JOINT STOCK COMPANY
BANK CENTERCREDIT

Consolidated Financial Statements
for the year ended 31 December 2017

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Independent Auditors' Report

To the Shareholders and Board of Directors of Joint Stock Company Bank CenterCredit

Opinion

We have audited the consolidated financial statements of Joint Stock Company Bank CenterCredit and its subsidiaries (the "Group"), 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген жауапкершілігі шектеулі серіктестік, Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to customers	
Please refer to the Note 3 (i) and 16 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The impairment of loans to customers is estimated by management through the application of judgement and use of subjective assumptions. Due to the significance of loans to customers (representing 61.39% of total assets) and the related estimation uncertainty, this is considered a key audit matter. We paid particular attention to the assumptions and methodology used for the calculation of the impairment allowance for loans to customers with individual signs of impairment. We also focused on the methodology used to calculate the impairment allowance on a collective basis for loans to legal entities without individual signs of impairment. The impairment on loans to individuals is collectively assessed, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting, the market value of any collateral provided and the estimated time to sell any collateral repossessed by the Group.	Our audit procedures included evaluating and testing the Group's key controls over the assessment of loan impairment, including controls over the approval, recording and monitoring of loans to customers, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments and determining the adequacy of impairment allowances for collectively assessed loans and determining the adequacy of impairment allowances for individually assessed loans through forecast recoverable cash flows, including the realisation of collateral. We compared the Group's assumptions for calculation of the impairment allowance for loans assessed both collectively and individually. As part of this, we critically assessed the Group's revisions to estimates and assumptions in respect of historical loss rates, collateral valuation, discount rates and current economic factors. We challenged the appropriateness of the key assumptions used to calculate the impairment allowance for collectively assessed loans against our understanding of the Group performance. This involved recalculation of provisions based on the Group's historic losses. For a sample of exposures that were subject to an individual impairment assessment, and in particular focusing on those loans, a potential change of allowance for which has the most significant impact on the consolidated financial statements, we reviewed the Group's assumptions on the expected future cash flows, including the value of realisable collateral based on our own understanding and available market information. Our testing of loans to customers assessed collectively included re-performance of the model calculations and validation of the data inputs in the model in order to assess the accuracy of calculation of impairment allowance. The assumptions inherent in the model were critically assessed against our understanding of the Group, its recent performance and industry developments. We have compared the actual rates to

	those assumed by the Group to assess the reasonableness of the rates used in the collective impairment assessment. The assumptions for valuation and forecasting of expected costs to sell collateral, were also assessed by comparing them to recent actual results and other market data. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 were audited by other auditors who expressed an unmodified opinion on those statements on 7 March 2017.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group for 2017 but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report of the Group for 2017 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 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

Assel Urdabayeva
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. MФ-0000096 of 27 August 2012

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

15 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Kazakhstani tenge, except for earnings per share which is expressed in tenge)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Continuing operations			
Interest income		109,938	94,543
Interest expense		(62,438)	(68,224)
Net interest income before provision for impairment losses on interest-bearing assets	4	**47,500**	**26,319**
Provision for impairment losses on interest-bearing assets	5	(43,743)	(10,603)
Net interest income		**3,757**	**15,716**
Net loss on financial assets and liabilities at fair value through profit or loss	6	(2,447)	(2,212)
Net realised gain on available-for-sale investments		1,226	1,046
Net gain on foreign exchange operations	7	7,754	6,400
Fee and commission income	8	21,698	20,649
Fee and commission expense		(2,797)	(2,329)
(Charge)/recovery of impairment losses on other transactions		(227)	476
Income from recognition of discount on subordinated bonds	22	34,993	-
Other income/(expense)		412	(3,721)
Net non-interest income		**60,612**	**20,309**

Explanatory notes as set out on pages 16 to 96 form an integral part of these consolidated financial statements.

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

(in millions of Kazakhstani tenge, except for earnings per share which is expressed in tenge)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Operating income		64,369	36,025
Operating expenses	9	(28,299)	(30,732)
Operating profit before income tax		**36,070**	**5,293**
Income tax expense	10	(7,199)	(1,900)
Profit for the year from continuing operations		**28,871**	**3,393**
Discontinued operations			
Profit for the year from discontinued operations		-	1,968
Profit for the year		**28,871**	**5,361**
Attributable to			
Owners of the Parent Bank		28,800	5,311
Non-controlling interest		71	50
		28,871	**5,361**
Earnings per share			
From continuing operations			
Basic (KZT)	11	143.03	16.63
Diluted (KZT)		143.19	16.62
From all operations			
Basic (KZT)		143.19	26.41

The consolidated financial statements as set out on pages 8 to 96 were approved by Management Board on 15 March 2018 and were signed on its behalf by:

