

**NATIONAL BANK
OF THE REPUBLIC OF
KAZAKHSTAN**

**CONSOLIDATED FINANCIAL
STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2017**

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**CONTENTS**

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NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the National Bank of the Republic of Kazakhstan (the "NBK") and its subsidiaries (the NBK and its subsidiaries together – the "National Bank") as at 31 December 2017, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Basis of Preparation described in the Note 2 to the consolidated financial statements (the "Basis of Preparation").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- following requirements of the Basis of Preparation; and
- preparing the consolidated financial statements on a going concern basis.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the National Bank;
- maintaining adequate accounting records that disclose with reasonable accuracy at any time the consolidated financial position of the National Bank and which enable them to ensure that the consolidated financial statements of the National Bank comply with the requirements of the Basis of Preparation;
- maintaining statutory accounting records in compliance with legislation of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the National Bank; and
- preventing and detecting fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2017 were authorised for issuance by the National Bank's Management Board on 27 March 2018.

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

D.T. Akishev
Governor

27 March 2018
Almaty, Kazakhstan

S.K. Rakhmetova
Chief Accountant

27 March 2018
Almaty, Kazakhstan



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Independent Auditors' Report

To the Management Board of the National Bank of the Republic of Kazakhstan

Qualified Opinion

We have audited the consolidated financial statements of the National Bank of the Republic of Kazakhstan and its subsidiaries (the “National Bank”), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, 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, except for the effects of the matter described in the Basis for Qualified Opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the National Bank as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Basis of Preparation described in Note 2 to the consolidated financial statements (the “Basis of Preparation”).



NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
Independent Auditors' Report

Basis for Qualified Opinion

The National Bank has measured unquoted equity securities stated at KZT 750,000,000 thousand as at 31 December 2017 and 31 December 2016 at cost on the basis that it was unable to obtain a reliable measure of their fair value. A reliable measure of fair value could have been obtained, and therefore such investments should have been stated at fair value in accordance with the Basis of Preparation. The effects of this departure from the Basis of Preparation on available-for-sale financial assets, comprehensive income, retained earnings and revaluation reserve for available-for-sale financial assets, which would have resulted from using fair values, as at and for the years ended 31 December 2017 and 31 December 2016 have not been determined.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

Recognition of expenses on the banking sector rehabilitation and disposal of subsidiary

Please refer to the Note 9 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>As part of its activity to ensure stability of the financial system the National Bank implements a number of programs aimed at providing support to second-tier banks.</p> <p>We paid particular attention to these matters due to the significance of these transactions, and also due to judgment involved in accounting of such transactions and use of estimates and underlying assumptions.</p> <p>During the reporting period such transactions comprise, in particular, purchase of subordinated debt securities issued by second-tier banks, which are recognised in the consolidated statement of financial position as interbank loans, and disposal of the subsidiary “Fund of Problem Loans” JSC.</p>	<p>We have analysed the economic substance of transactions performed and recognition thereof in the accounting.</p> <p>We have analysed the assumptions and judgments used by the National Bank in recognising losses from a free disposal of the subsidiary “Fund of Problem Loans” JSC in the consolidated statement of profit or loss.</p> <p>We have checked the key assumptions, used as a basis for estimation of the fair value of purchased subordinated debt of second-tier banks upon initial recognition, including the forecasted cash flows and discount rates. We have assessed the reasonableness of forecasted cash flows and compared the inputs, such as discount rates, against industry, financial and economic data from the external sources. With the involvement of our valuation experts, we have challenged the assumptions and methodology used by the National Bank to determine the fair value of purchased subordinated debt of second-tier banks.</p>

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Impairment of loans to second-tier banks

Please refer to the Note 19 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The assessment of impairment indicators of loans to second-tier banks is analysed by management through the application of judgment and use of highly subjective assumptions.</p> <p>Due to indications of increased credit risk related to lending to domestic banks, this is considered a key audit matter.</p> <p>We paid particular attention to the assumptions and methodology used for timely identification of the impaired loans to second-tier-banks and calculation of the impairment allowance.</p>	<p>Our audit procedures in this area included familiarising with the methodology of assessment of impairment of financial assets, assessing the design and operating efficiency of key controls over the identification of impaired loans, and analysis of the appropriateness of the key assumptions used for timely identification of impaired interbank loans.</p> <p>This includes failure to pay interest or principal when due, contract restructuring, analysis of changes in credit ratings of the National Bank's counterparties and other observable market data.</p> <p>We have also assessed the adequacy of impairment allowance for loans to second-tier banks.</p> <p>We have also assessed whether the consolidated financial statements disclosures appropriately reflect the National Bank's exposure to market risk.</p>

Other Information

Management is responsible for the other information. The other information comprises the Annual Report of the National Bank to the President of the Republic of Kazakhstan for the year 2017 (the "Annual Report"), but does not comprise consolidated financial statements and our audit report on it. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially

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inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud

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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 National 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 National 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the National Bank to cease to continue as a going concern.

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

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the National Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the National Bank audit. We remain solely responsible for our audit opinion.

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

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



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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

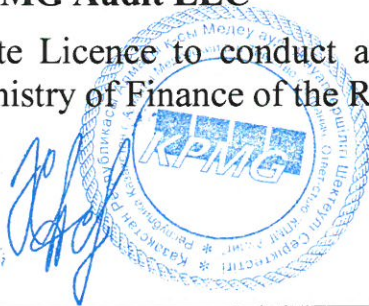
Е.Ким



Yelena Kim
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
No. МФ-0000042 of 8 August 2011

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

27 March 2018

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR
ENDED 31 DECEMBER 2017**

		2017	2016
	Note	KZT'000	KZT'000
Interest income	4	187,970,355	148,533,396
Interest expense	4	(357,178,632)	(275,512,973)
Net interest loss		(169,208,277)	(126,979,577)
Fee and commission income	5	28,491,105	17,511,976
Fee and commission expense	6	(2,781,621)	(2,337,162)
Net fee and commission income		25,709,484	15,174,814
Net gain on financial instruments at fair value through profit or loss	7	52,190,694	29,998,604
Net gain on available-for-sale financial assets	8	9,203,671	3,490,361
Share of gain of associates		1,585	1,223
Expenses on the banking sector rehabilitation	9	(585,623,196)	(5,428,504)
Expenses on disposal of subsidiary	9	(507,474,058)	-
Other operating (expenses) income, net	10	(9,152,915)	13,753,629
Operating expenses		(1,184,353,012)	(69,989,450)
(Charge for) reversal of impairment losses	11	(40,868,966)	2,897,682
Banknotes and coins production expenses	12	(2,384,962)	(4,502,150)
Funding of third parties	13	(149,432)	(194,150)
Personnel expenses	14	(26,066,223)	(24,298,232)
Depreciation and amortisation		(2,919,100)	(3,322,682)
Other general and administrative expenses	15	(10,859,838)	(19,395,201)

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR
ENDED 31 DECEMBER 2017**

	Note	<u>2017</u> <u>KZT'000</u>	<u>2016</u> <u>KZT'000</u>
Loss before income tax		(1,267,601,533)	(118,804,183)
Income tax benefit (expense)	16	83,628,931	(5,451,445)
Loss for the year		<u>(1,183,972,602)</u>	<u>(124,255,628)</u>
Loss attributable to:			
- Equity holders of the National Bank		(1,184,446,445)	(124,687,371)
- Non-controlling interest		473,843	431,743
Loss for the year		<u>(1,183,972,602)</u>	<u>(124,255,628)</u>

**On behalf of the Management Board of the National Bank of the Republic of
Kazakhstan:**

D.T. Akishev
Governor

S.K. Rakhmetova
Chief Accountant

27 March 2018
Almaty, Kazakhstan

27 March 2018
Almaty, Kazakhstan

The notes on pages 24-147 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR
THE YEAR ENDED 31 DECEMBER 2017**

	2017	2016
	KZT'000	KZT'000
Loss for the year	(1,183,972,602)	(124,255,628)
Other comprehensive income, net of income tax		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Revaluation reserve for available-for-sale financial assets:		
- Net change in fair value	35,703,043	(39,722,793)
- Net change in fair value transferred to profit or loss	(4,656,200)	2,397,662
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	<i>31,046,843</i>	<i>(37,325,131)</i>
<i>Items that will not be reclassified to profit or loss:</i>		
Net gain (loss) on foreign currency revaluation	45,041,259	(100,989,057)
Net gain on precious metals revaluation	395,793,297	132,365,318
Revaluation of property, plant and equipment	7,554,738	1,136,514
<i>Total items that will not be reclassified subsequently to profit or loss</i>	<i>448,389,294</i>	<i>32,512,775</i>
Other comprehensive income (loss) for the year, net of income tax	479,436,137	(4,812,356)
Total comprehensive loss for the year	(704,536,465)	(129,067,984)
Total comprehensive loss attributable to:		
- Equity holders of the National Bank	(705,010,286)	(129,499,590)
- Non-controlling interest	473,821	431,606
Total comprehensive loss for the year	(704,536,465)	(129,067,984)

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

D.T. Akishev
Governor
27 March 2018
Almaty, Kazakhstan

S.K. Rakhmetova
Chief Accountant
27 March 2018
Almaty, Kazakhstan

The notes on pages 24-147 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Note	2017 KZT'000	2016 KZT'000
ASSETS			
Cash on hand in foreign currency	17	49,964,397	133,165,880
Gold	18	4,153,571,095	3,205,211,023
Placements and loans with banks and other financial institutions	19	3,353,700,411	4,085,779,352
Financial instruments at fair value through profit or loss	20	989,079,839	856,098,778
Reverse repurchase agreements	21	184,400,406	399,178,190
Available-for-sale financial assets	22	5,196,993,643	4,456,823,099
Held-to-maturity investments	23	40,252,954	98,977,873
Investments in associates		304,295	302,710
Property, equipment and intangible assets	24	62,298,821	55,266,393
Current tax asset		1,878,261	3,320,437
Deferred tax assets	16	86,166,315	30,278,026
Other assets	25	21,515,374	15,951,886
Total assets		<u>14,140,125,811</u>	<u>13,340,353,647</u>
LIABILITIES			
Currency in circulation	26	2,257,675,813	2,050,536,444
Deposits and balances from banks and other financial institutions	27	4,828,725,191	4,426,155,970
Financial instruments at fair value through profit or loss	20	665,921	2,453,250
Repurchase agreements	28	295,484,490	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	29	337,924,084	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	30	430,853,383	505,678,909
Customer accounts	31	658,740,109	595,636,761

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

		2017	2016
	Note	KZT'000	KZT'000
Debt securities issued	32	3,209,726,402	2,506,039,966
Reserves of guarantee fund	33	307,151,304	258,617,223
Current tax liability		-	986,170
Deferred tax liabilities	16	2,360,203	2,274,178
Other liabilities	34	14,097,232	12,519,559
Total liabilities		12,343,404,132	10,524,167,142
EQUITY			
Charter capital	35	20,000,000	20,000,000
Capital reserve	35	174,986,594	331,691,233
Other reserves		3,633,018	3,430,633
Revaluation reserve for property and equipment		26,259,191	19,958,118
Revaluation reserve for available-for-sale financial assets		(53,321,533)	(84,368,398)
Revaluation reserve for foreign currency and precious metals		2,808,948,704	2,368,114,148
Accumulated losses		(1,188,759,997)	(161,990,514)
Total equity attributable to equity holders of the National Bank		1,791,745,977	2,496,835,220
Non-controlling interests	35	4,975,702	319,351,285
Total equity		1,796,721,679	2,816,186,505
Total liabilities and equity		14,140,125,811	13,340,353,647

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

D.T. Akishev
Governor
27 March 2018
Almaty, Kazakhstan

S.K. Rakhmetova
Chief Accountant
27 March 2018
Almaty, Kazakhstan

The notes on pages 24-147 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR
ENDED 31 DECEMBER 2017**

	2017	2016
	KZT'000	KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(1,267,601,533)	(118,804,183)
<i>Adjustments for:</i>		
Depreciation and amortisation	4,599,163	5,436,242
Expenses on replenishment of reserve on deposits guarantee	13,200,000	13,400,000
Gain on compensation on deposits of individuals	-	(23,788,202)
Loss on non-market terms transactions	-	5,428,504
Charge for (reversal of) impairment losses on financial instruments	40,092,150	(3,021,097)
Charge for impairment losses on other assets and inventory	148,981	70,621
Loss on property and equipment	643,415	6,108,879
Amortisation of discount on debt securities issued	291,403,821	207,521,343
Amortisation of premium and discount on financial assets	(16,700,686)	(2,146,819)
Unrealised (gain) loss on financial instruments at fair value through profit or loss	(1,907,741)	364,472
Share of gain of associates	(1,585)	(1,223)
Loss from gratuitous assignment of property	62,975	5,650,000
Cash flows from operating activities before changes in operating assets and liabilities	(936,061,040)	96,218,537

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR
ENDED 31 DECEMBER 2017**

	2017	2016
	KZT'000	KZT'000
Increase (decrease) in operating assets		
Gold	(552,566,775)	(496,650,272)
Placements and loans with banks and other financial institutions	(1,111,802,525)	279,185,571
Financial instruments at fair value through profit or loss	(134,822,187)	(63,192,665)
Reverse repurchase agreements	337,846,805	(297,326,858)
Available-for-sale financial assets	(598,763,706)	(585,425,280)
Other assets	470,116,754	1,979,467
Increase (decrease) in operating liabilities		
Currency in circulation	207,139,370	555,182,627
Deposits and balances from banks and other financial institutions	344,801,933	(1,406,218,018)
Financial instruments at fair value through profit or loss	(157,341)	(516,699)
Repurchase agreements	260,410,360	33,973,767
Current accounts of the National Fund of the Republic of Kazakhstan	209,729,502	(1,122,894,924)
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	(70,307,657)	(378,993,671)
Customer accounts	63,160,429	443,417,839
Reserves of guarantee fund	35,334,081	32,436,438
Other liabilities	2,664,811	(4,878,458)
Net cash from operating activities before income tax paid	(1,473,277,186)	(2,913,702,599)
Income tax paid	28,300,646	(6,046,898)
Cash flows used in operating activities	(1,444,976,540)	(2,919,749,497)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR
ENDED 31 DECEMBER 2017**

	2017	2016
	KZT'000	KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of held-to-maturity investments	-	(864,201)
Redemption of held-to-maturity investments	59,956,583	-
Purchases of property and equipment and intangible assets	(9,762,459)	(4,186,731)
Sales of property and equipment and intangible assets	5,030,522	141,484
Cash flows used in investing activities	55,224,646	(4,909,448)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt securities issued	63,001,373,796	41,045,104,282
Repayment of debt securities issued	(62,343,468,289)	(38,936,734,998)
Discount paid	(245,622,892)	(164,902,936)
Cash flows from financing activities (Note 32)	412,282,615	1,943,466,348
Net decrease in cash and cash equivalents	(977,469,279)	(981,192,597)
Effect of changes in exchange rates on cash and cash equivalents	(27,435,367)	12,816,492
Reversal of impairment losses	-	6,573,319
Cash and cash equivalents at the beginning of the year	2,559,086,534	3,520,889,320
Cash and cash equivalents at end of year (Note 17)	1,554,181,888	2,559,086,534

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR
ENDED 31 DECEMBER 2017**

Amounts of interest paid and received during the year ended 31 December 2017, are KZT 357,484,478 thousand and KZT 186,501,913 thousand, respectively, (31 December 2016: KZT 275,225,018 thousand and KZT 121,669,756 thousand, respectively).

Amounts of dividends paid and received during the year ended 31 December 2017, are nil and KZT 2,753 thousand, respectively (31 December 2016: are nil and KZT 13,660 thousand, respectively).

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

D.T. Akishev
Governor

27 March 2018
Almaty, Kazakhstan

S.K. Rakhmetova
Chief Accountant

27 March 2018
Almaty, Kazakhstan

The notes on pages 24-147 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

KZT'000	Attributable to equity holders of the National Bank									
	Charter capital	Capital reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses	Total	Non-controlling interest	Total equity
Balance as at 1 January 2017	20,000,000	331,691,233	3,430,633	19,958,118	(84,368,398)	2,368,114,148	(161,990,514)	2,496,835,220	319,351,285	2,816,186,505
Total comprehensive loss										
Loss for the year	-	-	-	-	-	-	(1,184,446,445)	(1,184,446,445)	473,843	(1,183,972,602)
Other comprehensive income										
<i>Items that are or may be reclassified subsequently to profit or loss:</i>										
Net change in fair value of available-for-sale financial assets	-	-	-	-	35,703,065	-	-	35,703,065	(22)	35,703,043
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(4,656,200)	-	-	(4,656,200)	-	(4,656,200)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	-	31,046,865	-	-	31,046,865	(22)	31,046,843
<i>Items that will not be reclassified subsequently to profit or loss:</i>										
Net gain on foreign currency revaluation	-	-	-	-	-	45,041,259	-	45,041,259	-	45,041,259
Net gain on precious metals revaluation	-	-	-	-	-	395,793,297	-	395,793,297	-	395,793,297
Revaluation of property and equipment	-	-	-	7,554,738	-	-	-	7,554,738	-	7,554,738
<i>Total items that will not be reclassified subsequently to profit or loss</i>	-	-	-	7,554,738	-	440,834,556	-	448,389,294	-	448,389,294
Total other comprehensive loss	-	-	-	7,554,738	31,046,865	440,834,556	-	479,436,159	(22)	479,436,137
Total comprehensive loss for the year	-	-	-	7,554,738	31,046,865	440,834,556	(1,184,446,445)	(705,010,286)	473,821	(704,536,465)
Transfer of revaluation reserve resulting from depreciation and disposals	-	-	-	(1,253,665)	-	-	1,182,193	(71,472)	89,444	17,972
Transactions with owners recorded directly in equity:										
Addition to capital reserve and other reserves (Note 35)	-	832,736	202,385	-	-	-	(1,042,606)	(7,485)	7,485	-
Compensation for loss from reserve	-	(157,537,375)	-	-	-	-	157,537,375	-	-	-
Transfer of shares of Problem Loans Fund JSC to the Government of the RK	-	-	-	-	-	-	-	-	(314,946,333)	(314,946,333)
Total transactions with owners	-	(156,704,639)	202,385	-	-	-	156,494,769	(7,485)	(314,938,848)	(314,946,333)
Balance as at 31 December 2017	20,000,000	174,986,594	3,633,018	26,259,191	(53,321,533)	2,808,948,704	(1,188,759,997)	1,791,745,977	4,975,702	1,796,721,679

