balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37, Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

Expected credit loss impairment model

Under IFRS 9, credit loss allowances will be measured on each reporting date according to a three-Stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults expected over the next 12 months. Interest is calculated based of the gross carrying amount of the asset.
- Stage 2 – Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognized equal to the full credit losses expected over the remaining life of the asset. Interest is calculated based on the gross carrying amount of the asset.

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted

IFRS 9 Financial instruments, continued

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to the full lifetime expected credit losses will be recognized. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

The recognition and measurement of impairment is intended to be more forward looking than under IAS 39. The estimation of an ECL is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate will also consider the time value of money.

Wholesale Classifiably Managed Exposures

The measurement of an ECL will primarily be determined by an assessment of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD) where the cash shortfalls are discounted to the reporting date. For a financial asset in Stage 1, the Bank will utilise a 12-month PD, whereas a financial asset within Stage 2 will utilise a lifetime PD in order to estimate an impairment allowance. For credit impaired financials asset within Stage 3, the Bank will continue to leverage existing processes An impairment allowance will be estimated for Corporate loans at an individual loan level utilising sophisticated models depending on the relative size, quality and complexity of the portfolios.

Other Financial Assets Simplified Approaches

For other financial assets, being short term and simple in nature, the Bank will apply a simplified measurement approach, designed to maximize the available information that is reliable and supportable for each portfolio, which may differ from what is described above. Models will leverage existing models currently used globally for stress-testing and regulatory capital reporting purposes, but will incorporate specifically developed components to make the estimates compliant with IFRS 9.

Transition

The impairment and classification and measurement requirements of IFRS 9 will be applied retrospectively by adjusting the Bank's Balance Sheet at 1 January 2018, the date of initial application of IFRS 9, with the difference between previous carrying amounts and carrying amounts at initial application recognized in retained earnings. There is no requirement to restate comparative periods other than for hedge accounting.

To manage our transition to IFRS 9, the Bank has implemented a comprehensive enterprise-wide program led jointly by Finance and Risk Management that focuses on key areas of impact, including financial reporting, data, systems and processes, as well as communications and training. Citi has put in place dedicated Governance including a Steering Committee to monitor and continuously assess and prepare for the impact of the new standard on Citi's internal processes and systems. The Bank continues to monitor, refine and validate our transitional conclusions and implementation efforts in order to identify any further financial, capital and business implications throughout 2018.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

— *IFRS 16 Leases.*

— *IFRS 15 Revenue.*

3 Significant accounting policies, continued

(m) New standards and interpretations not yet adopted

Other standards, continued

— *IFRS 17 Insurance contracts.*

— *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*

— *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*

— *Transfers of Investment Property (Amendments to IAS 40).*

— *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*

— *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*

— *IFRIC 23 Uncertainty over Income Tax Treatments.*

4 Net interest income

	2017 ’000 KZT	2016 ’000 KZT
Interest income		
Loans to customers	6,693,957	8,318,517
Cash and cash equivalents	5,637,510	1,876,005
Available-for-sale financial assets	4,846,563	4,941,766
Financial assets at fair value through profit or loss	1,504,666	-
Placements with banks	4,093	4,033
Loans to banks	-	282
	18,686,789	**15,140,603**
Interest expense		
Current accounts and deposits from customers	3,186,491	3,431,876
Amounts payable under repurchase agreements	392,787	487,393
Deposits and balances from banks and other financial institutions	242,365	112,647
	3,821,643	**4,031,916**
Net interest income	**14,865,146**	**11,108,687**

5 Fee and commission income

	2017 ’000 KZT	2016 ’000 KZT
Transfers	1,586,467	1,607,628
Guarantees issued	877,263	666,193
Credit cards	569,943	316,571
Brokerage fees	562,655	-
Custodian fees	546,909	371,417
Letters of credit provided	141,174	311,418
Cash transactions	16,448	20,275
Accounts maintenance	768	627
Other	68,751	84,631
	4,370,378	**3,378,760**

6 Fee and commission expense

	2017 '000 KZT	2016 '000 KZT
Credit cards	378,051	388,488
Guarantee and letter of credit issuance fees	199,173	172,230
Custodian fees	25,557	11,440
Other	395,526	389,818
	998,307	**961,976**

7 Net foreign exchange gain

	2017 '000 KZT	2016 '000 KZT
Revaluation of foreign currency denominated instruments	(1,015,309)	(2,763,957)
Net forex trading gain	19,733,877	24,670,723
	18,718,568	**21,906,766**

Revaluation of foreign currency denominated instruments includes gain from spot transactions.

8 General administrative expenses

	2017 '000 KZT	2016 '000 KZT
Administrative support provided by related banks	3,442,165	3,718,312
Employee compensation	1,898,116	1,800,325
Taxes other than on income	899,582	990,236
Administration	305,653	231,832
Cash collection	229,111	219,459
Taxes related to employees	169,895	216,159
Rent	163,340	176,860
Communications and information services	158,436	132,742
Travel expenses	132,814	85,838
Depreciation and amortisation	80,214	77,141
Office supplies	59,689	60,100
Representative expenses	44,390	48,697
Professional services	40,539	33,437
Repairs and maintenance	38,160	39,004
Security	21,245	19,658
Advertising and marketing	-	510
Other	105,390	17,209
	7,788,739	**7,867,519**

9 Income tax expense

	2017 ’000 KZT	2016 ’000 KZT
Current tax expense		
Current year	5,248,808	5,766,730
Overprovided in prior years	11,053	(222,643)
	5,259,861	**5,544,087**
Deferred tax expense		
Origination and reversal of temporary differences	(21,162)	207,354
Total income tax expense	**5,238,699**	**5,751,441**

Reconciliation of effective tax rate:

	2017 ’000 KZT	%	2016 ’000 KZT	%
Profit before tax	**30,937,543**	**100.00**	**34,585,708**	**100.00**
Income tax at the applicable tax rate	6,187,509	20.00	6,917,142	20.00
Current tax expense underprovided in prior years	11,053	0.04	(222,643)	(0.65)
Non-taxable income	(1,321,365)	(4.27)	(995,363)	(2.88)
Non-deductible expenses	151,111	0.49	216,477	0.63
Change in unrecognised deferred tax assets	210,391	0.68	(164,172)	(0.47)
	5,238,699	**16.94**	**5,751,441**	**16.63**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2017 and 2016.