G.A. Khussainov **Chairman of the Management Board**	**Ye.A. Assylbek** **Managing Director**	**A.T. Nurgaliyeva** **Chief Accountant**
15 March 2018 **Almaty, Kazakhstan**	**15 March 2018** **Almaty, Kazakhstan**	**15 March 2018** **Almaty, Kazakhstan**

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

(in millions of Kazakhstani tenge, except for earnings per share which is expressed in tenge)

	Year ended 31 December 2017	Year ended 31 December 2016
PROFIT FOR THE YEAR	**28,871**	**5,361**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations (net of tax – KZT nil)	-	250
Net gain resulting on revaluation of available-for-sale investments during the period (net of tax – KZT nil)	2,064	1,849
Reclassification adjustment relating to available-for-sale investments disposed of in the period (net of tax – KZT nil)	(1,226)	(1,046)
Total items that may be reclassified subsequently to profit or loss	*838*	*1,053*
Items that will not be reclassified to profit or loss:		
Revaluation of buildings	181	4,625
Transfer of revaluation reserve for property and equipment to retained earnings	(181)	-
Total items that will not reclassified to profit or loss	-	*4,625*
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	**838**	**5,678**
TOTAL COMPREHENSIVE INCOME	**29,709**	**11,039**
Attributable to:		
Owners of the Parent Bank	29,638	10,989
Non-controlling interest	71	50
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**29,709**	**11,039**

The consolidated financial statements as set out on pages 8 to 96 were approved by Management Board on 15 March 2018 and were signed on its behalf by:

G.A. Khussainov
Chairman of the Management Board

15 March 2018
Almaty, Kazakhstan

Ye.A. Assylbek
Managing Director

15 March 2018
Almaty, Kazakhstan

A.T. Nurgaliyeva
Chief Accountant

15 March 2018
Almaty, Kazakhstan

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CONSOLIDATED STATEMENT OF FINANCAL POSITION AS AT 31 DECEMBER 2017

(in millions of Kazakhstani tenge, unless otherwise stated)

	Note	31 December 2017	31 December 2016
ASSETS:			
Cash and cash equivalents	12	188,056	258,787
Financial instruments at fair value through profit or loss	13	33,592	54,492
Available-for-sale investments	14	150,135	106,139
Investments held-to-maturity		-	34,191
Due from banks	15	13,140	6,834
Loans to customers and banks	16	831,251	818,742
Current income tax assets		712	71
Property, equipment and intangible assets	17	40,820	38,950
Other assets	18	72,792	44,045
TOTAL ASSETS		1,330,498	1,362,251
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial instruments at fair value through profit or loss	13	9,199	9,227
Due to banks and financial institutions	19	98,791	109,649
Customer and banks accounts	20	976,952	1,053,902
Debt securities issued	21	17,328	24,809
Deferred income tax liabilities	10	9,580	2,381
Subordinated bonds	22	75,454	53,333
Other liabilities	23	14,311	9,685
TOTAL LIABILITIES		1,201,615	1,262,986
EQUITY			
Equity attributable to owners of the parent:			
Share capital	24	69,569	69,789
Available-for-sale investments revaluation reserve		(1,101)	(1,939)
Property revaluation reserve		4,444	4,625
Retained earnings		55,575	26,387
Total equity attributable to owners of the Parent Bank		128,487	98,862
Non-controlling interest		396	403
Total equity		128,883	99,265
TOTAL LIABILITIES AND EQUITY		1,330,498	1,362,251
Book value per ordinary share (KZT)	11	700	522
Book value per preference share (KZT)	11	300	300

The consolidated financial statements as set out on pages 8 to 96 were approved by Management Board on 15 March 2018 and were signed on its behalf by:

G.A. Khussainov	**Ye.A. Assylbek**	**A.T. Nurgaliyeva**
Chairman of the Management Board	**Managing Director**	**Chief Accountant**
15 March 2018	**15 March 2018**	**15 March 2018**
Almaty, Kazakhstan	**Almaty, Kazakhstan**	**Almaty, Kazakhstan**

Explanatory notes as set out on pages 16 to 96 form an integral part of these consolidated financial statements.