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

KZT'000	Attributable to equity holders of the National Bank									
	Charter capital	Capital reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses	Total	Non-controlling interest	Total equity
Balance as at 1 January 2016	20,000,000	346,420,494	3,253,536	20,699,162	(47,043,404)	2,336,737,887	(53,708,859)	2,626,358,816	318,905,490	2,945,264,306
Total comprehensive loss										
Loss for the year	-	-	-	-	-	-	(124,687,371)	(124,687,371)	431,743	(124,255,628)
Other comprehensive income										
<i>Items that are or may be reclassified subsequently to profit or loss:</i>										
Net change in fair value of available-for-sale financial assets	-	-	-	-	(39,722,656)	-	-	(39,722,656)	(137)	(39,722,793)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	2,397,662	-	-	2,397,662	-	2,397,662
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	-	(37,324,994)	-	-	(37,324,994)	(137)	(37,325,131)
<i>Items that will not be reclassified subsequently to profit or loss:</i>										
Net loss on foreign currency revaluation	-	-	-	-	-	(100,989,057)	-	(100,989,057)	-	(100,989,057)
Net gain on precious metals revaluation	-	-	-	-	-	132,365,318	-	132,365,318	-	132,365,318
Revaluation of property and equipment	-	-	-	1,136,514	-	-	-	1,136,514	-	1,136,514
<i>Total items that will not be reclassified subsequently to profit or loss</i>	-	-	-	1,136,514	-	31,376,261	-	32,512,775	-	32,512,775
Total other comprehensive loss	-	-	-	1,136,514	(37,324,994)	31,376,261	-	(4,812,219)	(137)	(4,812,356)
Total comprehensive loss for the year	-	-	-	1,136,514	(37,324,994)	31,376,261	(124,687,371)	(129,499,590)	431,606	(129,067,984)
Transfer of revaluation reserve resulting from depreciation and disposals	-	-	-	(1,873,820)	-	-	1,864,003	(9,817)	-	(9,817)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

KZT'000	Attributable to equity holders of the National Bank							Total	Non-controlling interest	Total equity
	Charter capital	Capital reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses			
Transactions with owners recorded directly in equity:										
Addition to capital reserve and other reserves (Note 35)	-	3,960,946	177,156	-	-	-	(4,138,102)	-	-	-
Compensation for loss from reserve	-	(18,690,207)	-	-	-	-	18,690,207	-	-	-
Change in investments in subsidiaries	-	-	(59)	(3,738)	-	-	(10,392)	(14,189)	14,189	-
Total transactions with owners	-	(14,729,261)	177,097	(3,738)	-	-	14,541,713	(14,189)	14,189	-
Balance as at 31 December 2016	20,000,000	331,691,233	3,430,633	19,958,118	(84,368,398)	2,368,114,148	(161,990,514)	2,496,835,220	319,351,285	2,816,186,505

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

D.T. Akishev
Governor
 27 March 2018
 Almaty, Kazakhstan

S.K. Rakhmetova
Chief Accountant
 27 March 2018
 Almaty, Kazakhstan

The notes on pages 24-147 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. REPORTING ENTITY**Organisation and operations**

These consolidated financial statements comprise the consolidated financial statements of the National Bank of the Republic of Kazakhstan (the “NBK”) and its subsidiaries (together referred to as the “National Bank”).

The NBK was established in accordance with the Resolution of the Supreme Council of the Republic of Kazakhstan No. 2134-XII dated 13 April 1993. Pursuant to this Resolution the State Bank of Kazakh SSR was renamed as the National Bank of the Republic of Kazakhstan.

The primary role of the NBK is ensuring price stability in the Republic of Kazakhstan. The NBK has the following goals: development and implementation of the monetary policy of the state; ensuring functioning of payment systems; exchange regulation and exchange control; ensuring stability of the financial system, regulation; control and monitoring of the financial market and financial organizations and other parties within its competency; maintaining a proper level of protection of the rights and legitimate interests of the consumers of financial services; accomplishment of statistical activities in the field of monetary statistics and external sector statistics; other tasks in accordance with the laws of the Republic of Kazakhstan and the acts of the President of the Republic of Kazakhstan.

According to its mission, the National Bank exercises the following main functions: development and implementation of the monetary policy in the Republic of Kazakhstan; acts as the only issuer of banknotes and coins in the Republic of Kazakhstan and organizes currency circulation on the territory of the Republic of Kazakhstan; currency regulation and currency control in the Republic of Kazakhstan; performs management of the foreign currency assets and precious metals; performs regulation, control and supervision of the financial market and financial organisations, as well as other entities in accordance with the Laws of the Republic of Kazakhstan; performs trust management of the National Fund the Republic of Kazakhstan based on the trust agreement to be entered into between the NBK and the Government of the Republic of Kazakhstan; performs trust management of the pension assets of “Unified National Pension Fund” JSC (“UNPF”) based on the trust agreement entered into between the NBK and the unified pension fund; exercises other functions and authorities stated in the Law “On the National Bank of the Republic of Kazakhstan”, other laws of the Republic of Kazakhstan and Decrees of the President of the Republic of Kazakhstan.

The address of the NBK’s registered office is 21, Micro District Koktem-3, Almaty 050040. As at 31 December 2017 the NBK has 17 branches and 14 subsidiaries located in the Republic of Kazakhstan.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. REPORTING ENTITY, CONTINUED

Organisation and operations, continued

All the subsidiaries that are registered in the Republic of Kazakhstan are as follows:

Name	Year of establish ment	Principal activities	Ownership, %	
			2017	2016
“Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” RSE	1994	Coins manufacturing	100.00	100.00
“Kazakhstan Interbank Settlement Centre of the National Bank of Kazakhstan” RSE	1996	Electronic cash transfers	100.00	100.00
“Banking Service Bureau of the National Bank of the Republic of Kazakhstan” JSC	1996	Software maintenance and development	100.00	100.00
“Kazakhstan Deposit Insurance Fund” JSC	1999	Individual deposit guarantee	100.00	100.00
“Banknote Factory of the National Bank of the Republic of Kazakhstan” RSE	2004	Banknote manufacturing	100.00	100.00
“Reserve Centre of the National Bank of the Republic of Kazakhstan “Q-BRO” JSC	2007	Ensuring the smooth functions of IT of the NBK	-	100.00
“The Training Academy of the National Bank of the Republic of Kazakhstan” JSC	2007	Delivering professional training programs of postgraduate education	100.00	100.00

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

<u>Name</u>	<u>Year of establish ment</u>	<u>Principal activities</u>	<u>Ownership, %</u>	
			<u>2017</u>	<u>2016</u>
“Activity Support Center of the National Bank of the Republic of Kazakhstan” JSC	2011	Transportation services, economic activity on property management	100.00	100.00
Problem Loans Fund JSC	2011	Promotion of measures on quality improvement for credit portfolios of second- tier banks	-	100.00
“National Investment Corporation of the National Bank of Kazakhstan” JSC (the “NIC NBK” JSC)	2012	Management of assets of the National Fund of the Republic of Kazakhstan and gold and foreign currency assets of the NBK, management of pension assets	100.00	100.00
“State Credit Bureau” JSC	2012	Forming of credit histories and credit reports	100.00	100.00
“Integrated Securities Registrar” JSC	2012	Maintaining a registry system for securities holders	98.97	98.97
“Central Securities Depository” JSC	1996	Depository activity	72.36	72.36
“Rating Agency “Regional Financial Center of Almaty city” JSC	2007	Assigning and indexation of credit ratings	58.76	58.76
“Kazakhstan Stock Exchange” JSC	1993	Organisation and maintenance of financial markets	50.10	50.10

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

<u>Name</u>	<u>Year of establish ment</u>	<u>Principal activities</u>	<u>Ownership, %</u>	
			<u>2017</u>	<u>2016</u>
“Kazakhstan Sustainability Fund” JSC	2017	Contributing to financial stability of the banking sector through financial support of second-tier banks	100.00	-

In accordance with para. 39 of the National Action Plan, to implement the Nation Address of the Head of the State of 31 January 2017 the Third Modernisation of Kazakhstan: Global Competitiveness approved by Decree of the President of the Republic of Kazakhstan No.422 of 15 February 2017, the Program to Improve the Financial Sustainability of Kazakhstan’s Banking Sector was approved. In 2017, “Kazakhstan Sustainability Fund” JSC is established as the Program Operator. The focal point of its activities is to contribute to financial stability of the banking sector through financial support of second-tier banks. Financial support is provided to second-tier banks out of own funds as well as loans and borrowings.

In November 2016, according to the Articles 50 and 51 of the Civil Code of the Republic of Kazakhstan, sub-para. 2) of para. 1, Article 36 and Articles 88 and 89 of the Law of the Republic of Kazakhstan “On Joint-Stock-Companies”, sub-para. 3) of para. 43 of the Charter of Reserve Centre of the National Bank of Kazakhstan “Q-BRO” JSC approved by the Resolution of the Shareholder of Reserve Centre of the National Bank of Kazakhstan “Q-BRO” JSC dated 19 October 2015 No.2, the NBK made a decision to liquidate Reserve Centre of the National Bank of Kazakhstan “Q-BRO” JSC and approved an action plan on liquidation of Reserve Centre of the National Bank of Kazakhstan “Q-BRO” JSC. Reserve Centre of the National Bank of Kazakhstan “Q-BRO” JSC was liquidated in November 2017. Effects of liquidation of the above mentioned subsidiary on the National Bank’s assets and liabilities and loss for the year were insignificant.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. REPORTING ENTITY, CONTINUED**Organisation and operations, continued**

In 2017 to implement para.7 of the National Action Plan approved by Decree of the President of the Republic of Kazakhstan No.143 of 25 December 2015 On Measures to Implement the Nation Address of the Head of the State of 30 November 2015 Kazakhstan in New Global Reality: Growth, Reforms, Development, para.4 of the Anti-Crisis Action Plan of the Government of the Republic of Kazakhstan and National Bank of the Republic of Kazakhstan for economic resilience and social stability for 2016-2018, approved by the Government of the Republic of Kazakhstan (Minutes of the Meeting No.51 of 8 December 2015), and the third priority Macroeconomic Stability of the Nation Address of the Head of the State of 31 January 2017 the Third Modernisation of Kazakhstan: Global Competitiveness, the Management Board of the National Bank made a decision on 21 February 2017 to increase the charter capital of Problem Loans Fund JSC by KZT 470,196,000 thousand and transfer, on a gratuitous basis, ordinary shares of Problem Loans Fund JSC owned by the National Bank of the Republic of Kazakhstan to the Government of the Republic of Kazakhstan represented by the State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan (Note 9).

The National Bank's operations are primarily located in Kazakhstan. Consequently, the National Bank is exposed to the economic and financial markets of Kazakhstan, which display emerging-market characteristics. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, the depreciation of the Kazakhstan tenge, which took place during 2015, and a reduction in the global price of oil, have increased the level of uncertainty in the business environment.

The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and financial position of the National Bank. The future business environment may differ from management's assessment.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. BASIS OF ACCOUNTING**Statement of compliance**

In accordance with the Law of the Republic of Kazakhstan No. 2155 dated 30 March 1995 “On the National Bank of the Republic of Kazakhstan” the NBK determines its accounting policies for itself based on International Financial Reporting Standards (“IFRS”).

These consolidated financial statements have been designed to present fairly the consolidated financial position of the National Bank and the results of its operations and have been prepared in accordance with the accounting policy of the NBK which was approved by the Board of Directors of the National Bank on 27 June 2013 and which the National Bank considers to be appropriate to the nature of central bank activity. The accounting policy of the National Bank is based on IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) with principal modifications as described below:

- gold and gold deposits are revalued based on market value of gold; gains resulting from the mark to market of gold and foreign currency assets and liabilities are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income;

- contributions received from the participating banks and expenses on replenishment of reserve on deposits guarantee in accordance with the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second-tier banks of the Republic of Kazakhstan” with amendments as at 24 November 2015 are recognised as reserves of guarantee fund within liabilities;

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. BASIS OF ACCOUNTING, CONTINUED**Statement of compliance, continued**

- deals concluded for the purpose of executing monetary policy and ensuring stability of the financial system are recognised and disclosed at either nominal or amortised cost, or at cost depending on their content and economic nature and/or goals and objectives of the National Bank. In these consolidated financial statements such deals include swap deals with second-tier banks and other financial institutions that represent derivatives but are presented as “placements with banks and other financial institutions” and “deposits and balances from banks and other financial institutions” (Notes 19 and 27) at nominal value.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that gold, financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value, and buildings, constructions, land plots and vehicles are stated at revalued amounts.

Functional and presentation currency for the purposes of consolidated financial statements

The functional currency of the National Bank and of its subsidiaries 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 them. The KZT is also the presentation currency for the purposes of these consolidated financial statements.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. BASIS OF ACCOUNTING, CONTINUED**Use of estimates and judgements**

The preparation of consolidated 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 results 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 judgements in applying accounting policies is described in the following notes:

- statement of compliance - Note 2;
- accounting of expenses on the banking sector rehabilitation – Note 9;
- fair value of subordinated obligations at initial recognition – Note 9;
- impairment of placements and loans with banks and other financial institutions – Note 19;
- financial assets and liabilities: fair values and accounting classifications - Note 42.

Changes in accounting policies and presentation

The National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the National Bank to all periods presented in these consolidated financial statements.

Basis of consolidation***Subsidiaries***

Subsidiaries are investees controlled by the NBK. The National Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the National Bank consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Funds management

The National Bank manages and administers assets held in investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the National Bank controls the entity.

Acquisitions and disposals of non-controlling interests

The National Bank accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the National Bank.

Associates

Associates are those entities in which the National Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the National Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the National Bank's share of losses exceeds the National Bank's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the National Bank has incurred obligations in respect of the associate.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Basis of consolidation, continued*****Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the National Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Non-controlling interest

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the NBK. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of income and comprehensive income.

Discontinued operations

A discontinued operation is a component of the National Bank's business, the operations and cash flows of which can be clearly distinguished from the rest of the National Bank and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Gold**

Gold comprises gold deposits with foreign banks and gold bullion in depositories. Gold is measured at market price at the reporting date. Market price is determined by reference to the London Bullion Market Association AM fixings. Gains on revaluation of gold are recorded directly in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of gold is not transferred to profit or loss.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the National Bank entities 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 is 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. Gain on foreign currency differences arising on retranslation are recognised in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of foreign currency is not transferred to profit or loss.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with 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 National Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments**Classification of financial instruments**

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 a derivative that is a financial guarantee contract or a designated and effective hedging instruments); or
 - upon initial recognition, designated as at fair value through profit or loss.
- The National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Financial instruments, continued****Classification of financial instruments, continued**

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 National Bank has an intention and ability to hold it for the foreseeable future or until maturity.

Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

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

- the National Bank upon initial recognition designates as at fair value through profit or loss;
- the National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Financial instruments, continued*****Recognition***

Financial assets and liabilities are recognised in the consolidated statement of financial position when the National 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.

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 their 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.

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 transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Financial instruments, continued***Amortised cost, continued*

Financial liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on the origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the losses on origination and the related income is recorded in interest income within profit or loss using the effective interest method.

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 National Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the National 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 National 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 National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Financial instruments, continued*****Fair value measurement principles, continued***

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 National Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price. Where the National Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the National Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the National Bank believes a third party market participant would take them into account in pricing a transaction.

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

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Financial instruments, continued*****Derecognition***

The National 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 National 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 National Bank is recognised as a separate asset or liability in the consolidated statement of financial position. The National Bank derecognises a financial liability when its contractual obligations are discharged, or cancelled or expire.

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

In transactions where the National 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.

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

The National Bank writes off assets deemed to be uncollectible.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Financial instruments, continued*****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 consolidated statement of financial position and the counterparty liability are recorded as repo agreements in the separate line of the consolidated statement of financial position. 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 reverse repurchase agreements in the separate line of the consolidated statement of financial position. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repo agreement using the effective interest method.

Derivatives

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.

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 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 from the host contract.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Financial instruments, continued***Derivatives, continued*

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

Forward, futures, option and swap deals concluded for the purpose of the monetary policy execution are recognized at either nominal or amortized cost, or at cost depending on their content and economic nature.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Currency in circulation

Currency in circulation is recorded in the consolidated statement of financial position at nominal value.

Currency in circulation is recorded as a liability when cash is issued by the National Bank to commercial banks. Banknotes and coins in national currency held in the vaults and cash offices is not included in the currency in circulation.

Banknotes and coins production expense include expenses for security, transportation, insurance and other expenses. Banknotes and coins production expense are recognised upon delivery to the vaults and recorded as a separate item in the consolidated income statement.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Reserves of guarantee fund**

According to the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan” (with amendments dated 24 November 2015) the subsidiary of the National Bank – “Kazakhstan Deposit Insurance Fund” JSC is due to compensate the participating banks’ depositors amounts up to a certain level in case of forced liquidation of a participating bank. The National Bank establishes a reserve of guarantee funds to accumulate contributions of the banks that participate in the deposit guarantee scheme. In accordance with the National Bank’s accounting policy reserves of guarantee funds are formed at the expense of the accumulated contributions received from the participating banks and expenses of the National Bank.

Fiduciary assets

The National Bank provides custody services that result in holding of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the National Bank. Commissions received from such business are shown within fee and commission income in profit or loss.

Property, plant and equipment***Owned assets***

Items of property and equipment are stated in the consolidated financial statements at cost less accumulated depreciation and impairment losses, except for buildings, constructions, land plots and vehicles, which are stated at revalued amounts as described below.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property, plant and equipment, continued

Revaluation

Buildings, constructions, land plots and motor vehicles are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings, constructions, land plots and vehicles being revalued. A revaluation increase on buildings, constructions, land plots and vehicles is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss.

A revaluation decrease on buildings, constructions, land plots and vehicles is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of the equipment of RSE “Banknote Factory of National Bank of the Republic of Kazakhstan” and RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” used in production of the banknotes and coins is charged to profit and loss on a unit of production method over the expected output 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:

Buildings and constructions	7 to 50 years
Furniture and equipment	5 to 10 years
Computer equipment	3 to 8 years
Motor vehicles	5 to 25 years

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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**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 lives of intangible assets. The estimated useful lives range from 1 to 10 years.

Impairment

The National 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 National 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 financial 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.

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 National 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 related 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.