Deferred tax assets on losses on non-deliverable derivatives are not recognised in these financial statements. Future tax benefits will only be realised if taxable profits from similar financial instruments will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank’s ability to claim deductions in future periods. These future tax benefits are not recognised by the Bank due to uncertainties concerning their realisation.

The Bank’s applicable tax rate in 2017 is the income tax rate of 20% for Kazakhstan companies (2016: 20%).

9 Income tax expense, continued

Deferred tax asset and liability, continued

Movements in temporary differences during the years ended 31 December 2017 and 2016 are presented as follows:

’000 KZT	**Balance 1 January 2017**	**Recognised in profit or loss**	**Balance 31 December 2017**
Financial instruments at fair value through profit or loss	(100,746)	16,231	(84,515)
Loans to customers	(476,116)	-	(476,116)
Property and equipment	(46,647)	10,827	(35,820)
Other assets	106,155	(5,896)	100,259
Tax losses carry forward on non-deliverable derivatives	1,469,420	210,391	1,679,811
Total deferred tax assets	**952,066**	**231,553**	**1,183,619**
Unrecognised deferred tax asset	(1,469,420)	(210,391)	(1,679,811)
Recognised deferred tax liabilities	**(517,354)**	**21,162**	**(496,192)**

’000 KZT	**Balance 1 January 2016**	**Recognised in profit or loss**	**Balance 31 December 2016**
Financial instruments at fair value through profit or loss	87,521	(188,267)	(100,746)
Loans to customers	(476,116)	-	(476,116)
Property and equipment	(32,483)	(14,164)	(46,647)
Other assets	111,078	(4,923)	106,155
Tax losses carry forward on non-deliverable derivatives	1,633,592	(164,172)	1,469,420
Total deferred tax (liabilities)/assets	1,323,592	(371,526)	952,066
Unrecognised deferred tax asset	(1,633,592)	164,172	(1,469,420)
Recognised deferred tax liabilities	**(310,000)**	**(207,354)**	**(517,354)**

10 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year are composed of the following items:

	2017	**2016**
	’000 KZT	**’000 KZT**
Placements with the NBRK	**350,863,375**	**418,346,380**
Placements with banks		
Nostro accounts:		
- rated A+ to A	22,497,977	40,400,877
- rated BBB- to B-	1,094,120	698,117
Total placements with banks	**23,592,097**	**41,098,994**
Cash on hand	324,632	1,008,991
Total cash and cash equivalents	**374,780,104**	**460,454,365**

Ratings are based on Standard and Poor’s rating system.

None of the cash and cash equivalents are impaired or past due.

10 Cash and cash equivalents, continued

Concentration of placements with banks

As at 31 December 2017 the Bank has 1 bank except for the NBRK (2016: 2 bank except for the NBRK) whose balances exceed 10% of equity. The gross value of this balance as at 31 December 2017 is KZT 14,741,764 thousand (2016: KZT 40,374,945 thousand).

Nostro accounts include overnight placement amounting to KZT 23,592,097 thousand as at 31 December 2017 (2016: KZT 14,237,171 thousand) placed with entities of Citigroup Inc.

Minimum reserve requirements of the National Bank of the Republic of Kazakhstan

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK and should be maintained as average of cash on hand and balances on current account with the NBRK for the four week period calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other bank liabilities. As at 31 December 2017 the minimum reserve requirements equaled KZT 10,540,719 thousand (31 December 2016: KZT 11,144,116 thousand).

11 Placements with banks

	2017 ’000 KZT	2016 ’000 KZT
Placements with banks with original maturities more than three months		
- rated A- to A	430,254	431,497
- rated B	266	267
Total placements with banks	**430,520**	**431,764**

Ratings are based on Standard and Poor’s rating system.

No placements with banks were impaired or past due as at 31 December 2017 (2016: none).

As at 31 December 2017 the Bank pledged a margin deposit for liabilities on derivative financial instruments of KZT 430,254 thousand (31 December 2016: KZT 431,497 thousand).

12 Derivative instruments at fair value through profit or loss

	2017 ’000 KZT	2016 ’000 KZT
Assets		
Derivative financial instruments		
Forward exchange contracts	1,001,166	909,003
Liabilities		
Derivative financial instruments		
Forward exchange contracts	240,884	153,158

The table below summarises, by major currency, the contractual amounts of the Bank's forward exchange contracts outstanding at 31 December 2017 and 2016 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