JOINT-STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Kazakhstani tenge, unless otherwise stated

	Share capital	Investments available for sale revaluation reserve	Foreign currency translation reserve	Property revaluation reserve	Retained earning	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
1 January 2016	69,741	(2,742)	(250)	-	19,078	85,827	353	86,180
Total comprehensive income								
Profit for the year	-	-	-	-	5,311	5,311	50	5,361
Other comprehensive income								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for-sale investments	-	803	-	-	-	803	-	803
Exchange differences on translation of foreign operations	-	-	250	-	-	250	-	250
Total items that are or may be reclassified subsequently to profit or loss	-	*803*	*250*	-	-	*1,053*	-	*1,053*
Items that will not be reclassified to profit or loss:								
Revaluation of property and equipment, net of deferred tax assets/deferred tax liabilities	-	-	-	4,625	-	4,625	-	4,625
Total items that will not be reclassified to profit or loss:	-	-	-	*4,625*	-	*4,625*	-	*4,625*
Total other comprehensive income	-	803	250	4,625	-	5,678	-	5,678
Total comprehensive income for the year	-	803	250	4,625	5,311	10,989	50	11,039
Transactions with owners recorded directly in equity								
Treasury shares sold, net	48	-	-	-	-	48	-	48
Total transactions with owners	48	-	-	-	-	48	-	48
Disposal of subsidiary	-	-	-	-	1,998	1,998	-	1,998
31 December 2016	69,789	(1,939)	-	4,625	26,387	98,862	403	99,265

JOINT-STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Kazakhstani tenge, unless otherwise stated

	Share capital	Investments available for sale revaluation reserve	Property revaluation reserve	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
1 January 2017	69,789	(1,939)	4,625	26,387	98,862	403	99,265
Total comprehensive income							
Profit for the year	-	-	-	28,800	28,800	71	28,871
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value of available-for-sale investments	-	838	-	-	838	-	838
Total items that are or may be reclassified subsequently to profit or loss	-	*838*	-	-	*838*	-	*838*
Items that will not be reclassified to profit or loss:							
Revaluation of property and equipment, net of deferred tax assets/deferred tax liabilities	-	-	(181)	181	-	-	-
Total items that will not be reclassified to profit or loss:	-	-	*(181)*	*181*	-	-	-
Total other comprehensive income	-	838	(181)	181	838	-	838
Total comprehensive income for the year	**-**	**838**	**(181)**	**28,981**	**29,638**	**71**	**29,709**
Transactions with owners recorded directly in equity							
Treasury shares sold, net	(220)	-	-	-	(220)	-	(220)
Total transactions with owners	**(220)**	**-**	**-**	**-**	**(220)**	**-**	**(220)**
Liquidation of subsidiary	-	-	-	207	207	(78)	129
31 December 2017	**69,569**	**(1,101)**	**4,444**	**55,575**	**128,487**	**396**	**128,883**

The consolidated financial statements as set out on pages 8 to 96 were approved by Management Board on 15 March 2018 and were signed on its behalf by:

G.A. Khussainov
Chairman of the Management Board

15 March 2018
Almaty, Kazakhstan

Ye.A. Assylbek
Managing Director

15 March 2018
Almaty, Kazakhstan

A.T. Nurgaliyeva
Chief Accountant

15 March 2018
Almaty, Kazakhstan

Explanatory notes as set out on pages 16 to 96 form an integral part of these consolidated financial statements.

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

(in millions of Kazakhstani tenge, unless otherwise stated

	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	92,235	85,366
Interest paid	(63,573)	(68,838)
Fee and commission received	21,698	20,496
Fee and commission paid	(1,916)	(1,881)
Net foreign exchange gain	4,565	10,029
Other income (expenses) receipts (payments)	412	(4,123)
Operating expenses paid	(26,990)	(30,232)
Cash inflow from operating activities before changes in operating assets and liabilities	**26,431**	**10,817**
Changes in operating assets and liabilities:		
Financial instruments at fair value through profit or loss	18,819	47,042
Due from banks	(6,388)	3,451
Loans to customers and banks	(58,202)	97,393
Other assets	(4,502)	(10,683)
Changes in operating liabilities:		
Financial instruments at fair value through profit or loss	(356)	(208)
Due to banks and financial institutions	(10,307)	(70,987)
Customer and banks accounts	(73,694)	(16,488)
Other liabilities	(1,075)	(779)
Cash flows (used in)/from operating activities before tax	**(109,274)**	**59,558**
Income tax paid	(641)	(1,366)
Net cash flows (used in)/from operating activities	**(109,915)**	**58,192**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on disposal and redemption of available-for-sale investments	730,083	395,946
Purchase of available-for-sale investments	(747,223)	(405,295)
Proceeds on disposal and redemption of investments held-to-maturity	11,773	6,490
Purchase of investments held to maturity	(1,590)	(34,830)
Net cash outflow from disposal of LLC Bank BCC-Moscow	-	(4,676)
Purchase of property, equipment and intangible assets	(4,405)	(1,470)
Proceeds from sale of property and equipment	275	66
Net cash used in investing activities	**(11,087)**	**(43,769)**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Kazakhstani tenge, unless otherwise stated