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of placements with banks and other financial institutions, reverse repurchase agreements, held-to-maturity investments and other financial assets (loans and receivables). The National Bank reviews its loans and receivables to assess impairment on a regular basis.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Impairment, continued*****Financial assets carried at amortised cost, continued***

The National 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 National 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 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 National 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 National Bank writes off a loan or receivable balance (and any related allowances for losses) when the National Bank's management determines that the loans and receivables are uncollectible and when all necessary steps to collect the loans or receivables are completed.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Impairment, continued*****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.

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Impairment, continued***Non-financial assets*

Non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. 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. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised in the consolidated statement of financial position when the National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Credit related commitments**

In the normal course of business, the National 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 National Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

Taxation

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax and value-added tax.

Subsidiaries and associate organisations of the NBK are subject to all taxes.

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. Deferred tax assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Taxation, continued**

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the National 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.

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 taxable profit will be available against which the deductible temporary differences can be utilised.

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Segment reporting**

An operating segment is a component of a National Bank that engages in the activities from which it may earn revenues and incur the expenses (including revenues and expenses relating to transactions with other components of the National Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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 consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the activity of the National Bank. The National Bank plans to adopt these pronouncements when they become effective.

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The National Bank has not early adopted IFRS 9 in its consolidated financial statements for the year ended 31 December 2017.

The National Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the National Bank's equity at 1 January 2018 is approximately KZT 85,202,969 thousand, representing:

- decrease in net retained income of approximately KZT 84,337,621 thousand related to impairment requirements (see (ii));
- decrease in revaluation reserve of approximately KZT 865,348 thousand related to classification and measurement requirements, other than impairment (see (i) and (iii)).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**IFRS 9 *Financial Instruments*, continued**

The effect of application of IFRS 9 as related to classification, which resulted in the need of transfer between the items within equity amounted approximately to KZT 7,022,452 thousand.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

the National Bank is refining and finalising its models for ECL calculations; and

– the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the National Bank finalises its first financial statements that include the date of initial application;

– IFRS 9 requires the National Bank to revise the previously used accounting processes;

– though a pilot project was realised during 2017, application of a new methodology for calculation of ECL is possible.

Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Classification - Financial assets, continued**

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the National Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the National Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these three categories on initial recognition.

Business model assessment

The National Bank will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;

- how the performance of the portfolio is evaluated and reported to the National Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the National Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Business model assessment, continued**

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time.

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI criteria) the National Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9, except for financial assets under external management, which will be measured at FVOCI in accordance with a definite business model.

Loans and advances to banks and bank balances that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

Investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on a business model that has been determined for a respective portfolio.

Securities that are designated as at FVTPL under IAS 39 will be measured at amortised cost, at FVTOCI or at FVTPL, depending on a business model that has been determined for a respective portfolio.

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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Impact assessment, continued**

The National Bank has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of these changes is a reduction in the National Bank's equity of approximately KZT 85,202,969 thousand.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- assets in the form of refined gold;
- bank balances, deposits placed and loans issued;
- financial assets that are debt instruments;
- accounts receivable.

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the National Bank expects to receive;

- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Definition of default

Under IFRS 9, the National Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the National Bank in full, without recourse by the National Bank to actions such as realising security (if any is held); or

- the borrower is more than 90 days past due on any material credit obligation to the National Bank.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the National Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information.

The National Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Credit risk grades**

The National Bank will allocate each exposure to a credit risk grade based on credit ratings. The National Bank will use information on changes in credit ratings in identifying significant increases in credit risk under IFRS 9.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Determining whether credit risk has increased significantly

The National Bank has established a framework that incorporates information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the National Bank's internal credit risk management process.

Significant increase in credit risk – change in the credit rating of a financial asset by certain number of grades relative to the credit rating at the date of initial recognition of the financial asset and/or if there are outstanding payments overdue by 30 days, which are related to the liabilities to the National Bank.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. The National Bank will estimate LGD parameters based on the history of recovery rates according to the data of international rating agencies and other sources.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Inputs into measurement of ECLs, continued**

EAD represents the positive carrying amount of claims outstanding as at the date of ECL calculation. The National Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset will be the gross carrying amount at default.

PD for financial assets in the first basket is calculated for 12 months.

For assessment of PD and LGD for financial assets in the second basket, a lifetime PD is used.

PD for financial assets in the third basket is equated to 100%.

Forward-looking information

PD for each custodian/counterparty/issuer of a security is supplemented with estimated PD value based on the macroeconomic analysis performed. The macroeconomic analysis is based on data on changes in unemployment rates and GDP.

The National Bank has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of the increase in loss allowances will be approximately KZT 84,337,621 thousand. Loss allowances on placements with banks and other financial institutions will be most affected by the new impairment requirements.

Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value of financial liability that is attributable to changes in the credit risk of the liability is presented in OCI;
- the remaining amount of change in the fair value is presented in profit or loss.

Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Derecognition and contract modification, continued**

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the National Bank will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the National Bank does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The National Bank expects an immaterial impact from adopting these new requirements.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively. The difference between the previous carrying amount of financial instruments and that as at 1 January 2018 under IFRS 9 will be recognised in retained earnings and equity reserves.

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:

- the determination of the business model within which a financial asset is held;
- the designation of certain investments in equity instruments not held for trading as at FVOCI.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programs. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**IFRS 15 Revenue from Contracts with Customers, continued**

The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The National Bank does not intend to adopt this standard early. The National Bank is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16 Leases

IFRS 16 Leases replaces the existing lease accounting guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. The National Bank does not intend to adopt this standard early. The National Bank is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

Other developments

The following new or amended standards are not expected to have a significant impact on the National Bank's consolidated financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS (IAS) 28;
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS (IAS) 28);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4. NET INTEREST (EXPENSE) INCOME

	2017	2016
	KZT'000	KZT'000
Interest income		
Available-for-sale financial assets	85,335,560	57,687,425
Placements and loans with banks and other financial institutions	75,880,132	73,722,845
Reverse repurchase agreements	21,726,773	10,722,513
Held-to-maturity investments	4,987,039	6,373,740
Other	40,851	26,873
	187,970,355	148,533,396
Interest expense		
Debt securities issued	(291,403,821)	(207,521,343)
Deposits and balances from banks and other financial institutions	(49,878,544)	(48,238,515)
Repurchase agreements	(14,734,021)	(18,944,430)
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	(1,162,246)	(808,685)
	(357,178,632)	(275,512,973)
	(169,208,277)	(126,979,577)

5. FEE AND COMMISSION INCOME

	2017	2016
	KZT'000	KZT'000
Pension asset management fee	13,981,347	3,438,866
Asset management fee	11,827,136	11,971,583
Depository operations and servicing of financial markets and transfer operations	2,682,622	2,101,527
	28,491,105	17,511,976

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

5. FEE AND COMMISSION INCOME, CONTINUED

Fee and commission income on asset management operations consists of income for asset management services provided to the National Fund of the Republic of Kazakhstan and JSC “State Social Insurance Fund”. The National Bank manages the assets of these organisations investing funds received in various financial instruments in accordance with customers’ instructions.

Fee and commission income on pension asset management was received from “UNPF” JSC. In 2017, the pension asset management commission included a fee for exceeding the target rate of return in the amount of KZT 9,927,136 thousand (2016: nil).

Income on depositary operations and servicing of financial markets consists of income from core activities of “Central Securities Depository” JSC, “Kazakhstan Stock Exchange” JSC.

Income on transfer operations consists of commission income from inter-banking, money transfers and clearing operations of “Kazakhstan Interbank Settlement Centre of the National Bank of Kazakhstan” RSE.

6. FEE AND COMMISSION EXPENSE

	2017	2016
	KZT’000	KZT’000
Asset management services	1,802,904	1,552,330
Broker operations	780,925	312,509
Custodian services	188,900	466,419
Other	8,892	5,904
	2,781,621	2,337,162

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	KZT'000	KZT'000
Net gain on assets under external management	50,745,302	33,046,578
Net gain (loss) on operations with other derivative financial instruments	1,445,392	(3,047,974)
	52,190,694	29,998,604

8. NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	KZT'000	KZT'000
Sale of debt instruments	4,656,200	(2,397,662)
Dividends	4,547,471	5,974,690
Sale of investments in own debt instruments	-	(86,667)
	9,203,671	3,490,361

9. EXPENSE ON REHABILITATION OF THE BANKING SECTOR AND DISPOSAL OF SUBSIDIARY

The National Bank's subsidiary Kazakhstan Sustainability Fund JSC is implementing a mechanism of financial support to banks by providing funding on terms of a subordinated debt which meets criteria to be included in the bank's statutory capital. The bank's subordinated bonds bearing an interest rate of 4%, which have been purchased by Kazakhstan Sustainability Fund JSC with the bank's obligation to redeem such bonds in 15 years, are recognised as a subordinated debt. The terms of issue of a subordinated debt provide an option of exchange of such subordinated debt for the bank's ordinary shares if the bank's financial position has deteriorated and the facts of assets stripping have been detected. The National Bank has initially recognised such subordinated debt at fair value (Note 19), determined using the market rates of 15% to 19.78%. During 2017 the difference of KZT 585,623,196 thousand between the nominal value and fair value at the date of initial recognition was recognised in profit or loss as expenses on rehabilitation of the banking sector.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****9. EXPENSES ON REHABILITATION OF THE BANKING
SECTOR AND DISPOSAL OF SUBSIDIARY, CONTINUED**

“Fund of Problem Loans” JSC ensures the targeted placement of the received funds with the second-tier banks in accordance with the limits of initial placement of funds established therefor. In accordance with para. 7 of the National Action Plan approved by the Decree of the President of the Republic of Kazakhstan No. 143 dated 25 December 2015 "On Measures to Implement the Message of the Head of State to the People of Kazakhstan dated 30 November 30 2015 “Kazakhstan in a New Global Reality: Growth, Reforms, Development”, para.4 of the Anti-Crisis Action Plan of the Government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan to ensure the economic and social stability for 2016-2018 approved by the Government of the Republic of Kazakhstan, and according to the third priority “Macroeconomic Stability” of the Annual Address to the Nation of the Head of State dated 31 January 2017 “The Third Stage of Modernisation: Global Competitiveness” the National Bank has increased the charter capital of “Fund of Problem Loans” JSC. Also ordinary shares of “Fund of Problem Loans” JSC have been transferred, free of charge, to the Government of the Republic of Kazakhstan represented by the Committee of State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan. During 2017, a loss of KZT 507,474,058 thousand on disposal of “Fund of Problem Loans” JSC was recognised in profit or loss.

Pursuant to the Action Plan for implementation of the orders of the Head of the State given at the extended meeting of the Government of the Republic of Kazakhstan held on 11 February 2015, and given the measures of the “special period” policy approved by the Protocol of the meeting of the Government of the Republic of Kazakhstan dated 20 February 2015 No.10, and Program of refinancing of the mortgage housing loans dated 24 April 2015 No.69, in 2016 the National Bank increased the charter capital of the “Fund of Problem Loans” JSC. “Fund of Problem Loans” JSC ensured the purposeful placement of the funds received with the second-tier banks, in accordance with the limits of primary placement of funds established for the second-tier banks. The National Bank recognised these long-term deposits at the fair value at initial recognition determined using the market rates of 8.71% to 10.44% at the date of settlement of the deposits. The difference between the nominal value and the fair value at the initial recognition in the amount of KZT 70,031,958 thousand was recognised in 2015 within profit or loss as the decision on distribution of long-term deposit and its key parameters was made by the NBK. In 2016 KZT 5,428,504 thousand related to such transactions was recognised as part of profit and loss as expenses on rehabilitation of the banking sector.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

10. OTHER OPERATING (EXPENSES) INCOME, NET

	2017	2016
	KZT'000	KZT'000
Replenishment of reserve on deposits guarantee	(13,200,000)	(13,400,000)
Sale of coins for collection	1,483,709	2,682,110
Gain from withdrawal of bank notes and coins from circulation	1,381,338	-
Sale of medals, badges and jewellery	341,743	211,850
Sale of printed products	234,006	1,003,124
Rent of property and equipment	(6,365)	310
Compensation on deposits of individuals (Note 27)	-	23,788,202
Other income (expenses), net	612,654	(531,967)
	(9,152,915)	13,753,629

To carry out activity for protection of the interests of the participating bank's depositors, in accordance with the Law "On obligatory guaranteeing of deposits placed with second-tier banks of the Republic of Kazakhstan", during 2017 the NBRK's subsidiary - "Kazakhstan Deposit Insurance Fund" JSC - contributed KZT 13,200,000 thousand (2016: KZT 13,400,000 thousand) to a special reserve, at its own expense.

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FOR THE YEAR ENDED 31 DECEMBER 2017**

11. (CHARGE FOR) REVERSAL OF IMPAIRMENT ALLOWANCE

	2017	2016
	KZT'000	KZT'000
Placements and loans with banks and other financial institutions	(40,092,150)	(3,552,222)
Negative revaluation of property and equipment	(627,835)	(26,988)
Other assets	(135,406)	(23,105)
Inventories	(13,575)	(47,516)
Held-for-sale assets	-	(25,806)
Nostro accounts with foreign banks	-	6,573,319
	(40,868,966)	2,897,682

12. BANKNOTES AND COINS PRODUCTION EXPENSES

	2017	2016
	KZT'000	KZT'000
Coins production	1,296,957	1,902,538
Banknotes production	893,468	2,451,785
Other	194,537	147,827
	2,384,962	4,502,150

Banknotes and coins production expenses for 2017 include depreciation charge of equipment of KZT 1,474,152 thousand (2016: KZT 1,149,654 thousand).

13. FUNDING OF THIRD PARTIES

	2017	2016
	KZT'000	KZT'000
Funding of “Universitet Narkhoz” JSC - Master’s Program of the National Bank of the Republic of Kazakhstan	149,432	194,150
	149,432	194,150

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. PERSONNEL EXPENSES

	2017	2016
	KZT'000	KZT'000
Payroll	13,893,220	11,866,048
Bonuses	9,583,180	10,029,327
Social tax	1,603,137	1,598,072
Insurance	599,360	439,186
Training	245,385	147,218
Other	141,941	218,381
	26,066,223	24,298,232

15. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
	KZT'000	KZT'000
Information and other services	4,031,509	1,765,846
Communication	1,060,937	1,004,956
Repair and maintenance of property and equipment	989,525	703,864
Taxes other than income tax	964,610	965,782
Inventory	722,461	622,571
Business trip expenses	596,154	534,718
Transportation	338,763	281,872
Security	297,415	308,612
Representative expenses	232,666	298,990
Gratuitous assignment of property	218,135	11,799,318
Utilities	216,270	208,663
Rent	209,574	179,058
Insurance of property and equipment	39,387	40,682
Advertising, announcements and presentations in mass media	7,070	655
Other	935,362	679,614
	10,859,838	19,395,201

During 2016 gratuitous assignment of property includes disposal in property, equipment and intangible assets for the amount of KZT 5,981,446 thousand and write-off from other assets for the amount of KZT 5,650,000 thousand.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16. INCOME TAX BENEFIT (EXPENSE)

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax. Subsidiaries and associate organisations of the NBK are subject to income tax.

	2017	2016
	KZT'000	KZT'000
Current tax expense	<u>(2,281,477)</u>	<u>(4,133,574)</u>
Movement in deferred tax assets/liabilities due to origination and reversal of temporary differences	<u>85,910,408</u>	<u>(1,317,871)</u>
Total income tax benefit (expense)	<u>83,628,931</u>	<u>(5,451,445)</u>

In 2017, the applicable tax rate for current and deferred tax is 20% (2016: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2017		2016	
	KZT'000	%	KZT'000	%
Loss before income tax	<u>1,267,601,533</u>	<u>100.00</u>	<u>118,804,183</u>	<u>100.00</u>
Income tax at the applicable tax rate	253,520,307	20.00	23,760,837	20.00
Effect of non-taxable operations of the NBK	(142,682,298)	(11.26)	(31,610,448)	(26.61)
Non-taxable income on securities	4,519,406	0.36	2,573,729	2.17
Non-taxable income (non-deductible expenses) on activities of "Kazakhstan Deposit Insurance Fund" JSC	241,595	0.02	(974,217)	(0.82)
Other non-deductible expenses	(31,970,079)	(2.52)	-	-
Other non-taxable income	-	-	798,654	0.67
	<u>83,628,931</u>	<u>6.60</u>	<u>(5,451,445)</u>	<u>(4.59)</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

16. INCOME TAX BENEFIT (EXPENSE), CONTINUED

Deferred tax assets and liabilities, continued

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and deferred tax liabilities as at 31 December 2017 and 2016. Future tax benefits will only be realised if profits 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 National Bank's ability to claim deductions in future periods.

The deductible temporary differences do not expire under current tax legislation.

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

KZT'000	Balance 1 January 2017	Recognised in profit or loss	Recognised directly in equity	Disposal of subsidiary	Balance 31 December 2017
Placements and loans with banks and other financial institutions	30,005,754	85,953,139	-	(30,005,754)	85,953,139
Property, equipment and intangible assets	(2,010,425)	(370,090)	(71,472)	-	(2,451,987)
Other assets	(21,119)	43,239	-	(30,573)	(8,453)
Other liabilities	5,183	284,120	-	(345)	288,958
Tax loss carry-forwards	25,401	-	-	-	25,401
	28,004,794	85,910,408	(71,472)	(30,036,672)	83,807,058
Unrecognised deferred tax assets	(946)	-	-	-	(946)
Recognised deferred tax assets	28,003,848	85,910,408	(71,472)	(30,036,672)	83,806,112
Deferred tax assets	30,278,026	85,953,379	(28,418)	(30,036,672)	86,166,315
Deferred tax liabilities	(2,274,178)	(42,971)	(43,054)	-	(2,360,203)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16. INCOME TAX BENEFIT (EXPENSE), CONTINUED

Deferred tax assets and liabilities, continued

KZT'000	Balance 1 January 2016	Recognised in profit or loss	Recognised directly in equity	Balance 31 December 2016
Placements and loans with banks and other financial institutions	31,256,477	(1,250,723)	-	30,005,754
Property, equipment and intangible assets	(1,888,672)	(111,936)	(9,817)	(2,010,425)
Other assets	19,010	(40,129)	-	(21,119)
Other liabilities	(51,139)	56,322	-	5,183
Tax loss carry-forwards	21,480	3,921	-	25,401
	29,357,156	(1,342,545)	(9,817)	28,004,794
Unrecognised deferred tax assets	(25,620)	24,674	-	(946)
Recognised deferred tax assets	29,331,536	(1,317,871)	(9,817)	28,003,848
Deferred tax assets	31,412,330	(1,132,876)	(1,428)	30,278,026
Deferred tax liabilities	(2,080,794)	(184,995)	(8,389)	(2,274,178)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

16. INCOME TAX BENEFIT (EXPENSE), CONTINUED

Deferred tax assets and liabilities, continued

As at 31 December 2017 deferred tax assets in the amount of KZT 85,953,139 thousand were recognised by the subsidiary of NBK, “Kazakhstan Sustainability Fund” JSC. Management of the company assessed the recoverability of deferred tax assets and concluded that the company will have sufficient taxable income after taking into account deductible temporary differences and it is appropriate to recognise deferred tax assets.