12 Derivative instruments at fair value through profit or loss, continued

	Notional amount		Weighted average contracted exchange rates	
	2017 ’000 KZT	2016 ’000 KZT	2017	2016
Buy USD sell KZT				
Less than three months	37,309,729	16,096,000	332.64	333.01
Between three months and one year	49,402	-	346.16	-
Sell USD buy KZT				
Less than three months	211,906,691	125,089,821	333.12	334.87
Between three months and one year	5,186,593	7,403,900	359.45	352.58
Sell EUR buy KZT				
Less than three months	556,097	2,088,970	390.57	389.86
Between three months and one year	105,036	460,200	411.91	383.5
Buy EUR sell KZT				
Less than three months	-	20,278	-	352.2
Sell USD buy EUR				
Less than three months	12,572,479	2,124,779	1.20	1.10
Between three months and one year	7,137,080	456,357	1.20	1.07
Buy USD sell EUR				
Less than three months	2,109,359	78,728	1.21	1.07
Between three months and one year	7,284,505	-	1.20	
Buy USD sell RUB				
Less than three months	1,607,476	-	57.67	-
Between three months and one year	976,891	-	60.03	-
Buy KZT sell RUB				
Less than three months	2,221,872	997,819	5.75	5.41
Between three months and one year	3,192,769	1,245,550	5.82	5.46
Buy RUB sell USD				
Less than three months	9,119,678	5,899,829	58.12	61.9
Between three months and one year	4,145,852	1,227,455	59.97	65.2
Buy KZT sell other currencies				
Less than three months	-	254,360	-	-
Between three months and one year	-	2,805	-	-
Buy other currencies sell KZT				
Less than three months	130,616	-	39.4	-
Buy other currencies sell USD				
Less than three months	-	251,918	-	-
Between three months and one year	-	2,780	-	-
Buy USD sell other currencies				
Between three months and one year	132,217	-	8.37	-

12 Derivative instruments at fair value through profit or loss, continued

The following table provides information on the credit quality of foreign currency contracts, which are assets:

	2017 ’000 KZT	2016 ’000 KZT
Large OECD banks	534,571	370,689
Medium and small Kazakhstan companies	466,595	538,314
	1,001,166	**909,003**

No financial instruments at fair value through profit or loss are past due as at 31 December 2017 (2016: none).

13 Financial assets at fair value through profit or loss

	2017 ’000 KZT	2016 ’000 KZT
Debt instruments		
Notes issued by the National Bank of the Republic of Kazakhstan (Country sovereign rating: BBB-)	41,867,813	-
	41,867,813	**-**

Financial assets at fair value through profit or loss represent financial instruments upon initial recognition, designated as at fair value through profit or loss. None of financial assets at fair value through profit or loss are past due or impaired as at 31 December 2017 (2016: none).

14 Loans to customers

	2017 ’000 KZT	2016 ’000 KZT
Loans to large corporates	87,500,040	78,489,500
Loans to retail customers	335,800	397,009
Loans to customers	**87,835,840**	**78,886,509**

(a) Credit quality of loan portfolio

The Bank has no overdue loans as at 31 December 2017 (2016: nil). None of the loans are impaired at 31 December 2017 and 2016. No collective provision was recognised in respect of loans to customers as all possible risks have been considered in individual impairment test. Change in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the impairment allowance on loans to customers as at 31 December 2017 would be KZT 878,358 thousand higher (31 December 2016: KZT 788,865 thousand).

14 Loans to customers, continued

(a) Credit quality of loan portfolio, continued

Analysis of collateral

(i) Loans to large corporates

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2017 **’000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral not determined**
Guarantees from related parties	26,895,160	26,895,160
Third party guarantees	25,655,573	25,655,573
No collateral	34,949,307	-
Total loans to large corporates	**87,500,040**	**52,550,733**

31 December 2016 **’000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral not determined**
Guarantees from related parties	7,737,396	7,737,396
Third party guarantees	34,722,463	34,722,463
No collateral	36,029,642	-
Total loans to large corporates	**78,489,501**	**42,459,859**

The tables above exclude overcollateralisation.

Third party guarantees are mainly provided by large Kazakhstan state-owned corporations or by headquarters of international corporations operating in Kazakhstan. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate.

The following tables provides information on real estate collateral securing mortgage loans:

31 December 2017 **’000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral – for collateral assessed as of loan inception date**
Mortgage	335,800	335,800
No collateral	-	-
Total loans to retail customers	**335,800**	**335,800**

14 Loans to customers, continued

(a) Credit quality of loan portfolio, continued

Analysis of collateral, continued

(ii) Loans to retail customers, continued

31 December 2016 **'000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral – for collateral assessed as of loan inception date**
Mortgage	394,438	394,438
No collateral	2,572	-
Total loans to retail customers	**397,010**	**394,438**

The tables above exclude overcollateralisation.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

(b) Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	31 December 2017 **'000 KZT**	**31 December 2016** **'000 KZT**
Trade	44,183,318	41,708,533
Finance	20,569,126	19,850,091
Manufacturing	17,648,951	12,732,553
Chemical	4,279,917	4,147,895
Miscellaneous services	729,323	19,594
Loans to individuals	335,800	397,009
Power supply	71,687	-
Transportation	17,718	30,834
	87,835,840	**78,886,509**

(c) Significant credit exposures

As at 31 December 2017 the Bank had two borrowers (2016: two), whose loan balances exceeded 10% of equity. The gross value of these loans as at 31 December 2017 was KZT 43,838,492 thousand (2016: KZT 45,327,215 thousand).

15 Available-for-sale financial assets

	2017 '000 KZT	2016 '000 KZT
Debt instruments		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan (Country sovereign rating: BBB-)	14,654,501	11,996,924
Notes issued by the National Bank of the Republic of Kazakhstan (Country sovereign rating: BBB-)	3,023,144	23,309,548
	17,677,645	**35,306,472**

None of available-for-sale financial assets are past due or impaired as at 31 December 2017 (2016: none). None of bonds were collateralized against amounts payable under repurchase agreements as at 31 December 2017 (31 December 2016: none).