	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repurchase)/sale of treasury shares, net	(220)	48
Receipts from debt securities issued	2,569	-
Repurchase and repayment of debt securities issued	(10,000)	(2,062)
Receipts from subordinated bonds	60,000	-
Repayment of subordinated bonds	(3,000)	(9,000)
Net cash flows from/(used in) financing activities	**49,349**	**(11,014)**
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents	922	(2,696)
NET DECREASE/(INCREASE) IN CASH AND CASH EQUIVALENTS	**(70,731)**	**713**
CASH AND CASH EQUIVALENTS, beginning of the period	258,787	258,074
CASH AND CASH EQUIVALENTS, end of the period (Note 12)	**188,056**	**258,787**

The consolidated financial statements as set out on pages 8 to 96 were approved by Management Board on 15 March 2018 and were signed on its behalf by:

G.A. Khussainov	**Ye.A. Assylbek**	**A.T. Nurgaliyeva**
Chairman of the Management Board	**Managing Director**	**Chief Accountant**
15 March 2018	**15 March 2018**	**15 March 2018**
Almaty, Kazakhstan	**Almaty, Kazakhstan**	**Almaty, Kazakhstan**

Explanatory notes as set out on pages 16 to 96 form an integral part of these consolidated financial statements.

1. Reporting entity

(a) Principal activity

JSC Bank CenterCredit (the "Bank") is a Joint Stock Company, which has been incorporated and carrying out its operations in the Republic of Kazakhstan since 1988. The Bank is regulated by the legislation of the Republic of Kazakhstan. The National Bank of the Republic of Kazakhstan (the "NBRK") is a regulatory authority of the Bank. The Bank conducts its business under the license number 1.2.25/195/34, renewed on 28 January 2015.

The Bank's principal activity consists of commercial banking activities, trading with securities, foreign currencies and derivative instruments, loan origination activities and guarantees.

The Bank is a member of the Kazakhstan Deposit Insurance Fund (the "KDIF").

The registered address is 38, Al Farabi Ave., Almaty, Republic of Kazakhstan.

As at 31 December 2017, the Bank had 19 branches in the Republic of Kazakhstan.

The Bank is a parent company of a banking group (the "Group"), which consists of the following subsidiaries consolidated in its consolidated financial statements:

Name	Country of operation	Ownership percentage 31 December 2017	Ownership percentage 31 December 2016	Activity
LLP BCC-SAOO	Republic of Kazakhstan	100%	100%	Management of distressed assets
JSC BCC Invest	Republic of Kazakhstan	95.19%	95.19%	Brokerage and dealer activity
LLP Center Leasing	Republic of Kazakhstan	-	90.75%	Finance lease

As at 31 December 2017 and 2016, the number of ordinary shares was allocated as follows:

	31 December 2017 %	31 December 2016 %
B.R. Baiseitov	43.89	31.46
Tsesnabank JSC	29.56	-
Kookmin Bank	-	29.56
IFC	-	12.42
Other (individually hold less than 5%)	26.55	26.56
	100.00	**100.00**

On 27 August 2008, Kookmin Bank (South Korea) purchased 23% of the Bank's issued ordinary share capital. As at 31 December 2016, Kookmin Bank's share was 41.93% and the International Financial Corporation's ("IFC") share was 10% of the issued capital of the Bank.

In March 2017, the Bank's shareholder Mr. Bakhytbek Rymbekovich Baiseitov bought the Bank's ordinary shares owed by the IFC in the amount of 10% of the total amount of shares placed by the Bank. The date when changes were registered in the shareholder register is 15 March 2017.

On 17 April 2017, the membership of the Bank's shareholders has changed as follows: the shareholder of the Bank - Kookmin Bank, which owned 41.93% of the total amount of shares placed by the Bank sold its ordinary and preference shares to JSC Tsesna Bank, JSC Financial Holding "Tsesna" and Bakhytbek Rymbekovich Baiseitov.

The consolidated financial statements were authorised for issue by the Management Board of JSC Bank CenterCredit on 15 March 2018.

1. REPORTING ENTITY, CONTINUED

(b) Kazakhstan business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. 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 the financial position of the Group. The future business environment may differ from management's assessment.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss, available-for-sale financial assets are stated at fair value, buildings and constructions are measured at fair value, which increase is stated in the revaluation property reserve.

(c) Functional and presentation currency

The functional currency of the Bank and 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 million.

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- estimates of impairment of loans and customers and banks – Note 16;
- estimates of fair values of financial assets and liabilities – Note 32;
- estimated of financial instruments at fair value through profit or loss – Note 13;
- estimates of fair value of subordinated bonds issued – Note 22.