As at 31 December 2016 deferred tax assets in the amount of KZT 30,036,672 thousand were recognised by the subsidiary of NBK, “Fund of Problem Loans” JSC. Management of the company assessed the recoverability of deferred tax assets and concluded that the company will have sufficient taxable income after taking into account deductible temporary differences and it is appropriate to recognise deferred tax assets.

17. CASH AND CASH EQUIVALENTS

	2017	2016
	KZT'000	KZT'000
Deposits in foreign banks with the original maturity of less than three months	1,071,828,385	2,207,930,106
Nostro accounts in foreign banks	294,434,939	212,954,502
Reverse repurchase agreements with initial maturity of less than three months	133,768,024	-
Cash on hand in foreign currency	49,964,397	133,165,880
Nostro accounts in Kazakhstan banks	2,818,922	2,629,768
Tenge denominated deposits with Kazakhstan banks with the original maturity of less than three months	1,367,025	1,525,439
Accounts with the Bank for International Settlements	196	880,839
Cash and cash equivalents less impairment allowance in the consolidated statement of cash flows	1,554,181,888	2,559,086,534

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

17. CASH AND CASH EQUIVALENTS, CONTINUED

As at 31 December 2017 nostro accounts in foreign banks included restricted for use uninvested cash under management of the “NIC NBK” JSC in the amount of KZT 1,577,664 thousand (31 December 2016: KZT 2,495,564 thousand) that was not included in cash equivalents.

18. GOLD

	2017	2016
	KZT'000	KZT'000
Gold bullion in NBK depository	2,752,177,207	1,949,561,070
Gold deposits with foreign banks:		
- rated from A- to A+	542,338,662	712,939,726
- rated AA-	395,465,394	103,023,444
- rated BBB+	75,094,563	91,360,011
	1,012,898,619	907,323,181
Gold bullion in a foreign bank depository:		
- rated AAA	388,495,269	348,326,772
	4,153,571,095	3,205,211,023

The credit ratings are presented in accordance with the standards of the rating agency “Standard and Poor's” or with similar standards of other international rating agencies.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. PLACEMENTS AND LOANS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017	2016
	KZT'000	KZT'000
Placements with foreign banks and other financial institutions		
Nostro accounts in banks		
- rated A- to AAA	291,527,134	169,559,497
- rated BBB- to BBB+	4,234,489	45,317,633
- rated BB- to BB+	423,727	-
- rated B- to B+	80,373	81,060
- not rated	785,984	512,160
Nostro accounts less impairment allowance	297,051,707	215,470,350
Deposits in bank rated AA+	1,071,828,385	2,207,930,106
Placements with other financial institutions*		
- rated A+ to AAA	4,044,807	14,167,226
Total placements with other financial institutions	4,044,807	14,167,226
Other accounts and deposits		
Non-invested cash under external management (Note 20)		
- rated AA-	2,580,143	-
- rated A- to A+	13,949,413	18,423,102
- rated BBB+	-	1,101,537
- not rated	1,030,409	-
	17,559,965	19,524,639
Accounts with International Monetary Fund	546,926,976	517,387,776
Receivables on foreign currencies transactions	7,132,135	11,282,618
Accounts with Bank of International Settlements	196	880,839
Total other accounts and deposits	571,619,272	549,075,872
Total accounts and deposits in foreign banks and other financial institutions	1,944,544,171	2,986,643,554

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. PLACEMENTS AND LOANS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

	2017	2016
	KZT'000	KZT'000
Placements, loans and receivables of Kazakhstan banks and other financial institutions		
Nostro accounts of subsidiaries with second tier banks		
- rated from BB- to BB+	1,978,868	1,621,175
- rated from B- to B+	823,209	931,746
- not rated	16,845	76,847
Total nostro accounts	2,818,922	2,629,768
Deposits in banks*		
- rated from A- to A+	48	-
- rated from BBB- to BBB+	13	59,188,849
- rated from BB- to BB+	61,240,962	256,688,831
- rated from B- to B+	1,069,950,794	483,434,086
- rated CCC	-	17,464,859
- not rated	3,210,315	3,550,141
Total deposits in banks	1,134,402,132	820,326,766
Impairment allowance	(3,206,471)	(3,552,222)
Deposits in banks less impairment allowance	1,131,195,661	816,774,544
Loans issued		
- rated from B- to B+	200,537,658	201,855,609
- rated CCC	54,423,458	-
- not rated	715,871	10,166,111
Total loans issued (Note 9)	255,676,987	212,021,720
Funds of "Fund of Problem Loans" JSC held with Ministry of Finance of the Republic of Kazakhstan (Note 1)	-	64,946,332
Receivables from "UAPF" JSC	10,302,298	313,197
Receivables from Ministry of Finance of the Republic of Kazakhstan	9,162,372	2,450,237
Total placements, deposits and loans issued to Kazakhstan banks and other financial institutions	1,409,156,240	1,099,135,798
	3,353,700,411	4,085,779,352

* include the asset part of the swap deals in the amount of KZT 1,135,054,632 thousand as at 31 December 2017 (31 December 2016: KZT 601,208,182 thousand) that is accounted for not as derivatives, but as deposits in banks and is measured at nominal in accordance with the Basis of Accounting (Note 2).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

19. PLACEMENTS AND LOANS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

The credit ratings are presented in accordance with the standards of the rating agency “Standard and Poor's” or with similar standards of other international rating agencies.

As at 31 December 2017 the National Bank has placements and deposits in one bank-counterparty (31 December 2016: one), in the amount exceeding 10% of equity. The total amount of that balance is KZT 1,071,828,385 thousand (31 December 2016: KZT 2,207,930,106 thousand).

As at 31 December 2017 the “nostro” accounts opened in local banks in the amounts of KZT 2,818,922 thousand (31 December 2016: KZT 2,629,768 thousand), belong to subsidiary companies of the National Bank.

As at 31 December 2017 there are no overdue balances of placements with banks and other financial institutions.

As at 31 December 2017 included in the loans issued to second-tier banks are renegotiated loans that would otherwise be past due or impaired of KZT 35,000,000 thousand (31 December 2016: nil). Such restructuring activity is aimed at managing relationships with banks and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above due to the fact that as at 31 December 2017 and at the date of issuance of these consolidated financial statements the borrowers have complied with the new terms and conditions of the contracts.

Given the increased credit risk of loans issued to the second-tier banks, the National Bank reviews, on a regular basis, whether these loans have evidence of impairment, using all available information, such as: existence of the debt restructuring process and (or) delisting of the counteragent's shares; delays in transfer (repayment) of funds; deterioration of the counteragent's financial position, which comprises a significant downgrading of credit ratings assigned according to the international rating agencies scale, and other factors.

Impairment allowances for such loans shall be established in the amount of the difference between the carrying amount of a loan and present value of the expected future cash flows discounted at the initial effective interest rate of the loan.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. PLACEMENTS AND LOANS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

Analysis of movements in the impairment allowance

Movements in the impairment allowance for placements with banks for 2017 are as follows:

	2017	2016
	KZT'000	KZT'000
Balance at the beginning of the year	3,552,222	-
Net charge	40,092,150	3,552,222
Write-offs	(40,437,901)	-
Balance at the end of the year	3,206,471	3,552,222

During 2017 the allowance of KZT 40,118,840 thousand was established against a bank loan issued to the second-tier bank, and subsequently the asset was written off due to the NBK's decision to suspend the license for banking and other transactions, operations in the securities market, deposit taking and opening accounts for individuals and legal entities.

During 2017 there was recognised the writing off of the impairment allowance of Fund of the Problem Loans LLP in the amount of KZT 319,061 thousand.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss consisted of the following at 31 December 2017 and 31 December 2016:

	2017	2016
	KZT'000	KZT'000
Assets		
Assets under external management		
Corporate bonds	537,900,544	413,550,254
Government bonds	441,133,927	427,396,896
Agency bonds	9,357,736	14,764,429
Futures	186,630	39,406
Forwards	90,890	113,176
Corporate shares	23,319	19,595
Assets under own management		
Futures	206,994	133,436
Swap	176,098	59,000
Forwards	3,701	22,586
Total financial instruments at fair value through profit or loss	989,079,839	856,098,778
Liabilities		
Liabilities under external management		
Forwards	(306,123)	(203,134)
Futures	(23,655)	(262,901)
Liabilities under own management		
Forwards	(179,700)	(20,521)
Swap	(156,443)	(1,966,694)
Total financial instruments at fair value through profit or loss	(665,921)	(2,453,250)

As at 31 December 2017 a portion of financial instruments at fair value through profit and loss was under the management of six (31 December 2016: five) foreign asset management organisations. Depending on the mandate the managers invest into fixed income and equity instruments and are also allowed to use derivative instruments.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

The portfolios under external management pursue the following investment strategies:

<u>External manager</u>	<u>2017 KZT'000</u>	<u>2016 KZT'000</u>	<u>Strategy</u>	<u>Index</u>
Nomura Asset Management U.K. Limited	337,708,251	396,544,276	Global corporate bonds	The BofA Merrill Lynch Q847 Custom Index (Q847)
Aviva Investors Global Services Limited	266,651,939	248,556,629	Global developing markets	The BofA Merrill Lynch Q846 Custom Index (Q846)
Deutsche Asset Management International GmbH	220,419,089	210,297,222	Global developing markets	The BofA Merrill Lynch Q846 Custom Index (Q846)
Amundi	82,462,153	866	Global corporate bonds	The BofA Merrill Lynch Q847 Custom Index (Q847)
Wellington	81,099,680	-	Global corporate bonds	Lynch Q847 Custom Index (Q847)
SSB	22,156	18,728	Transit management	n/a
Total net assets under external management	<u>988,363,268</u>	<u>855,417,721</u>		

As at 31 December 2017 uninvested balances equivalent to KZT 17,559,965 thousand (31 December 2016: KZT 19,524,639 thousand), related to portfolios under external management are presented within "placements with banks and other financial institutions" (Note 19).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

The schedule below summarises credit quality of these portfolio's underlying fixed income assets:

	2017	2016
	KZT'000	KZT'000
Government bonds		
- rated A- to AAA	176,838,177	134,993,164
- rated BBB- to BBB+	247,615,389	238,151,000
- rated BB to BB+	16,680,361	54,252,732
	441,133,927	427,396,896
Corporate bonds		
- rated A- to AAA	204,947,912	173,298,584
- rated BBB- to BBB+	326,375,514	229,646,193
- rated BB to BB+	6,577,118	7,489,279
- not rated	-	3,116,198
	537,900,544	413,550,254
Agency bonds		
- rated A- to AAA	5,341,219	12,587,967
- rated BBB- to BBB+	4,016,517	2,176,462
	9,357,736	14,764,429
Total debt instruments under external management	988,392,207	855,711,579

The credit ratings are presented in accordance with the standards of the rating agency “Standard and Poor's” or with similar standards of other international rating agencies.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

The tables below summarises, by major currencies, the contractual amounts of the National Bank's outstanding balances from derivative transactions, excluding portfolios under external management, as at 31 December 2017 and 31 December 2016 with details of the contracted weighted average exchange rates and remaining periods to maturity.

	Contract/ notional amount KZT'000		Weighted-average contracted futures prices/exchange rates	
	2017	2016	2017	2016
Swap				
For the period less than 3 months				
Buy USD to JPY	32,431,068	-	112.72	-
Buy AUD to JPY	10,386,000	-	86.39	-
Buy USD to KZT	-	146,480,955	-	333.27
Buy USD to KZT	-	85,988,820	-	333.21
Buy USD to KZT	-	69,490,965	-	333.15
Buy KZT to USD	-	-	-	-
For the period more than 3 months				
Buy KZT to USD	-	3,666,190	-	180.87

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

	Contract/ notional amount KZT'000		Weighted-average contracted futures prices/exchange rates	
	2017	2016	2017	2016
FORWARDS				
For the period less than 3 months				
Buy USD to JPY	33,791,291	-	113.10	-
Buy CAD to EUR	769,051	-	1.51	-
Buy AUD to EUR	727,020	-	1.54	-
Buy JPY to GBP	442,500	-	152.30	-
Buy EUR to USD	-	6,851,608	-	1.05
Buy JPY to USD	-	6,160,257	-	116.84
Buy JPY to USD	-	5,989,367	-	116.75
Buy GBP to USD	-	1,327,266	-	1.23
Buy AUD to CAD	-	868,007	-	0.97
Buy AUD to USD	-	500,457	-	0.72
FUTURES				
For the period less than 3 months				
Sell EUR	(14,967,196)	-	163.41	-
For the period more than 3 months				
Sell US treasury bonds	(9,622,670)	(49,094,726)	79,829.30	116,747.84
	<u>53,957,064</u>	<u>278,229,166</u>		

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

21. REVERSE REPURCHASE AGREEMENTS

International financial institutions and Kazakhstan banks:	2017 KZT'000	2016 KZT'000
- rated AAA	167,368,164	140,612,913
- rated BBB-	16,866,119	16,880,747
- not rated	166,123	241,684,530
	<u>184,400,406</u>	<u>399,178,190</u>

The credit ratings are presented in accordance with the standards of the rating agency “Standard and Poor's” or with similar standards of other international rating agencies.

As at 31 December 2017 the fair value of the financial assets accepted as collateral under reverse repurchase agreements is KZT 181,444,876 thousand (31 December 2016: KZT 434,462,725 thousand).

During 2017 not rated reverse repo transactions of KZT 166,123 thousand (31 December 2016: KZT 241,684,530 thousand) were entered in the auto repo market of Kazakhstan Stock Exchange JSC.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	KZT'000	KZT'000
Debt instruments		
Investments in foreign securities		
Government bonds		
US Government Treasury bills	2,560,168,950	1,970,787,948
British Government Treasury bonds	119,299,041	102,491,522
Australian Government Treasury bonds	86,533,333	59,777,110
Korean Government Treasury bonds	74,757,184	61,218,099
French Government Treasury bonds	59,120,806	86,074,162
Canadian Government Treasury bonds	57,088,820	55,494,437
China Government Treasury bonds	51,499,580	31,170,914
Finnish Government Treasury bills	33,158,226	-
Japanese Government Treasury bonds	30,222,804	76,517,603
Netherlands Government Treasury bills	14,110,471	12,736,217
Austrian Government Treasury bonds	6,247,610	5,813,193
Total government bond	3,092,206,825	2,462,081,205
Debt securities of international governmental and nongovernmental financial institutions		
- rated AAA	169,292,399	174,355,073
- rated AA+	16,531,785	8,237,776
- rated AA	67,273,080	30,756,448
- rated AA-	32,553,231	33,878,500
- rated A+	41,805,473	14,037,007
- rated A	4,013,642	820,652
- rated A-	66,290,277	
- not rated	-	8,397,003
Total investments in corporate bonds of international government and nongovernmental	397,759,887	270,482,459

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CONTINUED

	2017	2016
	KZT'000	KZT'000
Corporate bonds of international companies		
- rated from A- to AAA	218,828,173	226,513,436
- rated from BBB+ to BBB-	4,366,205	104,075,831
- rated from BB+ to BB-	-	1,293,068
- rated B-	-	2,846,830
- not rated	-	10,185,254
Total investments in corporate bonds of international companies	223,194,378	344,914,419
Investments in hedge funds	64,241,357	44,424,045
Total investments in foreign securities	3,777,402,447	3,121,902,128
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	600,171,341	560,962,164
Debt securities of financial organisations	13,538,958	1,936,124
Total Kazakhstan investments	613,710,299	562,898,288
Impairment allowance	(75,829)	(75,829)
Total Kazakhstan investments net of impairment allowance	613,634,470	562,822,459
Total debt investments	4,391,036,917	3,684,724,587
Equity instruments		
Shares of NC “KazMunayGaz” JSC	750,000,000	750,000,000
Investments in private equity fund	55,876,872	22,018,658
Corporate shares	79,854	79,854
Total equity investments	805,956,726	772,098,512
Total available-for-sale financial assets under own management	5,196,993,643	4,456,823,099

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CONTINUED

The credit ratings are presented in accordance with the standards of the rating agency Standard and Poor's or with similar standards of other international rating agencies.

As 31 December 2017 the bonds of the Ministry of Finance of the Republic of Kazakhstan with market value of KZT 296,876,815 (31 December 2016: KZT 34,947,236 thousand) are subject to a registered debenture to secure the repurchase agreements.

Investments in alternative instruments comprised investments in hedge-funds and private equity funds in accordance with the strategy of gold and foreign exchange reserves and Investment Strategy for management of portfolio of alternative instruments of the National Bank's gold and foreign currency reserves approved by the Resolution of the National Bank dated 25 February 2013, No. 66, and in accordance with the terms and conditions of the Investment Trust Management Contract No.122NB/10 dated 20 March 2013 concluded between the National Bank and subsidiary NIC NBK JSC. NIC NBK JSC invests a part of the gold and foreign currency reserves of the National Bank in the alternative classes of assets through the special purpose companies and/or partnerships established to invest in hedge funds and private equity funds.

Investments in hedge funds

Investments in the hedge funds under management of NIC NBK JSC (hereinafter, the "Portfolio of investments in hedge funds") comprise investment, which are made through the structure of the fund of funds to different investment funds established to accumulate the investors' funds to invest in accordance with certain investment strategies in various markets and in different types of financial instruments. These investment funds hold a significant part of their positions in the highly liquid securities and financial derivatives which are measured at the quoted market value. As at 31 December 2017 and 2016, the geographical distribution of the Portfolio of investments in hedge funds falls mostly on the North America and Europe. US Dollar is the investment currency in the hedge funds. Investment funds are established in the form of the companies or partnerships.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CONTINUED

Investments in private equity funds

Investments in the private equity funds under management of NIC NBK JSC (hereinafter, the “Private Equity Portfolio”) comprise investment in the funds and co-investments with the funds through the structure of the fund of funds made to accumulate the investors’ funds to invest the share capital or securities of the invested companies. Investment funds may be established in the form of the companies or partnerships. The Private Equity Portfolio comprises the funds investing in different sectors and different regions. As at 31 December 2017 and 2016 participation in direct investments in the sectors of information technologies, consumer goods and services of selective demand and industrial and financial sectors, accounts for a major part in the Portfolio. A majority of investments falls in the North America. US dollar is a major currency of investments in the funds; however, there are investments denominated in euro and British pounds.