16 Property, equipment and intangible assets

’000 KZT	Offices and leasehold improvements	Computers	Fixtures and fittings	Vehicles	Computer software	Total
Cost						
Balance at 1 January 2016	**600,503**	**64,252**	**304,194**	**93,306**	**124,316**	**1,186,571**
Additions	88,405	8,222	38,553	-	-	135,180
Disposals	(15,755)	(28,152)	(14,734)	-	-	(58,641)
Balance at 31 December 2016	**673,153**	**44,322**	**328,013**	**93,306**	**124,316**	**1,263,110**
Additions	-	40,153	1,960	-	-	42,113
Reclassification	-	(833)	833	-	-	-
Disposals	-	(16,443)	(10,640)	(30,669)	(67)	(57,819)
Balance at 31 December 2017	**673,153**	**67,199**	**320,166**	**62,637**	**124,249**	**1,247,404**
Depreciation						
Balance at 1 January 2016	**(231,595)**	**(52,956)**	**(185,325)**	**(79,435)**	**(105,754)**	**(655,065)**
Depreciation and amortisation charge	(23,239)	(6,504)	(35,313)	(5,719)	(6,367)	(77,142)
Disposals	15,756	28,152	13,597	-	-	57,505
Balance at 31 December 2016	**(239,078)**	**(31,308)**	**(207,041)**	**(85,154)**	**(112,121)**	**(674,702)**
Depreciation and amortisation charge	(21,208)	(11,346)	(36,567)	(4,726)	(6,367)	(80,214)
Reclassification	-	607	(370)	-	-	237
Disposals	-	16,393	10,640	30,669	67	57,769
Balance at 31 December 2017	**(260,286)**	**(25,654)**	**(233,338)**	**(59,211)**	**(118,421)**	**(696,910)**
Net book value at 1 January 2017	**434,075**	**13,014**	**120,972**	**8,152**	**12,195**	**588,408**
Net book value at 31 December 2017	**412,867**	**41,545**	**86,828**	**3,426**	**5,828**	**550,494**

17 Deposits and balances from banks and other financial institutions

	2017 '000 KZT	2016 '000 KZT
Vostro accounts	10,499,732	7,381,964
Term deposits	3,328,340	3,431,849
	13,828,072	**10,813,813**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2017 the Bank has no financial institution (2016: none), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2017 is nil (2016: nil).

18 Current accounts and deposits from customers

	2017 '000 KZT	2016 '000 KZT
Current accounts and demand deposits		
- Retail	5,534,724	5,722,295
- Corporate	342,659,147	412,640,840
Term deposits		
- Corporate	26,367,612	30,419,112
	374,561,483	**448,782,247**

Concentrations of current accounts and customer deposits

As at 31 December 2017, the Bank had 1 customers (2016: 5 customers) whose balances exceeded 10% of equity. These balances as at 31 December 2017 amount to KZT 16,687,354 thousand (2016: KZT 160,034,947 thousand).

19 Other assets and liabilities

ASSETS	2017 '000 KZT	2016 '000 KZT
Debtors on documentary settlements	-	3,178,490
Other Assets	226,853	164,848
	226,853	**3,343,338**

As at 31 December 2017 and 31 December 2016 no other assets were past due.

Other liabilities	2017 '000 KZT	2016 '000 KZT
Documentary settlements	-	1,500,223
Other liabilities	2,669,881	1,429,620
	2,669,881	**2,929,843**

20 Equity

(a) Issued capital

The authorised, issued and outstanding share capital comprises 621 ordinary shares (2016: 621). All shares have a par value of KZT 20,125 thousand. During 2017 the Bank did not issue ordinary shares (2016: nil).

20 Equity, continued

(b) Dividends

In accordance with Kazakhstan legislation the Bank’s distributable reserves are limited to the balance of retained earnings as recorded in the Bank’s statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Bank’s insolvency. Under Kazakhstan legislation, as at the reporting date, reserves available for distribution amounted to KZT 120,271,369 thousand (2016: KZT 107,372,525 thousand). During 2017 there were dividends declared and paid of KZT 20,612 thousand per share in the total amount of KZT 12,800,000 thousand (2016: KZT 6,950,000 thousand).

(c) Dynamic reserve

In accordance with Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Bank has established a dynamic reserve calculated using a formula determined in the Rules.

In accordance with the Rules, dynamic reserve cannot be less than zero and shall be calculated as the difference between expected losses and actual charge on deductible for tax purposes impairment losses recognised during the reporting quarter in accordance with IFRS net of income from recovery of provisions. Expected losses are estimated based on the increase of loans to customers during the reporting quarter multiplied by certain coefficients. The Resolution has been effective from 1 January 2013.

In 2017, the dynamic reserve is temporarily frozen by the NBRK at the level of 31 December 2013.

As at 31 December 2017 and 31 December 2016 the non-distributable dynamic reserve of the Bank is KZT 2,380,583 thousand.

The Dynamic reserve was cancelled in January 2018 due to deletion of paragraph 1 of Article 43 of the Law of the Republic of Kazakhstan "On Banks and Banking Activity in the Republic of Kazakhstan" dd August 31, 1995, and in accordance with Letter of the National Bank of the Republic of Kazakhstan No. 24-0-18 / 635 dd 27 December 2017. In accordance with Letter of the National Bank of the Republic of Kazakhstan No 11-1-11 / 161 dd 12 February 2018 dynamic reserve amount was reversed through current year undivided profit.

21 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank’s operations. The major risks faced by the Bank are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Bank is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a Credit Committee and an Asset and Liability Management Committee (ALCO).