2 BASIS OF ACCOUNTING, CONTINUED

(e) Changes in accounting policies and presentation

The Group has adopted the following amendments to standards with a date of initial application of 1 January 2017 *Disclosure Initiative (Amendments to IAS 7).*

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 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 Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Funds management

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(a) Basis of consolidation, continued

(iv) Acquisitions and disposals of non-controlling interests

The Group 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 owners of the parent.

(v) 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 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.

(b) Non-controlling interests

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

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

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group 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.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to tenge at exchange rates at the dates of the transactions.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Foreign currency, continued

(ii) Foreign operations, continued

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2017	31 December 2016
KZT/EUR	398.23	352.42
KZT/USD	332.33	333.29

(d) Cash and cash equivalents

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

(e) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- derivative financial instruments (except for 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 Group 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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Financial instruments, continued

(i) Classification, 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 loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold them 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 Group:

- 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 Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss

- the Group designates as available-for-sale or, meet the definition of loans and receivables.

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

(ii) Recognition

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

(iii) Measurement

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Financial instruments, continued

(iii) Measurement, continued

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 amortized cost using the effective interest method;

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

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

(iv) Amortised cost

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

(v) Fair value measurement principles

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

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Financial instruments, continued

(v) Fair value measurement principles, continued

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

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

(vi) Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;

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

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

(vii) Derecognition

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

The Group 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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Financial instruments, continued

(vii) Derecognition, continued

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

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

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

The Group writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

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

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

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Financial instruments, continued

(x) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

(f) Property and equipment and intangible assets

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings and constructions, which are stated at revalued amounts as described below.

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

Buildings and constructions are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. Any revaluation increase arising on the revaluation of buildings and constructions is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and constructions is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

(ii) 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.

(iii) Depreciation

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

The estimated useful lives are as follows:

Buildings and other constructions	1.25-2.50%
Furniture and computers	6.50-20.00%
Intangible assets	12.00-60.00%

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is initially recognised at the cost of acquisition, including acquisition costs. Subsequently the investment property is recognised at cost net of accumulated depreciation and impairment loss. Amortisation is charged on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 10 to 40 years.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(h) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(i) Impairment

The Group 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 Group 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 Group 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.

(i) Financial assets carried at amortised cost

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

The Group 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 Group 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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(i) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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 related to similar borrowers. In such cases, the Group 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 Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment.

The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of 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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(i) Impairment, continued

(iv) Non financial assets, continued

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.

(j) Provisions

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

(k) Credit related commitments

In the normal course of business, the Group 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 Group 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.

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

Loan commitments are not recognised, except in the following cases:

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

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

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

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

(l) Share capital

(i) Ordinary shares

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

(ii) Preference share capital

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(l) Share capital, continued

(iii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iv) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Republic of Kazakhstan.

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

(m) Taxation

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

Current tax

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. Current tax payable also includes any tax liability arising from dividends.

Deferred tax

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 in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and

— temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that 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.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is 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. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group 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 offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(m) Taxation, continued

Deferred tax, continued

In accordance with the tax legislation of the Republic of Kazakhstan, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

(n) Income and expense recognition

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

Financial instruments at fair value through fair value at profit are recognised at fair value with revaluation being stated in profit or loss. Accrued discounts and premiums are recognised in profit net of losses on financial instruments at fair value through profit or loss.

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

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

(o) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); 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.

(p) Presentation of the comparatives

Comparative information is reclassified to conform to changes in presentation in the current year.

Reclassifications in the consolidated financial statements for the previous year

During the preparation of the Group's consolidated financial statements for the year ended 31 December 2017, management made certain reclassifications affecting the corresponding figures to conform to the presentation of consolidated financial statements for the year ended 31 December 2017.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(p) Presentation of the comparatives, continued

The effects from reclassifications on the corresponding figures may be as follows:

	As previously reported	Effect of reclassifications	As reclassified
Consolidated statement of financial position as at 31 December 2016			
ASSETS			
Cash and cash equivalents	246,044	12,743	258,787
Obligatory reserves	12,743	(12,743)	-
LIABILITIES			
Financial instruments at fair value through profit or loss	-	9,227	9,227
Other liabilities	18,912	(9,227)	9,685
Consolidated statement of cash flows for the year ended 31 December 2016			
Cash flows from operating activities			
Net receipts from foreign exchange	-	10,029	10,029
Net cash provided from operating activities before changes in operating assets and liabilities	788	10,029	10,817
Change in operating assets:			
Obligatory reserves	3,208	(3,208)	-
Change in operating liabilities:			
Financial instruments at fair value through profit or loss	-	(208)	(208)
Customer and bank accounts	(6,459)	(10,029)	(16,488)
Other liabilities	(987)	208	(779)
Cash flows from operating activities before income taxes	62,766	(3,208)	59,558
Net cash flows from operating activities	61,400	(3,208)	58,192
Net increase in cash and cash equivalents	3,921	(3,208)	713
Cash and cash equivalents as at the beginning of the period	242,123	15,951	258,074
Cash and cash equivalents as at the end of the period	246,044	12,743	258,787

The above reclassifications do not impact the Group's performance or equity.