Unquoted equity instruments

Available for sale financial assets stated at cost comprise unquoted ordinary shares of NC “KazMunayGaz” JSC for KZT 750,000,000 thousand (2016: KZT 750,000,000 thousand), the fair value of which cannot be reliably determined. There is no market for this equity instrument and there have not been any recent transactions that provide evidence of the current fair value.

23. HELD-TO-MATURITY INVESTMENTS

	2017	2016
	KZT’000	KZT’000
Bonds of the Ministry of Finance of Republic of Kazakhstan - rated BBB- (2016: BBB-)	40,230,902	39,930,905
Securities of second-tier banks and other organisations	22,052	22,052
Bonds of JSC Sovereign Wealth Fund “Samruk-Kazyna” rated BBB-	-	59,024,916
Total held-to-maturity investments	<u>40,252,954</u>	<u>98,977,873</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

24. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

KZT'000	Land, buildings and construction	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment not yet installed	Intangible assets	Total
<i>Historical/revalued cost</i>							
Balance at 1 January 2017	31,734,073	29,285,727	3,020,515	1,360,599	2,174,815	4,971,537	72,547,266
Additions	586,148	3,537,769	1,102,083	237,621	2,198,036	2,100,802	9,762,459
Disposals	(513,522)	(1,407,062)	(760,988)	(36,386)	(3,013,494)	(1,227,558)	(6,959,010)
Write-offs	(2,242,684)	(757,625)	(84)	(27,622)	-	(481,293)	(3,509,308)
Revaluation	7,555,025	-	-	(287)	-	-	7,554,738
Impairment loss	(623,688)	-	-	(4,147)	-	-	(627,835)
Balance at 31 December 2017	36,495,352	30,658,809	3,361,526	1,529,778	1,359,357	5,363,488	78,768,310
Depreciation and amortisation and impairment losses							
Balance at 1 January 2017	1,393,576	10,410,114	2,457,162	126,782	-	2,893,239	17,280,873
Depreciation and amortisation for the year	1,392,891	2,038,482	278,903	299,839	-	589,048	4,599,163
Disposals	(345,552)	(520,094)	(535,113)	(6,568)	-	(407,298)	(1,814,625)
Write-offs	(2,242,684)	(757,625)	(84)	(27,622)	-	(481,293)	(3,509,308)
Revaluation	(86,211)	-	-	(403)	-	-	(86,614)
Balance at 31 December 2017	112,020	11,170,877	2,200,868	392,028	-	2,593,696	16,469,489
Carrying amount							
As at 31 December 2017	36,383,332	19,487,932	1,160,658	1,137,750	1,359,357	2,769,792	62,298,821

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

24. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, CONTINUED

KZT'000	Land, buildings and construction	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment not yet installed	Intangible assets	Total
<i>Historical/revalued cost</i>							
Balance at 1 January 2016	38,712,614	29,269,291	3,446,992	1,350,665	835,915	4,175,254	77,790,731
Additions	451,238	806,295	93,542	88,695	1,826,154	920,807	4,186,731
Disposals	(6,266,673)	(374,774)	(282,818)	(120,191)	(487,254)	(13,618)	(7,545,328)
Write-offs	(1,868,594)	(415,085)	(237,011)	(362,798)	-	(110,906)	(2,994,394)
Revaluation	705,488	-	-	431,026	-	-	1,136,514
Impairment loss	-	-	(190)	(26,798)	-	-	(26,988)
Balance at 31 December 2016	31,734,073	29,285,727	3,020,515	1,360,599	2,174,815	4,971,537	72,547,266
Depreciation and amortisation and impairment losses							
Balance at 1 January 2016	1,756,824	8,458,739	3,093,902	360,264	-	2,547,286	16,217,015
Depreciation and amortisation for the year	1,773,937	2,682,553	261,194	250,256	-	468,302	5,436,242
Disposals	(268,591)	(316,093)	(876,386)	(97,589)	-	(11,443)	(1,570,102)
Write-offs	(1,868,594)	(415,085)	(21,548)	(386,149)	-	(110,906)	(2,802,282)
Balance at 31 December 2016	1,393,576	10,410,114	2,457,162	126,782	-	2,893,239	17,280,873
Carrying amount							
As at 31 December 2016	30,340,497	18,875,613	563,353	1,233,817	2,174,815	2,078,298	55,266,393

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2017 and 2016.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

24. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, CONTINUED

Revalued assets

The fair values of the National Bank's land, buildings, and vehicles are categorised into Level 3 of the fair value hierarchy.

As at 31 December 2017 the vehicles owned by the National Bank were not revalued, while revaluation of buildings and constructions was performed.

The revaluation procedures were performed by independent appraisers of movable property: "Senimdi Zhol" LLC; "Areopag Consulting" LLC; "Independent Judicial Valuation Center" LLC; "AsiaStandard" IE; "D.A.D" IE; "ATYRAUCITY" LLC; "Kaztuganov M.A." IE; NOK "Alfa Expert" LLC; "The Center of Assets Valuation" LLC; "UKCONSULTING-LINE" LLC; "Karaganda Center of Evaluation"; "Basis" Expert Agency LLC; "AdalExpert" LLC and Aktau Expertiza" LLC. Valuation was performed in compliance with the requirements of the International Valuation Standards, and Valuation Standards of the Republic of Kazakhstan. To measure the fair value of the buildings and constructions the comparative approach and cost approach have been used in calculations, with assignment of the weight coefficient. Cost approach was used where there is no active market for the targets being revalued.

As at 31 December 2016 buildings and construction owned by the National Bank were not revalued; revaluation of vehicles was performed.

The vehicles owned by the National Bank were recorded at the revalued amount. The valuation procedures were performed by independent appraisers of movable property: "Senimdi Zhol" LLC; "Prestizh-Otsenka" LLC; "Otsenka BISS" LLC; "ATYRAUCITY" LLC; "The Center of Valuation "Expert" LLC; "The Center of Asset Valuation" LLC; NOK "Alfa Expert" LLC; "Alliance-Otsenka" IE; "Auliye-Ata Saraptama" LLC; "Aidabulov A.E." IE; "Vorobyov V.V." IE; "KazBiznesProekt" LLC; "Obi-COM" LLC; "Areopag Consulting" LLC; "B&E Consulting" LLC and "Independent Judicial Valuation Center" LLC. Valuation was performed in compliance with the requirements of the International Standards accepted by the International Valuation Standards Committee (IVSC), Union of Appraisers of the Republic of Kazakhstan and the appraisers' Code of Ethics. Comparative approach has been used in calculations; weight coefficients have not been assigned and outcomes obtained as a part of the comparative approach have been used as the final value of the evaluation target.

Should the land plots, buildings, constructions and vehicle not be revalued, then their carrying amounts as at 31 December 2017 could have been KZT 9,078,120 thousand (2016: KZT 12,827 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

25. OTHER ASSETS

	2017	2016
	KZT'000	KZT'000
Other receivables	14,308,649	9,518,228
Impairment allowance	(236,942)	(175,266)
Total other financial assets	14,071,707	9,342,962
Inventories	4,334,518	4,743,994
Refined and non-refined precious metals and stones	1,651,605	1,235,427
Prepayments for property and equipment	720,803	180,620
Other	736,741	448,883
Total other non-financial assets	7,443,667	6,608,924
Total other assets	21,515,374	15,951,886

Analysis of movements in the impairment allowance

Movements in the impairment allowance on other financial assets for 2017 and 2016 are as follows:

	2017	2016
	KZT'000	KZT'000
Balance at the beginning of the year	175,266	158,733
Net charge	135,406	23,105
Write-offs	(73,730)	(6,572)
Balance at the end of the year	236,942	175,266

As at 31 December 2017, included in other assets are overdue receivables of KZT 240,182 thousand (31 December 2016: KZT 378,828 thousand), of which KZT 14,136 thousand (31 December 2016: KZT 16,348 thousand) are overdue for more than 30 days, but less than 90 days, KZT 6,516 thousand (31 December 2016: KZT 3,700 thousand) are overdue for more than 90 days, but less than 180 days and KZT 219,530 thousand (31 December 2016: KZT 358,780 thousand) are overdue for more than 180 days.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2017**

26. CURRENCY IN CIRCULATION

	2017	2016
	KZT'000	KZT'000
Banknotes and coins in circulation	2,258,995,388	2,051,830,518
Less banknotes and coins on hand and in reserve funds	(1,319,575)	(1,294,074)
	2,257,675,813	2,050,536,444

27. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

	2017	2016
	KZT'000	KZT'000
Deposits and balances from foreign banks and other financial institutions		
Current accounts of international financial organisations	453,367,473	428,881,736
OECD based banks	26,735,744	62,332,594
Other foreign banks	2,395,807	329,992
Total deposits and balances from foreign banks and other financial institutions	482,499,024	491,544,322
Deposits and balances from Kazakhstan banks and other financial institutions		
Loro accounts		
Kazakhstan 10 top banks*	1,680,870,429	1,433,731,885
Other Kazakhstan banks	870,078,789	998,982,711
Deposits**		
Kazakhstan 10 top banks*	1,311,106,159	1,055,313,323
Other Kazakhstan banks	484,170,790	446,583,729
Total deposits and balances from Kazakhstan banks	4,346,226,167	3,934,611,648
Total deposits and balances from banks and other financial institutions	4,828,725,191	4,426,155,970

* based on total assets as at 31 December 2017

** include the liability part of the swap deals in the amount of KZT 1,260,018,133 thousand (31 December 2016: KZT 1,067,904,376 thousand) that is accounted for not as derivatives, but as deposits from banks and is measured at nominal in accordance with the Basis of Accounting (Note 2)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

27. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

As at 31 December 2017 the National Bank has three counterparties (31 December 2016: two counterparties), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2017 is KZT 2,176,449,298 thousand (31 December 2016: KZT 1,286,707,577 thousand).

As at 31 December 2017 the current accounts of international financial organisations include the membership quota of the Republic of Kazakhstan in the International Monetary Fund (the “IMF”) in the amount of KZT 453,360,632 thousand (31 December 2016: KZT 428,874,894 thousand). A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The NBK issued promissory notes to the IMF in the amount of the quota (SDR 960,225 thousand).

28. REPURCHASE AGREEMENTS

In December 2017, the National Bank concluded repurchase agreements in the auto repo market of “Kazakhstan Stock Exchange” JSC in the amount of KZT 295,484,490 thousand (31 December 2016: KZT 35,074,130 thousand).

As at 31 December 2017, the fair value of financial assets collateralising repurchase agreements is KZT 296,876,815 thousand (31 December 2016: KZT 34,947,236 thousand).

29. CURRENT ACCOUNTS OF THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

Current accounts of the National Fund of the Republic of Kazakhstan (“the National Fund”) amounted to KZT 337,924,084 thousand as at 31 December 2017 (31 December 2016: KZT 128,194,582 thousand).

During 2017 and 2016 the National Bank performed the trust management activities over the assets of the National Fund. Assets and liabilities of the National Fund are not included in these consolidated financial statements, except for current accounts of the National Fund in NBK.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

30. CURRENT ACCOUNTS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF KAZAKHSTAN

	2017	2016
	KZT'000	KZT'000
In national currency	429,495,413	503,995,332
In foreign currency	1,357,970	1,683,577
	430,853,383	505,678,909

31. CUSTOMER ACCOUNTS

	2017	2016
	KZT'000	KZT'000
In foreign currency	352,113,163	403,381,479
In national currency	306,626,946	192,255,282
	658,740,109	595,636,761

During 2017 and 2016 the National Bank maintained customer accounts in foreign and national currencies. NBK customers' industry is state management, and industries, in which the customers of the NBK's subsidiaries are operating are financial agency services, insurance and liquidation of banks.

As at 31 December 2017 customer accounts included accounts of two customers (31 December 2016: two customers) with a balance exceeding 10% (31 December 2016: 4%) of NBK's equity. These gross balances of said customer as at 31 December 2017 are KZT 549,156,186 thousand (31 December 2016: KZT 270,758,982 thousand).

32. DEBT SECURITIES ISSUED

As at 31 December 2017 debt securities issued comprise the following issues:

Issues	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KY018158	55,219,294	06/01/2017	05/01/2018	10.85
KZW1KY018489	54,631,003	10/02/2017	09/02/2018	10.70
KZW1KY018745	53,836,684	10/03/2017	09/03/2018	9.62
KZW1KY018992	45,817,088	07/04/2017	06/04/2018	9.65
KZW1KY019297	53,026,776	12/05/2017	11/05/2018	9.45

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

32. DEBT SECURITIES ISSUED, CONTINUED

Issues	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KY019560	44,144,940	09/06/2017	08/06/2018	8.91
KZW1KY019958	39,056,552	21/07/2017	20/07/2018	8.90
KZW1KM060021	67,584,941	28/07/2017	26/01/2018	9.30
KZW1KY010155	14,288,455	11/08/2017	10/08/2018	8.84
KZW1KM060294	45,154,123	25/08/2017	23/02/2018	9.10
KZW1KY010403	4,252,945	08/09/2017	07/09/2018	8.72
KZW1KM060609	28,296,311	29/09/2017	30/03/2018	9.26
KZW1KY010734	34,471,066	13/10/2017	12/10/2018	8.89
KZW1KY010783	254,479,095	18/10/2017	17/10/2018	8.72
KZW1KD910811	19,032,138	20/10/2017	19/01/2018	9.53
KZW1KY010866	101,624,418	25/10/2017	24/10/2018	8.72
KZW1KM060898	32,039,730	27/10/2017	27/04/2018	9.29
KZW1KY010965	60,845,653	03/11/2017	02/11/2018	8.72
KZW1KY011039	21,545,356	10/11/2017	09/11/2018	8.99
KZW1KD911108	42,213,945	17/11/2017	16/02/2018	9.57
KZW1KY011153	121,146,648	22/11/2017	21/11/2018	8.72
KZW1KM061235	22,633,319	30/11/2017	01/06/2018	9.32
KZW1KY011245	30,229,330	30/11/2017	29/11/2018	8.72
KZW1KY011310	57,402,758	08/12/2017	07/12/2018	9.03
KZW1KD281288	195,859,936	06/12/2017	03/01/2018	9.85
KZW1KD281353	268,686,528	13/12/2017	10/01/2018	9.84
KZW1KD911389	73,322,486	15/12/2017	16/03/2018	9.59
KZW1KD281403	308,571,965	20/12/2017	17/01/2018	9.85
KZW1KD091430	124,936,666	25/12/2017	03/01/2018	9.68
KZW1KD081449	83,857,482	26/12/2017	03/01/2018	9.68
KZW1KD071457	57,565,298	27/12/2017	03/01/2018	9.68
KZW1KD281460	335,829,110	27/12/2017	24/01/2018	9.78
KZW1KD071473	221,731,407	28/12/2017	04/01/2018	9.68
KZW1KM061490	176,353,371	29/12/2017	29/06/2018	9.11
KZW1KY011500	60,039,585	29/12/2017	28/12/2018	8.72
	<u>3,209,726,402</u>			

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

32. DEBT SECURITIES ISSUES, CONTINUED

As at 31 December 2016 debt securities issued comprise the following issues:

Issues	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KM066630	158,667,299	22/07/2016	20/01/2017	11.46
KZW1KM066895	156,156,842	19/08/2016	17/02/2017	12.08
KZW1KY017010	46,419,627	02/09/2016	01/09/2017	11.49
KZW1KM067265	114,508,217	30/09/2016	31/03/2017	11.89
KZW1KY017333	51,180,803	07/10/2016	06/10/2017	11.08
KZW1KD917402	76,175,183	14/10/2016	13/01/2017	10.77
KZW1KM067539	71,230,776	28/10/2016	28/04/2017	11.48
KZW1KY017663	50,469,325	11/11/2016	10/11/2017	11.15
KZW1KD917733	112,529,874	18/11/2016	17/02/2017	11.00
KZW1KM067802	82,269,372	25/11/2016	26/05/2017	11.04
KZW1KD287897	155,849,405	07/12/2016	04/01/2017	8.70
KZW1KY017929	42,957,384	09/12/2016	08/12/2017	10.79
KZW1KD287962	131,285,701	14/12/2016	11/01/2017	10.33
KZW1KD927989	133,251,811	15/12/2016	17/03/2017	10.69
KZW1KD288010	25,362,314	21/12/2016	18/01/2017	10.86
KZW1KD098047	32,968,024	26/12/2016	04/01/2017	8.73
KZW1KD088055	414,580,004	27/12/2016	04/01/2017	8.74
KZW1KD288077	191,869,468	28/12/2016	25/01/2017	11.04
KZW1KD078064	73,397,371	28/12/2016	04/01/2017	8.77
KZW1KD078080	220,412,989	29/12/2016	05/01/2017	9.38
KZW1KD078098	96,406,092	30/12/2016	06/01/2017	9.76
KZW1KM068107	68,092,085	30/12/2016	30/06/2017	11.07
	<u>2,506,039,966</u>			

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

32. DEBT SECURITIES ISSUES, CONTINUED

Reconciliation of change in the debt securities issued and cash flows from financing activities

In 2017 the change in the debt securities issued is as follows:

	2017
	KZT'000
Balance at the beginning of the year	2,506,039,966
Notes issued	63,001,373,796
Nominal cost repaid	(62,343,468,289)
Total changes from financing cash flows	657,905,507
Other changes	
Discount accrued	291,403,821
Discount paid	(245,622,892)
Balance at the end of the year	3,209,726,402

33. RESERVES OF GUARANTEE FUND

As at 31 December 2017 reserves of guarantee fund for deposits of individuals were KZT 307,151,304 thousand (31 December 2016: KZT 258,617,223 thousand).