21 Risk management, continued

(a) Risk management policies and procedures, continued

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures.

The Bank calculates mandatory ratios on a daily basis in accordance with the requirement of the NBRK. As at 31 December 2017 and 2016 the mandatory ratios were in compliance with limits set by the NBRK.

(b) Market risk

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

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the President. Market risk limits are approved by the ALCO, based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board. In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank’s overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

(i) Interest rate risk

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

21 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

’000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
31 December 2017							
ASSETS							
Cash and cash equivalents	5,003,854	-	-	-	-	369,776,250	374,780,104
Placements with banks	430,254	-	-	-	-	266	430,520
Financial assets at fair value through Profit or loss	41,867,813	-	-	-	-	-	41,867,813
Loans to customers	67,967,724	19,868,116	-	-	-	-	87,835,840
Available-for-sale financial assets	3,023,144	885,683	4,054,356	9,714,463	-	-	17,677,646
	118,292,789	**20,753,799**	**4,054,356**	**9,714,463**	**-**	**369,776,516**	**522,591,923**
LIABILITIES							
Deposits and balances from banks and other financial institutions	3,300,372	-	-	-	-	10,527,700	13,828,072
Current accounts and deposits from customers	97,840,490	-	-	-	-	276,720,992	374,561,482
Amounts payable under repurchase agreements	-	-	-	-	-	-	-
	101,140,862	**-**	**-**	**-**	**-**	**287,248,692**	**388,389,554**
	17,151,927	**20,753,799**	**4,054,356**	**9,714,463**	**-**	**82,527,824**	**134,202,369**

21 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
31 December 2016							
ASSETS							
Cash and cash equivalents	70,042,778	-	-	-	-	390,411,586	460,454,364
Placements with banks	431,497	-	-	-	-	267	431,764
Loans to customers	58,641,520	19,848,319	2,233	17,803	376,634	-	78,886,509
Available-for-sale financial assets	-	-	23,309,548	11,996,924	-	-	35,306,472
	129,115,795	**19,848,319**	**23,311,781**	**12,014,727**	**376,634**	**390,411,853**	**575,079,109**
LIABILITIES							
Deposits and balances from banks and other financial institutions	3,408,396	-	-	-	-	7,405,417	10,813,813
Current accounts and deposits from customers	225,971,974	-	-	-	-	222,810,273	448,782,247
	229,380,370	**-**	**-**	**-**	**-**	**230,215,690**	**459,596,060**
	(100,264,575)	**19,848,319**	**23,311,781**	**12,014,727**	**376,634**	**160,196,163**	**115,483,049**

21 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2017 and 2016.

	2017 Average effective interest rate, %			2016 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	9.25	-	-	10.99	-	-
Placements with banks	-	1.33	-	-	0.55	-
Financial assets at fair value through Profit or loss	5.51	-	-	-	-	-
Loans to customers	11.41	4.16	3.50	14.70	3.59	3.00
Available-for-sale financial assets	6.15	-	-	7.73	-	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	6.80	-	-	7.00	0.50	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	4.44	0.12	3.88	2.92	0.07	4.00
- Term deposits	4.31	0.02	0.50	8.02	0.02	0.50

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2017 and 2016, is as follows:

	31 December 2017		31 December 2016	
	Net income	**Equity**	**Net income**	**Equity**
100 bp parallel increase	231,941	231,941	(202,906)	(202,906)
100 bp parallel decrease	(231,941)	(231,941)	202,906	202,906

21 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Fair value interest rate sensitivity analysis

An analysis of the sensitivity of net profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates, based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	31 December 2017		31 December 2016	
	Net income	**Equity**	**Net income**	**Equity**
100 bp parallel increase	-	(266,762)	-	(498,882)
100 bp parallel decrease	-	247,211	-	459,594

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 28.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a +/-20% change in USD and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2017		2016	
	Net income	**Equity**	**Net income**	**Equity**
20% appreciation of USD against KZT (2016: 20%)	(895,789)	(895,789)	(1,701,050)	(1,701,050)
20% depreciation of USD against KZT (2016: 20%)	895,789	895,789	1,701,050	1,701,050
20% appreciation of other currencies against KZT (2016: 20%)	6,764	6,764	4,116	4,116
20% depreciation of other currencies against KZT (2016: 20%)	(6,764)	(6,764)	(4,116)	(4,116)

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The Bank's credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications;
- methodology for the credit assessment of corporate borrowers and/or issuers;
- methodology for the credit assessment of counterparties;
- methodology for the evaluation of collateral;

21 Risk management, continued

(c) Credit risk, continued

- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Credit approval requests are originated by the relevant client managers and are then passed for approval to the Credit Committee in form of Credit Package. Client manager collects inputs from Credit Risk, Legal and Business Security Units to form the credit package. The Credit Committee reviews the Credit Approval requests on the basis of submissions by the Corporate Business.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration risk.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts and pre-settlement value of derivative transactions. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant. The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 21.

The Bank monitors concentrations of credit risk by type of obligors and by industry/sector. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 13 "Loans to customers".

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2017	**2016**
	'000 KZT	**'000 KZT**
ASSETS		
Cash and cash equivalents	374,455,472	459,445,374
Loans to customers	87,835,840	78,886,509
Financial assets at fair value through profit or loss	41,867,814	-
Available-for-sale financial assets	17,677,645	35,306,473
Financial instruments at fair value through profit or loss	1,001,166	909,003
Placements with banks	430,520	431,764
Total maximum exposure	**523,268,457**	**574,979,123**

(d) Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position, or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the statement of financial position.