(q) New standards and interpretations not yet adopted

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 Group has not applied early IFRS 9 in its consolidated financial statements for the year ended 31 December 2017.

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on assessments completed up to date, the total effect (net of tax) from the adoption of IFRS 9 to be stated in the opening balance of the Group's equity at 1 January 2018 is estimated as equal to KZT 16 billion, including.

- decrease by approximately KZT 17 billion related to application of the impairment-related requirements;
- decrease by approximately KZT 3 billion related to application requirements related to modified assets other than requirements related to impairment;
- increase by approximately KZT 600 million related to recognition of the effect of deferred assets and increase in the current income tax by approximately KZT 3,4 billion.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New standards and interpretations not yet adopted, continued

IFRS 9 Financial instruments, continued

The above assessment is preliminary as transition to the new standard has not been finalised yet. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- the Group has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Group 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 Group finalises its first financial statements that include the date of initial application.

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). It 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:

- 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 on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group 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 Group 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 categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New standards and interpretations not yet adopted, continued

Business model assessment

The Group 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, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;

— how the performance of the portfolio is evaluated and reported to the Group'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;

— 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 Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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 and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group 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. In making the assessment, the Group will consider:

- contingent events that would change the amount and timing of cash flows;

- leverage features;

- prepayment and extension terms;

- terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and

- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New standards and interpretations not yet adopted, continued

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

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Impact assessment

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

- Trading assets and derivatives held for risk management, which are classified as held for trading and measured at fair value through profit or loss in accordance with IAS 39 shall be also measured at fair value through profit or loss under IFRS 9.

- Loans and advances to banks and to customers 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.

- Debt 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 the particular circumstances.

- Most of equity securities classified as available-for-sale under IAS 39 will be measured at fair value through profit or loss under IFRS 9.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New standards and interpretations not yet adopted, continued

Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ELC) 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:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

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 Group will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- other financial instruments (except for lease receivables) for which credit risk has not increased significantly since initial recognition.

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.

Impact assessment

New requirements related to impairment will have, as expected, the most significant impact on the Group's financial statements due to entry into effect of IFRS 9. Application of a new impairment model in accordance with IFRS 9 will result in the increase of impairment losses and their higher volatility.

According to Group's assessments, if IFRS 9 is applied as at 1 January 2018, the estimated loss allowances (before taxes) will increased by approximately KZT 17 billion.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New standards and interpretations not yet adopted, continued

Measurement of expected credit losses

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 and have no significant increase in credit risk at the reporting date: expected credit risks will be measured by weighting probability of occurrence of 12-month ECL;

— financial assets that are not credit-impaired but for which a significant increase in credit risk is identified at the reporting date: expected credit risks will be measured by weighting probability of occurrence of lifetime ECL;

— financial assets that are not credit-impaired at the reporting date: these assets will be recognised as default assets and expected credit losses will be measured for the remaining lending period as the difference between the gross carrying amount and the present value of estimated future cash flows;

— undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the holder of commitment on loan issue will use its rights to get a loan and the cash flows that the Group expects to receive of the loan is extended; and

— financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Definition of default

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

— the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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 Group assessed on a collective basis and more than 60 days past due on credit obligations assessed on the individual basis. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

— the contingent liabilities and letters of credit – non-fulfilment of liabilities of a counteragent (principal) on the contractual terms, as a result of which an obligation arises for the Bank to make payment under a financial guarantee (to beneficiary).

In assessing whether a borrower is in default, the Group will consider indicators that are:

— qualitative: e.g. breaches of covenant;

— quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group; and

— based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New standards and interpretations not yet adopted, continued

Credit risk grades

The Group will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

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

Generating the term structure of PD

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Group will collect performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Group will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default.

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 Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group 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; and
- 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. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Determining whether credit risk has increased significantly

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New standards and interpretations not yet adopted, continued

Significant increase in credit risk, continued

Determining whether credit risk has increased significantly, continued

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Group will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a customer-by-customer basis if the debtor is currently in default on its debt or if there is a high risk of default, and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD will reflect whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group will evaluate the borrower's payment performance against the modified contractual terms and consider various behavioural indicators.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk, except for the cases when forbearance has been due to the change in the Bank's policy as related to the terms and conditions of the credit products, retention of customers, change in market conditions and other cases not related to deterioration of the borrower's financial position. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New standards and interpretations not yet adopted, continued

Inputs into measurement of ECLs

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

— probability of default (PD);

— loss given default (LGD); and

— exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures.