34. OTHER LIABILITIES

	2017	2016
	KZT'000	KZT'000
Other creditors on non-banking activity	3,214,420	1,454,508
Other creditors on banking activity	1,180,502	1,423,353
General and administrative expenses payable	555,437	304,972
Total other financial liabilities	4,950,359	3,182,833
Salaries payable	6,150,860	6,791,747
Other prepayments received	1,566,960	1,490,065
Tax payable (except for corporate income tax)	884,841	970,093
Payables on purchase of property and equipment	544,212	84,821
Total other non-financial liabilities	9,146,873	9,336,726
Total other liabilities	14,097,232	12,519,559

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

35. CHARTER CAPITAL**Charter capital**

The charter capital of the National Bank is regulated by the Edict of the President of the Republic of Kazakhstan dated 30 March 1995 with subsequent amendments. The charter capital of the NBK is owned by the state and is formed in the amount of not less than KZT 20,000,000 thousand.

As at 31 December 2017 and 31 December 2016 the NBK charter capital was KZT 20,000,000 thousand.

Dividends and reserve capital

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the Management Board of the National Bank decreed to reimburse the loss of KZT 157,537,375 thousand incurred by the NBK in 2016 from the NBK reserve capital (Resolution of the Management Board No. 117 dated 30 June 2017). A part of the net income of KZT 832,736 thousand received from the NBK subsidiary was included in the NBK reserve capital (31 December 2016 года: KZT 3,960,946 thousand).

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the NBK should form a capital reserve in the amount of not less than its charter capital. Reserve capital increased at the expenses of the net retained earnings and assigned exclusively to compensate and reimburse losses incurred on the conducted operations in accordance with the requirements set by the Management Board of the National Bank of Kazakhstan. As at 31 December 2017, the capital reserve amounted to KZT 174,986,594 thousand (31 December 2016: KZT 331,691,233 thousand).

Non-controlling interest

As at 31 December 2016 the non-controlling interest in the amount of KZT 319,351,285 thousand refers to the shareholders of the preference shares issued by “Fund of Problem Loans” JSC in the amount of KZT 314,946,333 thousand (Note 1).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

35. CHARTER CAPITAL, CONTINUED

Non-controlling interest

The following table provides information on the Fund of Problem Loans JSC before elimination of intragroup balances.

	2016
	KZT'000
Placements with banks	227,479,650
Other assets	118,517,291
Other liabilities	2,361,967
Net assets	343,634,974
Carrying amount of NCI	319,351,285
Interest income	25,607,933
Profit	12,088,878
Total comprehensive income	12,003,488
Profit (loss) allocated to NCI	-
Cash flows from operating activities	11,637,650
Cash flows (used in) from investment activities	(534,713)
Net increase in cash and cash equivalents	11,102,937

During 2017 the ordinary shares of Fund of Problem Loans JSC were transferred, free of charge, to the Government of the Republic of Kazakhstan represented by the Committee for State Property and Privatisation of the Ministry of Finance of Kazakhstan (Note 9). As a result of the disposal the share of non-controlling shareholders decreased by KZT 314,946,333 thousand.

Capital management

Retained earnings are transferred to the charter and/or reserve capital in the amount determined by the Management Board. After the approval of the annual report of the National Bank by the President of the Republic of Kazakhstan the remaining part of the retained earnings is transferred to the State budget with a deferral of one financial year.

If a reserve capital amount is less than the share capital amount, the entire retained earnings remain at the National Bank's disposal and is transferred to the reserve capital until the later reaches the level of the share capital. If the reserve capital is not sufficient to cover losses of a financial year, the deficiency is fully compensated by the National Bank at the expense of the state budget with a deferral of one financial year.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

36. ANALYSIS BY SEGMENT

The National Bank's operations comprise a single operating segment for the purposes of these consolidated financial statements. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the National Bank, these activities do not constitute separate operating segments for the purposes of these consolidated financial statements.

37. RISK MANAGEMENT**Risk management policies and procedures**

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

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

The management 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 investment exposures.

The Management Board, Board of Directors, committees, commissions and related working groups review regularly matters related to the monetary and investment policies of the National Bank and set up limits on the scope of management over its assets and customers' assets, as well as requirements for the credit assessment of the NBK's counterparties.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

37. RISK MANAGEMENT, CONTINUED**Risk management policies and procedures, continued**

In accordance with Investment Strategy on gold and foreign currency assets management of the NBK approved by the decision of the Board on 17 June 2015 № 112 (the “GFCA Investment Strategy”), the main goals of risk management are maintenance of liquidity and safety of the NBK’s assets, and profitability growth in the medium and long-term perspective.

In accordance with the fulfilment of goals and functions of National Bank, gold and foreign currency assets of the NBK are separated into the following portfolios: liquidity portfolio, investment portfolio, strategic portfolio, gold portfolio, developing market portfolio and portfolio of alternative investments.

In accordance with GFCA Investment Strategy subsidiary NIC NBK JSC manages the portfolio of alternative instruments.

In accordance with GFCA Investment Strategy and Investment Strategy for Management of Portfolio of Alternative Investments of GFCA of the National Bank approved by the Resolution of the Management Board of the National Bank dated 25 February 2013 No.66, and in accordance with the terms and conditions of the Trust Investment Management Agreement No. 122NB/10 dated 29 March 2013 which was concluded between the National Bank and NIC NBK JSC, NIC NBK JSC invests a part of the gold and foreign currency assets of the National Bank in the alternative classes of assets through the special purpose companies/partnerships.

The operations of the NBK’s subsidiaries are also exposed to a number of risks, the most significant are those related to market risks. Risk management procedures of the subsidiaries are regulated by their internal instructions and their execution is monitored by various bodies, including the boards of directors of the subsidiaries and internal control departments.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

37. RISK MANAGEMENT, CONTINUED**Market risk**

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

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

The National Bank manages its market risk mainly by conducting regular assessment of all open positions and 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.

The National Bank utilises Tracking Error methodology. Tracking Error indicator reflects how actual performance of current portfolio differs from the performance of the benchmark portfolio. The estimated tracking error of the investment portfolio of gold and foreign currency assets including derivatives does not exceed 2 (two) percent per annum as at the last working day of each month.

Tracking Error can be used only when the investor manages a portfolio against the benchmark portfolio.

As at 31 December 2017 the benchmark portfolio for the investment portfolio of gold and foreign currency assets was a composite index of:

- 52% – ML US Treasuries, 0-3 Yrs (G1QA);
- 15% – ML 0-3 Yrs All Euro Government Index, DE, FR, NL, AT, LU, FI (EBDF);
- 10% – ML UK Gilts, 0-3 Yrs (GBL0);
- 8% – ML Australian Government Index, 0-3 Yrs (GJBT);
- 5% – ML Japanese Governments, 0-3 Yrs (G1YA);
- 5% – ML Canadian Government Index, 0-3 Yrs (GBCJ);
- 5% – ML South Korean Government Index, 0-3 Yrs (GBSK).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

37. RISK MANAGEMENT, CONTINUED**Market risk, continued**

As at 31 December 2016 the benchmark portfolio for the investment portfolio of gold and foreign currency assets was a composite index of:

- 45% – ML US Treasuries, 0-3 Yrs (G1QA);
- 20% – ML 0-3 Yrs All Euro Government Index, DE, FR, NL, AT, LU, FI (EBDF);
- 10% – ML UK Gilts, 0-3 Yrs (GBL0);
- 10% – ML Japanese Governments, 0-3 Yrs (G1YA);
- 5% – ML Australian Government Index, 0-3 Yrs (GJBT);
- 5% – ML Canadian Government Index, 0-3 Yrs (GBCJ);
- 5% – ML South Korean Government Index, 0-3 Yrs (GBSK).

Investments in hedge funds and private equity funds bear, primarily, market risk. In this regard, investments in alternative instruments of such type, including investment funds, are very popular among the long-term institutional investors. Such investors are aimed at obtaining a premium for liquidity risk and risk of short-term fluctuations in the financial markets. Therefore, the thorough choice, due diligence of such funds and investment limits per one manager and per one fund are the mandatory tools to control and optimise these risks. In addition, the investment and operating risks of these funds and their managers are regularly monitored and controlled – on the quarterly and semi-annual basis. To mitigate and diversify the risk of concentration, in addition to the above limits, there applied the requirements to diversify investments by the strategies, vintage (the year of formation of a private equity fund) and geography of investments.

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 National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

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:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2017							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	49,964,397	49,964,397
Gold	846,055,233	166,843,386	-	-	-	3,140,672,476	4,153,571,095
Placements and loans with banks and other financial institutions	1,236,955,988	71,128,032	1,002,320,274	68,853,910	193,433,458	781,008,749	3,353,700,411
Financial instruments at fair value through profit or loss	25,908,409	18,646,107	24,046,495	647,366,841	272,424,355	687,632	989,079,839
Reverse repurchase agreements	174,193,258	2,037,275	8,169,873	-	-	-	184,400,406
Available-for-sale financial assets	753,234,210	861,649,887	938,865,820	1,555,429,272	281,857,728	805,956,726	5,196,993,643
Held-to-maturity investments	-	111,868	151,909	1,809,201	38,179,976	-	40,252,954
Investments in associates	-	-	-	-	-	304,295	304,295
Other financial assets	101	-	1,153	132,043	1,413,311	12,525,099	14,071,707
	3,036,347,199	1,120,416,555	1,973,555,524	2,273,591,267	787,308,828	4,791,119,374	13,982,338,747

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	<u>Less than 3 months</u>	<u>3-6 months</u>	<u>6-12 months</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Non-interest bearing</u>	<u>Carrying amount</u>
LIABILITIES							
Currency in circulation						2,257,675,813	2,257,675,813
Deposits and balances from banks and other financial institutions	541,774,226	108,849,081	1,040,392,403	109,314,501	-	3,028,394,980	4,828,725,191
Financial instruments at fair value through profit or loss	-	-	-	-	-	665,921	665,921
Repurchase agreements	295,484,490	-	-	-	-	-	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	337,924,084	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	430,853,383	430,853,383
Customer accounts	-	-	-	-	-	658,740,109	658,740,109
Debt securities issued	2,036,329,316	374,015,224	799,381,862	-	-	-	3,209,726,402
Reserves of guarantee fund	-	-	-	-	-	307,151,304	307,151,304
Other financial liabilities	-	-	-	-	-	4,950,359	4,950,359
	<u>2,873,588,032</u>	<u>482,864,305</u>	<u>1,839,774,265</u>	<u>109,314,501</u>	<u>-</u>	<u>7,026,355,953</u>	<u>12,331,897,056</u>
	<u>162,759,167</u>	<u>637,552,250</u>	<u>133,781,259</u>	<u>2,164,276,766</u>	<u>787,308,828</u>	<u>(2,235,236,579)</u>	<u>1,650,441,691</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2016							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	133,165,880	133,165,880
Gold	881,890,662	25,432,519	-	-	-	2,297,887,842	3,205,211,023
Placements and loans with banks and other financial institutions	2,496,189,668	52,131,763	332,353,915	166,256,867	226,687,647	812,159,492	4,085,779,352
Financial instruments at fair value through profit or loss	13,940,063	11,871,114	6,657,626	545,747,104	277,495,672	387,199	856,098,778
Reverse repurchase agreements	382,297,443	-	16,880,747	-	-	-	399,178,190
Available-for-sale financial assets	1,024,828,076	347,118,407	809,971,800	1,202,079,068	300,727,236	772,098,512	4,456,823,099
Held-to-maturity investments	-	55,833	217,372	1,056,958	97,647,710	-	98,977,873
Investments in associates	-	-	-	-	-	302,710	302,710
Other financial assets	43	-	1,734	69,268	1,267,886	8,004,031	9,342,962
	4,799,145,955	436,609,636	1,166,083,194	1,915,209,265	903,826,151	4,024,005,666	13,244,879,867

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
LIABILITIES							
Currency in circulation	-	-	-	-	-	2,050,536,444	2,050,536,444
Deposits and balances from banks and other financial institutions	541,379,874	91,120,921	605,522,783	266,141,357	-	2,921,991,035	4,426,155,970
Financial instruments at fair value through profit or loss	-	-	-	-	-	2,453,250	2,453,250
Repurchase agreements	35,074,130	-	-	-	-	-	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	128,194,582	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	505,678,909	505,678,909
Customer accounts						595,636,761	595,636,761
Debt securities issued	2,102,292,595	212,720,232	191,027,139	-	-	-	2,506,039,966
Reserves of guarantee fund	-	-	-	-	-	258,617,223	258,617,223
Other financial liabilities	-	-	-	-	-	3,182,833	3,182,833
	2,678,746,599	303,841,153	796,549,922	266,141,357	-	6,466,291,037	10,511,570,068
	2,120,399,356	132,768,483	369,533,272	1,649,067,908	903,826,151	(2,442,285,371)	2,733,309,799

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Average interest rates

The table below summarises the National Bank's average interest rates on interest bearing assets and liabilities as at 31 December 2017 and 31 December 2016. These interest rates are an approximation of the yields to maturity of appropriate assets and liabilities.

	2017 KZT'000 Book value	Weighted average effective interest rate, %	2016 KZT'000 Book value	Weighted average effective interest rate, %
Interest bearing assets				
Gold				
<i>Gold deposits with foreign banks</i>	1,012,898,619	0.07	907,323,181	0.09
Placements and loans with banks and other financial institutions				
<i>Nostro accounts</i>				
- JPY	103,777,286	0.15	-	-
- KRW	1,209,958	0.10	321,315	0.10
- EUR	1,080,895	0.80	-	-
- RUB	1,006,082	0.93	89,145	1.90
- USD	839,480	0.66	3,671,481	0.14
- GBP	189,687	0.01	200,493	-
- KZT	-	-	40,213	5.00
- Other currency	1,908,267	0.73	18,403,617	0.68
<i>Deposits in banks</i>				
- KZT	1,390,851,622	1.34	1,042,963,490	5.37
- USD	1,071,828,385	1.65	2,207,930,106	0.51

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Management risk, continued

Interest rate risk, continued

Average interest rates

	2017	Weighted	2016	Weighted
	KZT'000	average	KZT'000	average
	Book value	effective	Book value	effective
	_____	interest rate,	_____	interest rate,
		%		%
	_____	_____	_____	_____
Financial instruments at fair value through profit or loss				
- USD	796,276,217	4.16	720,652,834	4.16
- EUR	140,756,637	2.04	99,351,722	2.33
- GBP	22,960,758	4.62	13,040,997	3.51
- CAD	18,675,523	3.51	16,387,195	3.50
- AUD	6,800,487	4.15	5,415,019	4.61
- JPY	2,922,585	0.09	863,812	0.30
Reverse repurchase agreements				
- KZT	184,400,406	7.00	399,178,190	10.62

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Management risk, continued

Interest rate risk, continued

Average interest rates

	2017	Weighted	2016	Weighted
	KZT'000	average	KZT'000	average
	Book value	interest rate,	Book value	interest rate,
		%		%
Available-for-sale financial assets				
- USD	3,057,300,797	0.55	2,411,084,853	0.57
- KZT	717,495,608	6.93	629,683,174	5.31
- GBP	141,459,516	1.54	134,519,842	1.65
- EUR	135,618,299	1.24	192,917,374	1.83
- AUD	99,674,201	3.50	67,014,447	4.40
- KRW	74,757,184	2.61	64,013,825	2.97
- CAD	70,322,041	1.14	71,063,427	0.90
- CNY	51,499,580	2.84	31,170,914	2.63
- JPY	42,909,691	0.13	83,256,731	0.34
Held-to-maturity investments				
- KZT	40,148,494	7.98	98,872,596	5.56
- USD	104,460	3.23	105,277	3.23
Other assets				
- KZT	1,546,608	3.04	1,338,931	2.73
Interest liabilities				
Due to banks and other financial institutions				
<i>Term deposits</i>				
- USD	1,260,018,133	-	1,067,904,376	-
- KZT	540,312,078	8.80	433,992,676	10.33
Repurchase agreements				
- KZT	295,484,490	9.25	35,074,130	11.00
Debt securities issued				
- KZT	3,209,726,402	9.46	2,506,039,966	10.30

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Management risk, continued

Interest rate risk, continued

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 300 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 31 December 2016 is as follows:

	2017		2016	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
300 bp parallel rise	17,229,892	17,229,892	60,921,392	60,921,392
300 bp parallel fall	(17,229,892)	(17,229,892)	(60,921,392)	(60,921,392)

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 31 December 2016 and a simplified scenario of a 50 bp symmetrical fall or rise in all yield curves, is as follows:

	2017		2016	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
50 bp parallel fall	19,154,142	47,293,654	16,954,802	34,701,064
50 bp parallel rise	(19,087,371)	(48,965,048)	(17,087,109)	(43,916,685)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

37. RISK MANAGEMENT, CONTINUED**Market risk, continued***Interest rate risk, continued**Interest rate sensitivity analysis, continued*

The above tables demonstrate the effect of a change of value of fixed-income financial instruments in a key assumption for interest rate change, while other assumptions remain unchanged. In reality, there is a correlation between the factors, for which the assumption is made, and other factors not accounted for in the analysis. It should also be noted that these sensitivities are non-linear because of convexity of the curve the price – is yield to maturity, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action, while maintaining all restrictions and limits provided for by Investment Strategy of Gold and Foreign Exchange Reserves of the National Bank and other safeguards against decrease in assets value. Consequently, a change in the assumptions may not have any actual impact on the liabilities and significant impact on the assets carried at market value in the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Currency risk

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

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The National Bank does not hedge its exposure to currency risk.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

The following table shows the National Bank's foreign currency exposure structure of financial assets and liabilities as at 31 December 2017:

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	48,174,957	1,696,259	6,381	-	45,148	41,652	49,964,397
Gold	-	4,153,571,095	-	-	-	-	-	-	4,153,571,095
Placements and loans with banks and other financial institutions	1,413,093,646	-	1,103,790,995	142,732,913	129,910,372	547,712,960	6,849,036	9,610,489	3,353,700,411
Financial instruments at fair value through profit or loss	179,799	-	796,413,723	141,038,977	2,929,045	-	22,960,758	25,557,537	989,079,839
Reverse repurchase agreements	184,400,406	-	-	-	-	-	-	-	184,400,406
Available-for-sale financial assets	1,467,575,462	-	3,113,177,669	135,618,299	42,909,691	-	141,459,516	296,253,006	5,196,993,643
Held-to-maturity investments	40,252,954	-	-	-	-	-	-	-	40,252,954
Investments in associates	304,295	-	-	-	-	-	-	-	304,295
Other financial assets	14,071,275	-	-	432	-	-	-	-	14,071,707
Total assets	3,119,877,837	4,153,571,095	5,061,557,344	421,086,880	175,755,489	547,712,960	171,314,458	331,462,684	13,982,338,747