21 Risk management, continued

(d) Offsetting financial assets and financial liabilities, continued

The Bank conducts derivative transactions that are not transacted on the exchange through a central counterparty. Management believes that such settlements are, in effect, equivalent to net settlement, and that the Bank meets the net settlement criterion as this gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that the Bank will process receivables and payables in a single settlement process or cycle.

The Bank receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements, and
- securities lending and borrowing.

Such collateral is subject to the standard industry terms of the International Derivative Swaps and Dealers Association (ISDA) Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty’s failure to post collateral.

21 Risk management, continued

(d) Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

'000 KZT

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments	Net amount
Derivative instruments at fair value through profit or loss - assets	1,001,166	-	1,001,166	(1,001,166)	-
Derivative instruments at fair value through profit or loss - liabilities	(240,883)	-	(240,883)	240,883	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016:

'000 KZT

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments	Net amount
Derivative instruments at fair value through profit or loss – assets	909,003	-	909,003	(909,003)	-
Derivative instruments at fair value through profit or loss - liabilities	(153,157)	-	(153,157)	153,157	-

21 Risk management, continued

(d) Offsetting financial assets and financial liabilities, continued

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the following basis:

- derivative assets and liabilities – fair value;
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

The amounts in the above tables that are offset in the statement of financial position are measured on the same basis.

(e) Liquidity risk

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

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long- and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

21 Risk management, continued

(e) Liquidity risk, continued

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Asset and Liability Management Committee (ALCO) and implemented by the Treasury Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the NBRK. The Bank was in compliance with these ratios as at 31 December 2017 and 2016.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, short-term state securities for which there is a liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Bank believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Bank indicates that these customers accounts provide a long-term and stable source of funding.

The following tables show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The total gross amount (inflow)/ outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability. The Bank’s expected cash flows on these financial liabilities may vary significantly from this analysis.

21 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of undiscounted liabilities recognised in the statement of financial position as at 31 December 2017:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	13,828,072	-	-	-	-	13,828,072	13,828,072
Current accounts and deposits from customers	374,561,483	-	-	-	-	374,561,483	374,561,483
Other liabilities	2,669,882	-	-	-	-	2,669,882	2,669,882
Derivatives					-		
- Inflow	(268,442,025)	(9,090,433)	(20,455,923)	(7,214,226)	-	(305,202,607)	(1,001,166)
- Outflow	268,040,240	8,943,913	20,232,267	6,881,488	-	304,097,908	240,883
Total	**390,657,652**	**(146,520)**	**(223,656)**	**(332,738)**	**-**	**389,954,738**	**390,299,154**
Credit related commitments	**279,726,767**	**-**	**-**	**-**	**-**	**279,726,767**	**-**

The table below shows an analysis, by contractual maturities, of undiscounted liabilities recognised in the statement of financial position as at 31 December 2016:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	10,813,813	-	-	-	-	10,813,813	10,813,813
Current accounts and deposits from customers	448,782,247	-	-	-	-	448,782,247	448,782,247
Other liabilities	2,929,843	-	-	-	-	2,929,843	2,929,843
Derivatives						-	
- Inflow	(145,271,645)	(7,436,821)	(7,601,364)	(3,176,370)	-	(163,486,200)	(909,003)
- Outflow	144,889,177	7,060,756	7,263,598	2,999,610	-	162,213,141	153,157
Total	**462,143,435**	**(376,065)**	**(337,766)**	**(176,760)**	**-**	**461,252,844**	**461,770,057**
Credit related commitments	**278,914,288**	**-**	**-**	**-**	**-**	**278,914,288**	**-**

22 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defines as capital the following items defined by statutory regulation as capital for banks:

- Tier 1 capital, which is comprised of common equity and additional capital. Common equity comprises a share capital in the form of ordinary shares, additional paid-in capital, retained earnings of current year and prior periods and provisions less ordinary treasury shares, intangible assets including goodwill, current year and prior period losses, deferred tax asset less deferred tax liability and other revaluation reserves. Additional capital comprises perpetual financial instruments and paid-in preferred stock less adjustments for the Bank's investments in its own perpetual financial instruments and preferred treasury stock;
- Tier 2 capital, which comprises the subordinated debt denominated in the national currency, less investments in the subordinated debt of the financial organisations, in which the Bank owns 10% and more of the issued shares (interests in the charter capital) of a legal entity.

The equity is the sum of tier 1 capital, tier 2 capital minus 16.67 % of the positive differences between reserves calculated in accordance with the Guidelines for the formation of provisions for the depreciation of bank assets in the form of loans and receivables in accordance with Appendix 1 NBRK Management Board decree #170 dated 13 September 2017 and reserves calculated and reflected in the accounting records in accordance with IFRS (hereinafter – The positive difference).

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the NBRK banks have to maintain:

- a ratio of common equity to the sum of assets and contingent liabilities, financial derivatives weighted by the level of credit risk, assets, contingent assets and liabilities, calculated based on the market risk and a quantitative measure of operational risk (k1);
- a ratio of tier 1 capital to the sum of assets and contingent liabilities, financial derivatives weighted by the level of credit risk, assets, contingent assets and liabilities, calculated based on the market risk and a quantitative measure of operational risk (k1-2);
- a ratio of total capital to the sum of assets and contingent liabilities, financial derivatives weighted by the level of credit risk, assets, contingent assets and liabilities, calculated based on the market risk and a quantitative measure of operational risk (k2).

As at 31 December 2017, the minimum level of ratios as applicable to the Bank are as follows:

- k1 – 5,5%;
- k1-2 – 6,5%;
- k2 – 8%.