These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. 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 and estimated prepayment rates.

Probability default (PD) for debt securities will be estimated according to the issuer's rating. The international rating agencies will assign PD for each rating for the entire lifetime cycle.

Loss Given Default (LGD) is the magnitude of the likely loss if there is a default. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and transaction costs of any collateral that is integral to the financial asset. LGD estimates will be calibrated for different economic scenarios. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Loss Given Default (LGD) for debt securities of an issuer that is a financial institution is generally equal to 70%. LGD may be changed if there are special terms for issue of securities (e.g. security if available, etc.). To determine the LGD value for debt securities issued by other companies the Moody's rating agency data concerning the repayment rate dependent on the rating is used as a basis.

Exposure at Default (EAD) represents the expected exposure in the event of a default. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts. For some financial assets, the Group will determine EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For retail overdrafts and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group will measure ECLs over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period will be estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New standards and interpretations not yet adopted, continued

Inputs into measurement of ECLs, continued

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

— instrument type;

— credit risk gradings;

— industry, credit products and the borrower's corporate form and other indicators of similar characteristics, on the basis of which the financial instruments may be grouped.

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Forward-looking information

Under IFRS 9, the Group will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP forecasts. Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysis of historical data for last 5 years.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

- 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 at the Group's discretion and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

(r) Other standards

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(r) Other standards, continued

- *IFRS 15 Revenue from Contracts with Customers;*
- *IFRS 16 Leases;*
- *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28;*
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);*
- *Transfers of Investment Property (Amendments to IAS 40);*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration;*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*

4. NET INTEREST INCOME

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income:		
Interest income on financial assets recorded at amortised cost:		
- interest income on unimpaired assets	77,179	72,161
- interest income on impaired assets	22,846	13,944
Interest income on financial assets recorded at fair value	9,913	8,438
Total interest income	109,938	94,543
Interest income on financial assets recorded at amortised cost comprises:		
Interest on loans to customers and banks	97,574	83,203
Interest on investments held to maturity	1,137	1,029
Penalties on loans to customers and banks	625	760
Interest on due from banks	689	1,113
	100,025	86,105
Interest income on financial assets recorded at fair value:		
Interest income on available-for-sale investments	8,656	7,377
Interest income on financial assets at fair value through profit or loss	1,257	1,061
	9,913	8,438
Total interest income	109,938	94,543
Interest expense:		
Interest expense on financial liabilities recorded at amortised cost	(62,438)	(68,224)
Total interest income	(62,438)	(68,224)
Interest expense on financial liabilities recorded at amortised cost:		
Interest on customer and bank accounts	(46,640)	(49,424)
Interest on debt securities issued	(2,666)	(3,093)
Interest on due to banks and financial institutions	(7,286)	(9,918)
Interest on subordinated bonds	(5,846)	(5,789)
Total interest expense on financial liabilities recorded at amortised cost	(62,438)	(68,224)
	47,500	26,319

Interest income on impaired loans is recognised using the method of unwinding of discount. The present value of future cash flows increases due to the passage of time thus reducing the allowance for impairment losses. This is referred to as the unwinding effect that is disclosed in Note 5.

5. PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS

Years ended 31 December 2017 and 2016	Corporate loans	Small and medium-sized enterprises	Mortgage loans	Consumer loans	Business development	Car loans	Loans to banks	Total loans to customers and banks
1 January 2016	119,122	6,567	6,468	7,075	12,071	23	-	151,326
Charge/(recovery) of allowance**	(4,768)	1,634	4,828	4,137	4,774	(15)	13	10,603
Unwinding of discount*	(9,618)	(308)	(665)	(692)	(711)	(6)	-	(12,000)
Write-off of assets	(28,824)	(5,957)	(9,114)	(6,976)	(9,957)	(26)	-	(60,854)
Recovery of assets previously written-off	1,147	206	1,019	543	283	56	-	3,254
Foreign exchange difference	896	49	49	53	91	-	-	1,138
31 December 2016	77,955	2,191	2,585	4,140	6,551	32	13	93,467
1 January 2017	77,955	2,191	2,585	4,140	6,551	32	13	93,467
Charge/(recovery) of allowance**	29,170	1,457	5,738	7,173	158	60	(13)	43,743
Unwinding of discount*	(11,257)	(1,167)	(2,883)	(3,619)	(2,133)	(47)	-	(21,106)
Write-off of assets	(755)	(107)	(1,539)	(1,353)	(340)	(9)	-	(4,103)
Recovery of assets previously written-off	116	384	550	554	284	24	-	1,912
Foreign exchange difference	(52)	(1)	(1)	(3)	(5)	-	-	(62)
31 December 2017	95,177	2,757	4,450	6,892	4,515	60	-	113,851

* Recognised in interest income
** Provisions recognised during the twelve-month periods ended 31 December 2017 and 2016 is presented in the consolidated statement of profit or loss in "Provision for impairment losses on interest bearing assets" line item.