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	2,257,675,813	-	-	-	-	-	-	-	2,257,675,813
Deposits and balances from banks and other financial institutions	821,948,240	-	3,454,529,264	62,780,557	32,451,409	453,360,632	2,798,404	856,685	4,828,725,191
Financial instruments at fair value through profit or loss	336,143	-	11,634	165,342	65,971	-	21,336	65,495	665,921
Reverse repurchase agreements	295,484,490	-	-	-	-	-	-	-	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	337,924,084	-	-	-	-	-	-	-	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	429,495,413	-	89,945	-	-	-	-	1,268,025	430,853,383
Customer accounts	306,626,947	-	352,111,622	144	-	-	-	1,396	658,740,109
Debt securities issued	3,209,726,402	-	-	-	-	-	-	-	3,209,726,402
Reserves of guarantee fund	307,151,304	-	-	-	-	-	-	-	307,151,304
Other financial liabilities	3,769,858	-	1,180,501	-	-	-	-	-	4,950,359
Total liabilities	7,970,138,694	-	3,807,922,966	62,946,043	32,517,380	453,360,632	2,819,740	2,191,601	12,331,897,056
Net position	(4,850,260,857)	4,153,571,095	1,253,634,378	358,140,837	143,238,109	94,352,328	168,494,718	329,271,083	1,650,441,691
The effect of derivatives held for risk management			66,222,359	(1,492,857)	(76,126,874)	-	(441,835)	11,882,071	42,864
Net position after derivatives held for risk management purposes	(4,850,260,857)	4,153,571,095	1,319,856,737	356,647,980	67,111,235	94,352,328	168,052,883	341,153,154	1,650,484,555

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

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

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	130,048,589	3,082,120	6,278	-	2,729	26,164	133,165,880
Gold	-	3,205,211,023	-	-	-	-	-	-	3,205,211,023
Placements and loans with banks and other financial institutions	1,113,105,215	-	2,248,209,346	129,766,588	48,572,622	517,815,994	6,179,919	22,129,668	4,085,779,352
Financial instruments at fair value through profit or loss	59,000	-	720,826,380	99,435,895	863,812	-	13,090,685	21,823,006	856,098,778
Reverse repurchase agreements	399,178,190	-	-	-	-	-	-	-	399,178,190
Available-for-sale financial assets	1,379,763,027	-	2,433,103,512	192,917,374	83,256,731	-	134,519,842	233,262,613	4,456,823,099
Held-to maturity investments	98,872,596	-	105,277	-	-	-	-	-	98,977,873
Investments in associates	302,710	-	-	-	-	-	-	-	302,710
Other financial assets	9,342,962	-	-	-	-	-	-	-	9,342,962
Total assets	3,000,623,700	3,205,211,023	5,532,293,104	425,201,977	132,699,443	517,815,994	153,793,175	277,241,451	13,244,879,867

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	2,050,536,444	-	-	-	-	-	-	-	2,050,536,444
Deposits and balances from banks and other financial institutions	813,514,334	-	3,140,636,679	39,617,428	-	428,874,894	2,483,890	1,028,745	4,426,155,970
Financial instruments at fair value through profit or loss	1,966,694	-	13,930	226,320	217,793	-	28,513	-	2,453,250
Reverse repurchase agreements	35,074,130	-	-	-	-	-	-	-	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	128,194,582	-	-	-	-	-	-	-	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	503,995,332	-	432,160	-	-	-	-	1,251,417	505,678,909
Customer accounts	192,255,282	-	403,380,953	78	-	-	-	448	595,636,761
Debt securities issued	2,506,039,966	-	-	-	-	-	-	-	2,506,039,966
Reserves of guarantee fund	258,617,223	-	-	-	-	-	-	-	258,617,223
Other financial liabilities	1,624,254	-	1,423,352	-	-	-	135,227	-	3,182,833
Total liabilities	6,491,818,241	-	3,545,887,074	39,843,826	217,793	428,874,894	2,647,630	2,280,610	10,511,570,068
Net position	(3,491,194,541)	3,205,211,023	1,986,406,030	385,358,151	132,481,650	88,941,100	151,145,545	274,960,841	2,733,309,799
The effect of derivatives held for risk management	(299,912,170)	-	277,463,925	6,851,608	12,149,625	-	1,327,266	502,843	(1,616,903)
Net position after derivatives held for risk management purposes	(3,791,106,711)	3,205,211,023	2,263,869,955	392,209,759	144,631,275	88,941,100	152,472,811	275,463,684	2,731,692,896

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

37. RISK MANAGEMENT, CONTINUED**Market risk, continued*****Currency risk, continued***

Management of the National Bank believes that, as at 31 December 2017 given the current economic conditions in Kazakhstan, fluctuation of exchange rate by 20% is a realistic movement in KZT exchange rates against US Dollar. This is the sensitivity rate used in the National Bank when reporting foreign currency risk internally to key management personnel of the National Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only amounts in foreign currency as of the end of the period and adjusts their translation for appreciation and depreciation in currency rates as at 31 December 2017.

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2017 and 2016, would have increased (decreased) equity by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the National Bank considered to be reasonably possible at the end of the reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis assumes that all other variables, in particular interest rates, remain constant.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

	Equity KZT'000 2017 (+20% -20%)	Equity KZT'000 2016 (+20% -20%)
Appreciation of USD against KZT	263,971,347	452,773,991
Depreciation of USD against KZT	(263,971,347)	(452,773,991)
Appreciation of EUR against KZT	71,329,596	78,441,952
Depreciation of EUR against KZT	(71,329,596)	(78,441,952)
Appreciation of Troy ounce of gold against KZT	830,714,219	641,042,205
Depreciation of Troy ounce of gold against KZT	(830,714,219)	(641,042,205)
Appreciation of JPY against KZT	13,422,247	28,926,255
Depreciation of JPY against KZT	(13,422,247)	(28,926,255)
Appreciation of GBP against KZT	33,610,577	30,494,562
Depreciation of GBP against KZT	(33,610,577)	(30,494,562)
Appreciation of SDR against KZT	18,870,466	17,788,220
Depreciation of SDR against KZT	(18,870,466)	(17,788,220)
Appreciation of other currencies against KZT	68,230,631	55,092,737
Depreciation of other currencies against KZT	(68,230,631)	(55,092,737)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

37. RISK MANAGEMENT, CONTINUED**Market risk, continued***Currency risk, continued**Limitations of sensitivity analysis*

The above tables demonstrate the effect of a change of value of fixed-income financial instruments in a key assumption for change in tenge exchange rate, while other assumptions remain unchanged. In reality, there is a correlation between the factors, for which the assumption is made, and other factors not accounted for in the analysis. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations of the sensitivity analysis include application of hypothetical movements in the market with the purpose of disclosure of the potential risks, which represent only expectations of the National Bank of the future changes in the market which cannot be predicted with sufficient level of assurance. A further limitation is the assumption that all interest rates change identically.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the National Bank takes a long or short position in a financial instrument.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Other price risk, continued

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 10% change in all securities prices is as follows:

	2017		2016	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	2,332	80,598,004	1,960	77,211,812
10% decrease in securities prices	(2,332)	(80,598,004)	(1,960)	(77,211,812)

Credit risk

Credit risk is the risk of financial loss to the National Bank if a customer, emitter or counterparty to a financial instrument fails to meet its contractual obligations. The National Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and implementing recommendations of the Investment Committee, and the Risk Committee, which are responsible for developing investment decisions and monitoring credit risk. The credit risk management policy is reviewed and approved by the Board.

The National Bank's credit risk management policy establishes:

- Methodology for credit assessment calculation and determination of maximum limit on the National Bank's counterparties;
- Procedures for ongoing monitoring and review of the risk limit of the National Bank's counterparties.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Credit risk, continued

The Department of Monetary Operations, based on a financial performance and financial position ratios analysis with use of international rating agencies' data, prepares information about new counterparties proposed to be included in the list of approved counterparties of the National Bank. The Investment Committee approves a new counterparty on the basis of this report.

The Department of Monetary Operations of the National Bank conduct daily monitoring of compliance with limits imposed on each individual counterparty. In addition to individual counterparty analysis, the Department of Monetary Operations monitors compliance of the credit ratings of financial instruments with the established limits.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant since the National Bank generally acts as investor.

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

	2017	2016
	KZT'000	KZT'000
ASSETS		
Gold	1,012,898,619	907,323,181
Placements and loans with banks and other financial institutions	3,353,700,411	4,085,779,352
Financial instruments at fair value through profit or loss	989,056,520	856,079,183
Reverse repurchase agreements	184,400,406	399,178,190
Available-for-sale financial assets	4,391,036,917	3,684,724,587
Held-to maturity investments	40,252,954	98,977,873
Other financial assets	14,071,707	9,342,962
Total maximum exposure	9,985,417,534	10,041,405,328

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 38.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

37. RISK MANAGEMENT, CONTINUED**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 National Bank's consolidated 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 consolidated 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.

The National Bank's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The National Bank's sale and repurchase, reverse sale and repurchase transactions, and securities borrowings and lendings are covered by global master repurchase agreement (ISMA) or subject to eligibility criteria for Kazakhstan Stock Exchange membership.

The above ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the National Bank or the counterparties. In addition, the National Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The National Bank provides and accepts collateral in the form of marketable securities in respect of the sales and repurchase agreements, reverse sale and repurchase agreements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

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:

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial liabilities/assets offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Placements and loans with banks and other financial institutions	1,135,054,632	-	1,135,054,632	(1,135,054,632)	-	-
Reverse repurchase agreements	184,400,406	-	184,400,406	(181,444,876)	-	-
Available-for-sale financial assets	296,876,815	-	296,876,815	(295,484,490)	-	1,392,325
Total financial assets	1,616,331,853	-	1,616,331,853	(1,611,983,998)	-	1,392,325
Deposits and balances from banks and other financial institutions	(1,260,018,133)	-	(1,260,018,133)	1,135,054,632	-	(124,963,501)
Repurchase agreements	(295,484,490)	-	(295,484,490)	295,484,490	-	-
Total financial liabilities	(1,555,502,623)	-	(1,555,502,623)	1,430,539,122	-	(124,963,501)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

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 2016:

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Placements and loans with banks and other financial institutions	601,208,182	-	601,208,182	(601,208,182)	-	-
Reverse repurchase agreements	399,178,190	-	399,178,190	(399,178,190)	-	-
Available-for-sale financial assets	34,947,236	-	34,947,236	(35,074,130)	-	(126,894)
Total financial assets	1,035,333,608	-	1,035,333,608	(1,035,460,502)	-	(126,894)
Deposits and balances from banks and other financial institutions	(1,067,904,376)	-	(1,067,904,376)	601,208,182	-	(466,696,194)
Reverse repurchase agreements	(35,074,130)	-	(35,074,130)	35,074,130	-	-
Total financial liabilities	(1,102,978,506)	-	(1,102,978,506)	636,282,312	-	(466,696,194)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

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

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2017.

KZT'000

Types of financial assets/liabilities	Net amounts	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Placements and loans with banks and other financial institutions	1,135,054,632	Placements and loans with banks and other financial institutions	3,353,700,411	2,218,645,779	19
Reverse repurchase agreements	184,400,406	Reverse repurchase agreements	184,400,406	-	21
Available-for-sale financial assets	296,876,815	Available-for-sale financial assets	5,196,993,643	4,900,116,828	22
Deposits and balances from banks and other financial institutions	(1,260,018,133)	Deposits and balances from banks and other financial institutions	(4,828,725,191)	(3,568,707,058)	27
Repurchase agreements	(295,484,490)	Repurchase agreements	(295,484,490)	-	28

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2016.

KZT’000

Types of financial assets/liabilities	Net amounts	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Placements and loans with banks and other financial institutions	601,208,182	Placements and loans with banks and other financial institutions	4,085,779,352	3,484,571,170	19
Reverse repurchase agreements	399,178,190	Reverse repurchase agreements	399,178,190	-	21
Available-for-sale financial assets	34,947,236	Available-for-sale financial assets	4,456,823,099	4,421,875,863	22
Deposits and balances from banks and other financial institutions	(1,067,904,376)	Deposits and balances from banks and other financial institutions	(4,426,155,970)	(3,358,251,594)	27
Repurchase agreements	(35,074,130)	Repurchase agreements	(35,074,130)	-	28

Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash. 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

37. RISK MANAGEMENT, CONTINUED**Liquidity risk, continued**

The National 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 liquidity policy is reviewed and approved by the Management Board.

The National 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.

Since the National Bank carries out the issue of national currency, the default risk on fulfilment its obligations in national currency is minimal, and the liquidity risk is more applicable for obligations denominated in foreign currency.

The National Bank's 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;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow (the “liquidity portfolio”);
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

37. RISK MANAGEMENT, CONTINUED**Liquidity risk, continued**

The Department of Monetary Operations based on information of the asset and liability liquidity performs analysis of the liquidity position. Afterwards, the Department of Monetary Operations maintains the liquidity level by purchasing highly liquid assets. To meet liquidity management goals the liquidity portfolio is invested to assets that can be sold at market price as soon as it possible if required.

According to the Investment Strategy of Gold and Foreign Exchange Reserves of the National Bank the liquidity portfolio has to comply with the following parameters:

- duration of the liquidity portfolio should not exceed 1 year;
- base currency of the liquidity portfolio is USD;
- volume of liquidity portfolio should not fall below USD 1 billion inclusive of current liabilities with maturities of less than 5 (five) working days;
- volume of liquidity portfolio should not be less than the volume of payments on state external debt service for the next 6 months. This limitation is checked once in a calendar quarter (on the tenth working day of each quarter).

If the market value of the liquidity portfolio does not comply with the given parameters, it is replenished within fifteen working days after the observance of non-compliance.

The assets of the liquidity portfolio can be invested in cash currency, state (sovereign) debt securities of countries with credit rating not lower than A- (Standard & Poor's) and/or A3 Moody's, agency debt securities, debt securities of international financial institutions with credit rating not less than AAA (Standard & Poor's) and/or Aaa (Moody's), certificates of deposit (CD), commercial paper (CP) with short-term credit rating not lower than A-1 - (Standard & Poor's) or P-1 - (Moody's). The maximum term for the deposit should not exceed one month.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2017 is as follows:

KZT'000	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	Without maturity	Total gross amount inflow (outflow)	Carrying amount
Non-derivative financial liabilities								
Deposits and balances from banks and other financial institutions	3,115,091,729	1,661,650	108,849,081	1,040,392,404	109,314,501	453,689,365	4,828,998,730	4,828,725,191
Repurchase agreements	295,634,143	-	-	-	-	-	295,634,143	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	337,924,084	-	-	-	-	-	337,924,084	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	430,853,383	-	-	-	-	-	430,853,383	430,853,383
Customer accounts	658,740,109	-	-	-	-	-	658,740,109	658,740,109
Debt securities issued	1,743,708,455	301,938,214	387,819,614	856,488,704	-	-	3,289,954,987	3,209,726,402
Reserves of guarantee fund	307,151,304	-	-	-	-	-	307,151,304	307,151,304
Other financial liabilities	4,950,359	-	-	-	-	-	4,950,359	4,950,359
Derivative liabilities								
- Inflow	(59,860,992)	(67,987,665)	-	-	-	-	(127,848,657)	-
- Outflow	60,149,884	63,517,724	-	-	-	-	123,667,608	665,921
Total liabilities	6,894,342,458	299,129,923	496,668,695	1,896,881,108	109,314,501	453,689,365	10,150,026,050	10,074,221,243
Credit related commitments	114,236,127	-	-	-	-	-	114,236,127	114,236,127

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2016 is as follows:

KZT'000	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	Without maturity	Total gross amount inflow (outflow)	Carrying amount
Non-derivative financial liabilities								
Deposits and balances from banks and other financial institutions	3,031,996,918	64,991,550	91,120,921	605,522,783	266,141,357	429,204,577	4,488,978,106	4,426,155,970
Repurchase agreements	35,105,821	-	-	-	-	-	35,105,821	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	128,194,582	-	-	-	-	-	128,194,582	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	505,678,909	-	-	-	-	-	505,678,909	505,678,909
Customer accounts	595,636,761	-	-	-	-	-	595,636,761	595,636,761
Debt securities issued	1,590,272,084	527,024,704	234,693,079	195,811,911	-	-	2,547,801,778	2,506,039,966
Reserves of guarantee fund	258,617,223	-	-	-	-	-	258,617,223	258,617,223
Other financial liabilities	3,182,833	-	-	-	-	-	3,182,833	3,182,833
Derivative liabilities								
- Inflow	(23,795,452)	-	-	(1,989,570)	-	-	(25,785,022)	-
- Outflow	23,613,673	262,901	-	3,666,190	-	-	27,542,764	2,453,250
Total liabilities	6,148,503,352	592,279,155	325,814,000	803,011,314	266,141,357	429,204,577	8,564,953,755	8,461,033,624
Credit related commitments	274,445,137	-	-	-	-	-	274,445,137	274,445,137

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

37. RISK MANAGEMENT, CONTINUED**Liquidity risk, continued**

Management expects that the cash flows from certain financial liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

The gross nominal inflow/(outflow) disclosed in the tables above represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivative liabilities that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2017:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Without maturity	Total
ASSETS							
Cash on hand in foreign currency	49,964,397	-	-	-	-	-	49,964,397
Gold	489,317,913	356,737,319	166,843,386	-	-	3,140,672,477	4,153,571,095
Placements and loans with banks and other financial institutions	1,989,759,575	28,205,162	1,073,448,306	68,853,910	193,433,458	-	3,353,700,411
Financial instruments at fair value through profit or loss	3,585,317	6,156,516	15,824,367	656,224,610	307,265,711	23,318	989,079,839
Reverse repurchase agreements	48,042,929	126,150,329	10,207,148	-	-	-	184,400,406
Available-for-sale financial assets	39,478,247	465,340,210	1,860,456,701	1,743,904,031	217,616,371	870,198,083	5,196,993,643
Held-to maturity investments	-	-	263,777	1,809,201	38,179,976	-	40,252,954
Investments in associates	-	-	-	-	-	304,295	304,295
Other financial assets	12,526,526	101	1,153	132,043	1,411,884	-	14,071,707
Total assets	2,632,674,904	982,589,637	3,127,044,838	2,470,923,795	757,907,400	4,011,198,173	13,982,338,747
LIABILITIES							
Currency in circulation	-	-	-	-	-	2,257,675,813	2,257,675,813
Deposits and balances from banks and other financial institutions	3,114,818,190	1,661,650	1,149,241,485	109,314,501	-	453,689,365	4,828,725,191
Financial instruments at fair value through profit or loss	485,823	180,098	-	-	-	-	665,921
Repurchase agreements	295,484,490	-	-	-	-	-	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	337,924,084	-	-	-	-	-	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	430,853,383	-	-	-	-	-	430,853,383
Customer accounts	658,740,109	-	-	-	-	-	658,740,109
Debt securities issued	1,738,874,764	297,454,552	1,173,397,086	-	-	-	3,209,726,402
Reserves of guarantee fund	307,151,304	-	-	-	-	-	307,151,304
Other financial liabilities	4,950,359	-	-	-	-	-	4,950,359
Total liabilities	6,889,282,506	299,296,300	2,322,638,571	109,314,501	-	2,711,365,178	12,331,897,056
Net position	(4,256,607,602)	683,293,337	804,406,267	2,361,609,294	757,907,400	1,299,832,995	1,650,441,691