The Bank has complied with all externally imposed capital requirements as at 31 December 2017 and 2016.

22 Capital management, continued

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK Management Board decree #170 dated 13 September 2017, as at 31 December 2017 and 31 December 2016:

	2017 KZT'000	2016 KZT'000
Common equity	135,109,133	121,406,262
Tier 1 capital	135,109,133	121,406,262
The positive difference	(755,033)	-
Total statutory equity	**134,354,100**	**121,406,262**
Risk-weighed statutory assets, contingent liabilities, operational and market risks		
Risk-weighted statutory assets	71,015,625	64,781,489
Risk-weighted contingent liabilities	47,773,578	45,004,799
Risk weighted derivative financial instruments	3,487,927	2,000,960
Operational risk	33,888,852	26,139,507
Market risk	5,598,925	10,616,775
Total statutory risk weighted assets, contingent liabilities, operational and market risk	**161,764,907**	**148,543,530**
k1 ratio	**83.50%**	**81.70%**
k1-2 ratio	**83.50%**	**81.70%**
k2 ratio	**83.10%**	**81.70%**

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

23 Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

23 Credit related commitments, continued

	2017 '000 KZT	2016 '000 KZT
Contracted amount		
Undrawn facilities	232,551,114	233,088,605
Guarantees and letters of credit	47,175,652	45,825,683
	279,726,766	**278,914,288**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

24 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to the Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

25 Custody activities

The Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the statement of financial position.

26 Related party transactions

(a) Control relationships

The Bank is wholly-owned by the Shareholder Bank which is ultimately owned by Citigroup Inc., a public company listed on several stock exchanges. Both entities produce publicly available financial statements.

Related parties include the Parent as well as other Citigroup entities, members of the Board of Directors and members of the Management Board.

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

Total remuneration included in employee compensation (refer Note 8):

	2017 ’000 KZT	2016 ’000 KZT
Members of the Management Board	346,212	262,213
Members of the Board of Directors	197,675	122,804
	543,887	**385,017**

The above amounts include non-cash benefits in respect of the Management Board.

The outstanding balances and average interest rates as at 31 December 2017 and 2016 for transaction with the members of the Board of Directors and the management Board are as follows:

	2017 '000 KZT	Average interest rate, %	2016 '000 KZT	Average interest rate, %
Separate statement of financial position				
ASSETS				
Loans to customers	60,773	7.25	67,379	2.5
LIABILITIES				
Current accounts and deposits from customers	15,802	4	8,923	4

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the years ended 31 December 2017 and 2016 are as follows:

	2017 '000 KZT	2016 '000 KZT
Profit or loss		
Interest income	4,068	1,808
Interest expense	(44)	(28)

26 Related party transactions, continued

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2017 and 31 December 2016 and related income statement amounts of transactions for the year ended 31 December 2017 and 2016 with other related parties were as follows.

	The Shareholder Bank				Other Citigroup entities				Total	
	'000 KZT		Average Interest Rate, %		'000 KZT		Average Interest Rate, %		'000 KZT	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Statement of Financial Position										
Assets										
Cash and cash equivalents	22,497,977	40,376,475	1.10	0.37	1,094,120	721,642	-	-	**23,592,097**	**41,098,117**
Placements with banks	430,254	431,497	1.33	0.55	-	-	-	-	**430,254**	**431,497**
Financial instruments at fair value through profit or loss	534,571	370,299	-	-	-	-	-	-	**534,571**	**370,299**
Other assets	1,010	867	-	-	6,103	8,329	-	-	**7,113**	**9,196**
Liabilities										
Current accounts and deposits from customers	-	-	-	-	394,879	228,080	-	-	**394,879**	**228,080**
Deposits and balances from banks and other financial institutions	97,396	480,691	-	-	2,450,996	209,650	-	-	**2,548,392**	**690,341**
Financial instruments at fair value through profit or loss	132,115	129,038	-	-	-	-	-	-	**132,115**	**129,038**
Other liabilities	20,547	11,536	-	-	21,669	21,732	-	-	**42,216**	**33,268**
Items not recognised in the statement of financial position										
Guarantees granted	467,007	2,545,211	-	-	2,286	-	-	-	**469,293**	**2,545,211**
Guarantees received	197,128	2,246,269	-	-	102,027,596	71,823,995	-	-	**102,224,724**	**74,070,264**
Commitments to buy foreign currency	73,369,784	23,693,846	-	-	-	-	-	-	**73,369,784**	**23,693,846**
Commitments to sell foreign currency	169,182,650	128,641,846	-	-	-	-	-	-	**169,182,650**	**128,641,846**

26 Related party transactions, continued

(c) Transactions with other related parties, continued

As at 31 December 2017 financial instruments at fair value through profit or loss represent deliverable forward agreements on buy KZT and sell USD in the amount of KZT 132,000,000 thousand and USD 396,050 thousand, respectively, with terms up to 6 days (31 December 2016: deliverable forward on buy KZT and sell USD in the amount of KZT 118,600,000 thousand and USD 355,090 thousand with terms up to 5 days).

As at 31 December 2017 the guarantees granted were provided for the period from 0.1 till 97.63 months at annual interest rate from 1% till 2% with fee of USD 500 and USD 1000 (31 December 2016: period from 2.7 till 85.5 months at annual interest rate from 0.9% till 3.5%).

As at 31 December 2017 the guarantees received were provided for the period from 0.8 till 43.47 months at annual interest rate 0.25% (31 December 2016: period from 3.7 till 60.5 months at annual interest rate 0.17%).

’000 KZT	**The Shareholder Bank**		**Other Citigroup entities**		**Total**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Statement of Profit or Loss and Other Comprehensive Income						
Interest income	824,798	314,385	-	1	**824,798**	**314,386**
Interest expense	-	-	-	-	-	-
Net (loss) on derivative financial instruments	(139,570)	(766,717)	496,557	1,591,209	**356,987**	**824,492**
Fee and commission income	157,464	87,673	680,996	253,996	**838,460**	**341,669**
Fee and commission expense	(301,398)	(391,168)	(3,760)	(4,745)	**(305,158)**	**(395,913)**
General administrative expenses	(889,157)	(1,138,378)	(2,553,008)	(2,601,319)	**(3,442,165)**	**(3,739,697)**
Net foreign exchange gain	11,076,176	16,078,671	(245,013)	413,399	**10,831,164**	**16,492,070**
Other operating income/ (expenses)	733,816	719,114	316,335	330,415	**1,050,152**	**1,049,529**

27 Fair value of financial instruments

The estimated fair values of all financial instruments approximate their carrying values at 31 December 2017 and 2016.

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

27 Fair value of financial instruments, continued

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

Fair value hierarchy

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market, and certain over the counter structured derivatives.

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank has a control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models;
- quarterly calibration and back testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

27 Fair value of financial instruments, continued

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

The table below analyses financial instruments measured at fair value at 31 December 2017 by the level in the fair value hierarchy into which the fair value measurement is categorised:

’000 KZT	**Level 2**
ASSETS	
Financial assets at fair value through profit or loss	41,867,814
Available-for-sale financial assets	17,677,645
Derivative instruments at fair value through profit or loss	1,001,166
	41,867,814
LIABILITIES	
Financial instruments at fair value through profit or loss	(240,883)

The table below analyses financial instruments measured at fair value at 31 December 2016 by the level in the fair value hierarchy into which the fair value measurement is categorised:

’000 KZT	**Level 2**
ASSETS	
Available-for-sale financial assets	35,306,473
Derivative instruments at fair value through profit or loss	909,003
LIABILITIES	
Financial instruments at fair value through profit or loss	(153,157)

For the rest of financial instruments, not measured at fair value, estimated fair values approximate their carrying values due to their short-term nature or market interest rates at period end as determined by reference to inputs from observable market data.

28 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2017:

’000 KZT	**KZT**	**USD**	**Other currencies**	**Total**
Assets				
Cash and cash equivalents	15,944,244	349,970,553	8,865,307	374,780,104
Placements with banks	-	430,520	-	430,520
Financial instruments at fair value through profit or loss	1,001,166	-	-	1,001,166
Financial assets at fair value through profit or loss	41,867,813	-	-	41,867,813
Loans to customers	38,434,731	46,056,124	3,344,985	87,835,840
Available-for-sale financial assets	17,677,645	-	-	17,677,645
Property, equipment and intangible assets	550,494	-	-	550,494
Current tax assets	2,541,035	-	-	2,541,035
Other assets	154,079	72,186	589	226,854
Total assets	**118,171,207**	**396,529,383**	**12,210,881**	**526,911,471**
Liabilities				
Financial instruments at fair value through profit or loss	240,883	-	-	240,883
Deposits and balances from banks and other financial institutions	13,155,876	423,554	248,642	13,828,072
Current accounts and deposits from customers	145,580,055	201,727,802	27,253,625	374,561,482
Deferred tax liability	496,192	-	-	496,192
Other liabilities	2,601,448	68,433	-	2,669,881
Total liabilities	**162,074,454**	**202,219,789**	**27,502,267**	**391,796,510**
Net position as at 31 December 2017	**(43,903,247)**	**194,309,594**	**(15,291,386)**	**135,114,961**
The effect of derivatives held for risk management purposes	185,679,311	(199,908,273)	15,333,661	1,104,699
Net position after derivatives held for risk management purposes as at 31 December 2017	**141,776,064**	**(5,598,679)**	**42,275**	**136,219,660**

28 Currency analysis, continued

The following table shows the currency structure of assets and liabilities at 31 December 2016:

’000 KZT	KZT	USD	Other currencies	Total
Assets				
Cash and cash equivalents	87,709,584	345,943,559	26,801,221	460,454,364
Placements with banks	-	431,764	-	431,764
Financial instruments at fair value through profit or loss	909,003	-	-	909,003
Loans to customers	26,138,751	51,332,556	1,415,202	78,886,509
Available-for-sale financial assets	35,306,473	-	-	35,306,473
Property, equipment and intangible assets	588,408	-	-	588,408
Current tax assets	4,695,012	-	-	4,695,012
Other assets	113,956	3,182,632	46,750	3,343,338
Total assets	**155,461,187**	**400,890,511**	**28,263,173**	**584,614,871**
Liabilities				
Financial instruments at fair value through profit or loss	153,157	-	-	153,157
Deposits and balances from banks and other financial institutions	10,168,645	620,309	24,859	10,813,813
Current accounts and deposits from customers	131,534,248	284,191,681	33,056,318	448,782,247
Deferred tax liability	517,354	-	-	517,354
Other liabilities	1,217,581	1,664,020	48,242	2,929,843
Total liabilities	**143,590,985**	**286,476,010**	**33,129,419**	**463,196,414**
Net position as at 31 December 2016	**11,870,202**	**114,414,501**	**(4,866,246)**	**121,418,457**
The effect of derivatives held for risk management purposes	121,427,147	(125,046,060)	4,891,973	1,273,060
Net position after derivatives held for risk management purposes as at 31 December 2016	**133,297,349**	**(10,631,559)**	**25,727**	**122,691,517**