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

37. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2016:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Without maturity	Total
ASSETS							
Cash on hand in foreign currency	133,165,880	-	-	-	-	-	133,165,880
Gold	198,177,613	683,713,049	25,432,519	-	-	2,297,887,842	3,205,211,023
Placements and loans with banks and other financial institutions	3,068,334,170	240,016,420	384,484,248	166,256,867	226,687,647	-	4,085,779,352
Financial instruments at fair value through profit or loss	3,251,960	1,741,710	3,890,097	543,868,601	296,593,886	6,752,524	856,098,778
Reverse repurchase agreements	276,981,625	105,315,817	16,880,748	-	-	-	399,178,190
Available-for-sale financial assets	51,799,522	796,032,185	1,169,832,534	1,324,140,574	298,497,980	816,520,304	4,456,823,099
Held-to maturity investments	-	-	202,856	1,093,526	97,681,491	-	98,977,873
Investments in associates	-	-	-	-	-	302,710	302,710
Other financial assets	8,004,030	44	1,734	69,268	1,267,886	-	9,342,962
Total assets	3,739,714,800	1,826,819,225	1,600,724,736	2,035,428,836	920,728,890	3,121,463,380	13,244,879,867
LIABILITIES							
Currency in circulation	-	-	-	-	-	2,050,536,444	2,050,536,444
Deposits and balances from banks and other financial institutions	2,969,174,782	64,991,550	696,643,704	266,141,357	-	429,204,577	4,426,155,970
Financial instruments at fair value through profit or loss	223,655	262,901	1,966,694	-	-	-	2,453,250
Repurchase agreements	35,074,130	-	-	-	-	-	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	128,194,582	-	-	-	-	-	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	505,678,909	-	-	-	-	-	505,678,909
Customer accounts	595,636,761	-	-	-	-	-	595,636,761
Debt securities issued	1,585,845,850	516,446,745	403,747,371	-	-	-	2,506,039,966
Reserves of guarantee fund	258,617,223	-	-	-	-	-	258,617,223
Other financial liabilities	3,182,833	-	-	-	-	-	3,182,833
Total liabilities	6,081,628,725	581,701,196	1,102,357,769	266,141,357	-	2,479,741,021	10,511,570,068
Net position	(2,341,913,925)	1,245,118,029	498,366,967	1,769,287,479	920,728,890	641,722,359	2,733,309,799

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

38. CREDIT RELATED COMMITMENTS

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

The National 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 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 the counterparties failed completely to perform as contracted.

	2017	2016
	KZT'000	KZT'000
Contracted amount		
Investment commitments	109,747,213	67,165,673
Loan and credit line commitments	4,476,914	207,067,262
Guarantees and letters of credit	12,000	212,202
	114,236,127	274,445,137

NIC NBK JSC implements the program of investments in alternative classes of assets through a special purpose vehicles and/or special purpose partnerships. As at 31 December 2017, they have payment liabilities of KZT 109,747,213 thousand (2016: KZT 67,165,673 thousand) to private equity funds. These confirmed liabilities can be changed.

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

39. CONTINGENCIES**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 National Bank does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the National Bank's property or relating to the National Bank's operations. Until the National Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the National Bank's operations and financial position.

Litigation

Management is unaware of any significant actual, pending or threatened claims against the National Bank.

Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

40. FUNDS MANAGEMENT, TRUST AND CUSTODY ACTIVITIES**Funds management and trust activities**

The National Bank provides trust and asset management services to trust companies, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer.

The National Bank receives fee income for providing these services. Trust assets are not assets of the National Bank and are not recognised in the consolidated statement of financial position. The National Bank is not exposed to any credit risk related to such placements, as it does not guarantee these investments.

As at 31 December 2017, the total amount of assets that the National Bank holds and manages for outside organisations is KZT 2,178,872,152 thousand (31 December 2016: KZT 1,084,254,559 thousand).

As at 31 December 2017, the total amount of assets that the National Bank holds and manages for the National Fund is KZT 20,512,113,723 thousand (31 December 2016: KZT 21,390,553,673 thousand). A portion of these funds is managed by external managers in accordance with the investment policies set by the NBK.

Custody activities

During 2017 and 2016, the National Bank provided custody services to “UNPF” JSC. As at 31 December 2017, the total amount of assets of UNPF JSC under the custodial service of the National Bank equals KZT 7,774,823,078 thousand (31 December 2016: KZT 6,680,136,950 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

40. FUNDS MANAGEMENT, TRUST AND CUSTODY ACTIVITIES, CONTINUED**Assets of depositors**

On 26 November 2012 the NBK acquired shares of “Central Securities Depository” JSC (the “Central Depository”), which performs the accounting of financial instruments and money of their clients. Accounting for financial instruments and money of the Central Depository’s clients is performed separately from its own financial instruments and money on off balance sheet accounts.

As at 31 December 2017, the total amount of financial instruments and money in nominal holding and bank accounts of depositors in the Central Depository is KZT 20,925,990,921 thousand (31 December 2016: KZT 17,830,127,027 thousand).

41. RELATED PARTY TRANSACTIONS**Transactions with members of the Board of Directors and the Management Board**

The remuneration to the members of the National Bank’s Management Board and the Board of Directors for the year ended 31 December 2017, comprised KZT 709,932 thousand (2016: KZT 597,337 thousand). The remuneration consists of salary and other payments.

Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2017 and 31 December 2016 and related profit or loss amounts of transactions for the years then ended with other related parties are as follows:

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties, continued

	State companies and organisations			
	31 December 2017		31 December 2016	
	KZT'000	Average effective interest rate, %	KZT'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Placements and loans with banks and other financial institutions	98,506,962	1.86	282,470,941	1.34
Available-for-sale financial assets	1,363,031,537	6.24	1,312,361,899	5.82
Held-to maturity investments	38,818,456	7.57	97,424,036	5.18
Current tax asset	1,878,261	-	3,320,437	-
Deferred tax assets	86,166,315	-	30,278,026	-
Other assets	6,533,489	-	6,542,242	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties, continued

	State companies and organisations			
	31 December 2017		31 December 2016	
	Average	Average	Average	Average
	effective	effective	effective	effective
	interest	interest	interest	interest
	rate, %	rate, %	rate, %	rate, %
	KZT'000	KZT'000	KZT'000	%
LIABILITIES				
Deposits and balances from banks and other financial institutions	422,510,714	4.46	207,949,955	5.02
Current accounts of the National Fund of the Republic of Kazakhstan	337,924,084	-	128,194,582	-
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	430,853,383	-	505,678,909	-
Customer accounts	326,366,037	-	192,197,587	-
Current tax liability	-	-	986,170	-
Deferred tax liabilities	2,360,203	-	2,274,178	-
Other liabilities	640,119	-	1,165,584	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties, continued

	State companies and organisations			
	31 December 2017		31 December 2016	
	Average	Average	Average	Average
	effective	effective	effective	effective
	interest rate,	interest rate,	interest rate,	interest rate,
	%	%	%	%
Consolidated	KZT'000	KZT'000	KZT'000	KZT'000
statement of profit or				
loss				
Interest income	44,297,425	-	43,135,614	-
Interest expense	(3,973,758)	-	(14,097,616)	-
Fee and commission income	26,357,716	-	17,141,027	-
Fee and commission payments	(826,367)	-	(1,193,912)	-
Net gain on available-for-sale financial assets	949,854	-	3,815,784	-
Other operating income, net	2,761,258	-	166,564	-
Banknotes and coins production expenses	(44,085)	-	(45,200)	-
Funding of third parties	(149,432)	-	(194,150)	-
Personnel expenses	(1,617,587)	-	(1,594,029)	-
Other general and administrative expenses	(3,465,469)	-	(15,209,972)	-
Income tax benefit (expense)	83,628,931	-	(5,451,445)	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017.

KZT'000	Designated at fair value	Held-to- maturity	Loans and receivables	Available-for- sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	49,964,397	-	-	49,964,397	49,964,397
Gold	4,153,571,095	-	-	-	-	4,153,571,095	4,153,571,095
Placements and loans with banks and other financial institutions	-	-	2,218,645,779	-	-	2,218,645,779	2,218,645,779
Financial instruments at fair value through profit or loss	989,079,839	-	-	-	-	989,079,839	989,079,839
Reverse repurchase agreements	-	-	184,400,406	-	-	184,400,406	184,400,406
Available-for-sale financial assets	-	-	-	4,446,993,643	-	4,446,993,643	4,446,993,643
Held-to maturity investments	-	40,252,954	-	-	-	40,252,954	30,693,395
Other financial assets	-	-	14,071,707	-	-	14,071,707	14,071,707
	5,142,650,934	40,252,954	2,467,082,289	4,446,993,643	-	12,096,979,820	12,087,420,261
Currency in circulation	-	-	-	-	2,257,675,813	2,257,675,813	2,257,675,813
Deposits and balances from banks and other financial institutions	-	-	-	-	3,568,707,058	3,568,707,058	3,568,707,058
Financial instruments at fair value through profit or loss	665,921	-	-	-	-	665,921	665,921
Repurchase agreements	-	-	-	-	295,484,490	295,484,490	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	337,924,084	337,924,084	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	430,853,383	430,853,383	430,853,383
Customer accounts	-	-	-	-	658,740,109	658,740,109	658,740,109
Debt securities issued	-	-	-	-	3,209,726,402	3,209,726,402	3,209,726,402
Reserves of guarantee fund	-	-	-	-	307,151,304	307,151,304	307,151,304
Other financial liabilities	-	-	-	-	4,950,359	4,950,359	4,950,359
	665,921	-	-	-	11,071,213,002	11,071,878,923	11,071,878,923

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016.

KZT'000	Designated at fair value	Held-to- maturity	Loans and receivables	Available-for- sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	133,165,880	-	-	133,165,880	133,165,880
Gold	3,205,211,023	-	-	-	-	3,205,211,023	3,205,211,023
Placements and loans with banks and other financial institutions	-	-	3,484,571,170	-	-	3,484,571,170	3,484,571,170
Financial instruments at fair value through profit or loss	856,098,778	-	-	-	-	856,098,778	856,098,778
Reverse repurchase agreements	-	-	399,178,190	-	-	399,178,190	399,178,190
Available-for-sale financial assets	-	-	-	3,706,823,099	-	3,706,823,099	3,706,823,099
Held-to maturity investments	-	98,977,873	-	-	-	98,977,873	79,299,774
Other financial assets	-	-	9,342,962	-	-	9,342,962	9,342,962
	<u>4,061,309,801</u>	<u>98,977,873</u>	<u>4,026,258,202</u>	<u>3,706,823,099</u>	<u>-</u>	<u>11,893,368,97</u>	<u>11,873,690,87</u>
Currency in circulation	-	-	-	-	2,050,536,444	2,050,536,444	2,050,536,444
Deposits and balances from banks and other financial institutions	-	-	-	-	3,358,251,594	3,358,251,594	3,358,251,594
Financial instruments at fair value through profit or loss	2,453,250	-	-	-	-	2,453,250	2,453,250
Repurchase agreements	-	-	-	-	35,074,130	35,074,130	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	128,194,582	128,194,582	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	505,678,909	505,678,909	505,678,909
Customer accounts	-	-	-	-	595,636,761	595,636,761	595,636,761
Debt securities issued	-	-	-	-	2,506,039,966	2,506,039,966	2,506,039,966
Reserves of guarantee fund	-	-	-	-	258,617,223	258,617,223	258,617,223
Other financial liabilities	-	-	-	-	3,182,833	3,182,833	3,182,833
	<u>2,453,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,441,212,442</u>	<u>9,443,665,692</u>	<u>9,443,665,692</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED**Accounting classifications and fair values, continued**

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 settlement 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 National Bank determines fair values using other valuation techniques.

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED**Accounting classifications and fair values, continued**

The National 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 judgement 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.

As at 31 December 2017 and 2016, fair value of investments in hedge funds and private equity funds is based on net assets value provided by Independent Administrator and/or Managing Director.

As disclosed in Note 22, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 750,000,000 thousand (2016: KZT 750,000,000 thousand) cannot be determined.

Fair value of swap deals was not determined as they were accounted for not as derivatives but as “deposits and balances with banks and other financial institutions” and “deposits and balances from banks and other financial institutions” (Notes 19 and 27) and were measured at their nominal value in accordance with the Basis of Accounting (Note 2). As at 31 December 2017 an asset part of swap deals is KZT 1,135,054,632 thousand (31 December 2016: KZT 601,208,182 thousand), while a liability part of swap deals as at 31 December 2017 is KZT 1,260,018,133 thousand (31 December 2016: KZT 1,067,904,376 thousand).

Fair value hierarchy

The National Bank measures fair values using the following fair value hierarchy, which 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;

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

- 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 table below analyses financial instruments measured at fair value at 31 December 2017 and 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

31 December 2017

KZT'000	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss				
- Financial instruments held for trade	988,415,526	-	-	988,415,526
- Derivative assets	277,520	386,793	-	664,313
- Derivative liabilities	(329,778)	(336,143)	-	(665,921)
Available-for-sale financial assets				
- Debt and other fixed income instruments	3,672,938,375	718,098,542	-	4,391,036,917
- Equity investments	-	79,854	55,876,872	55,956,726
	4,661,301,643	718,229,046	55,876,872	5,435,407,561

31 December 2016

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Financial instruments held-for-trading	855,731,174	-	855,731,174
- Derivative assets	152,582	215,022	367,604
- Derivative liabilities	(466,035)	(1,987,215)	(2,453,250)
Available-for-sale financial assets			
- Debt and other fixed income instruments	3,054,580,852	630,143,735	3,684,724,587
- Equity investments	22,018,658	79,854	22,098,512
	3,932,017,231	628,451,396	4,560,468,627

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

The table below analyses financial instruments not measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 1	Level 2	Total fair values	Total carrying amount
ASSETS				
Cash on hand in foreign currency	-	49,964,397	49,964,397	49,964,397
Gold	-	4,153,571,095	4,153,571,095	4,153,571,095
Placements and loans with banks and other financial institutions	-	2,218,645,779	2,218,645,779	2,218,645,779
Reverse repurchase agreements	-	184,400,406	184,400,406	184,400,406
Held-to maturity investments	-	30,693,395	30,693,395	40,252,954
Other financial assets	-	14,071,707	14,071,707	14,071,707
LIABILITIES				
Currency in circulation	-	2,257,675,813	2,257,675,813	2,257,675,813
Deposits and balances from banks and other financial institutions	-	3,568,707,058	3,568,707,058	3,568,707,058
Repurchase agreements	-	295,484,490	295,484,490	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	-	337,924,084	337,924,084	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	430,853,383	430,853,383	430,853,383
Customer accounts	-	658,740,109	658,740,109	658,740,109
Debt securities issued	-	3,209,726,402	3,209,726,402	3,209,726,402
Reserves of guarantee fund	-	307,151,304	307,151,304	307,151,304
Other financial liabilities	-	4,950,359	4,950,359	4,950,359

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

The table below analyses financial instruments not measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 1	Level 2	Total fair values	Total carrying amount
ASSETS				
Cash on hand in foreign currency	-	133,165,880	133,165,880	133,165,880
Gold	-	3,205,211,023	3,205,211,023	3,205,211,023
Placements and loans with banks and other financial institutions	-	3,484,571,170	3,484,571,170	3,484,571,170
Reverse repurchase agreements	-	399,178,190	399,178,190	399,178,190
Held-to maturity investments	-	79,299,774	79,299,774	98,977,873
Other financial assets	-	9,342,962	9,342,962	9,342,962
LIABILITIES				
Currency in circulation	-	2,050,536,444	2,050,536,444	2,050,536,444
Deposits and balances from banks and other financial institutions	-	3,358,251,594	3,358,251,594	3,358,251,594
Repurchase agreements	-	35,074,130	35,074,130	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	-	128,194,582	128,194,582	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	505,678,909	505,678,909	505,678,909
Customer accounts	-	595,636,761	595,636,761	595,636,761
Debt securities issued	-	2,506,039,966	2,506,039,966	2,506,039,966
Reserves of guarantee fund	-	258,617,223	258,617,223	258,617,223
Other financial liabilities	-	3,182,833	3,182,833	3,182,833

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

43. DISPOSAL OF SUBSIDIARY

In accordance with paragraph 4 of the Anti-Crisis Action Plan of the Government of the Republic of Kazakhstan and National Bank of the Republic of Kazakhstan to Ensure the Economic and Social Stability for 2016-2018 approved by the Government of the Republic of Kazakhstan, and the third priority - "Macroeconomic Stability" of the Message of the Head of the State to the People of Kazakhstan dated 31 January 2017, "Kazakhstan Third Modernisation: Global Competitiveness", the ordinary shares of Fund of Problem Loans JSC were transferred, free of charge, to the Government of the Republic of Kazakhstan represented by the Committee of Public Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan.

The table below shows the disposed assets and liabilities of Fund of Problem Loans JSC as at the disposal date:

KZT'000	Balance value as at the disposal date
Assets	
Cash and cash equivalents	481,820,733
Restricted cash	64,946,332
Placements with banks	231,936,549
Reverse repurchase agreements	10,699,003
Available-for-sale investments	2,687,417
Property, plant and equipment and intangible assets	11,669
Deferred tax assets	30,036,672
Other assets	1,539,335
Liabilities	
Other liabilities	(1,257,319)
Net identified assets and liabilities	822,420,391
Disposed cash and cash equivalents	481,820,733
Net cash outflow	(481,820,733)