6. NET LOSS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2017	Year ended 31 December 2016
Realised gain/(loss) on trading operations	119	(34)
Unrealised loss on operations with derivative financial instruments	(694)	(2,164)
Unrealised loss on movement in fair value adjustment	(835)	(1,429)
Realised (loss)/gain on operations with derivative financial instruments	(1,037)	1,415
	(2,447)	(2,212)

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2017	Year ended 31 December 2016
Dealing, net	5,487	7,333
Translation differences, net	2,267	(933)
	7,754	6,400

8. FEE AND COMISSION INCOME

	Year ended 31 December 2017	Year ended 31 December 2016
Settlements	6,166	5,952
Payment cards	5,352	4,481
Cash operations	4,702	5,184
Guarantees issued	3,088	2,649
Foreign exchange operations	708	1,152
Custodian activities	234	220
Documentary operations	129	102
Internet-banking services	123	262
Trust operations	26	29
Other	1,170	618
	21,698	20,649

9. OPERATING EXPENSES

	Year ended 31 December 2017	Year ended 31 December 2016
Wages and salaries	12,662	14,072
Taxes other than income tax	3,141	2,567
Depreciation and amortisation	2,554	2,330
Administrative expenses	2,346	2,361
Contributions in Deposit Insurance Fund	2,229	2,765
Operating leases	1,685	1,881
Security and alarm expenses	730	746
Equipment repair and maintenance	622	335
Collection expenses	614	758
Telecommunications	556	542
Professional services	368	387
Advertising costs	293	180
Business trip expenses	286	231
Representation costs	48	-
Other expenses	165	1,577
	28,299	**30,732**

10. INCOME TAX EXPENSE

	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax expense	-	1,443
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences and movement in valuation allowance	7,199	457
Total income tax expense	**7,199**	**1,900**

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:

	31 December 2017	%	31 December 2016	%
Profit before tax	36,070		5,293	
Income tax at the applicable tax rate	7,214	20.00	1,059	20.00
Non-taxable interest and other income on transactions with state and other qualified securities	(2,085)	(5.78)	(952)	(17.99)
Movements in unrecognised deferred tax assets	4	0.01	-	-
Non-deductible provisions for doubtful debt	-	-	918	17.34
Non-deductible operating and other expenses	2,066	5.73	875	16.53
	7,199	**19.96**	**1,900**	**35.88**

10. INCOME TAX EXPENSE, CONTINUED

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2017 and 2016. These deferred tax assets are recognised in these consolidated financial statements.

Movements in temporary differences during the 2017 and 2016 are presented as follows.

2017

	Balance 1 January 2017	Recognised in profit or loss	Recognised directly in equity	Balance 31 December 2017
Accrued interest payable	133	(32)	-	101
Financial assets and liabilities at fair value through profit or loss	219	(106)	-	113
Tax losses carried forward	125	46	-	171
Other	312	8	-	320
Discount on subordinated bonds	-	(6,987)	-	(6,987)
Property and equipment and intangible assets	(3,170)	(128)	-	(3,298)
	(2,381)	**(7,199)**	**-**	**(9,580)**

2016

	Balance 1 January 2016	Recognised in profit or loss	Recognised directly in equity	Balance 31 December 2016
Accrued interest payable	192	(59)	-	133
Financial assets and liabilities at fair value through profit or loss	613	(394)	-	219
Tax losses carried forward	127	(2)	-	125
Other	181	131	-	312
Property and equipment and intangible assets	(1,881)	(133)	(1,156)	(3,170)
	(768)	**(457)**	**(1,156)**	**(2,381)**

As at the year ended 31 December 2017 the Group recognised a deferred tax liability of KZT 6,987 million resulted from recognition of discount on subordinated loans issued (Note 22). Income in the form of recognised discount is not included in taxable income in accordance with Article 84, point 2, sub-point 7 of the Tax Code of the Republic of Kazakhstan.

11. EARNINGS PER SHARE

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

	Year ended 31 December 2017	Year ended 31 December 2016
Basic earnings per share		
Net profit attributable to shareholders of the Bank	28,800	5,311
Less: profit from discontinued operations used in calculation of basic earnings per share from discontinued operations	-	(1,968)
Less: additional dividends payable upon full distributions of profit to the preferred share holders	(5,645)	(652)
Net earnings attributable to ordinary shareholders	23,155	2,691
Weighted average number of ordinary shares for purposes of basic earnings per share	161,885,749	161,847,623
Basic earnings per share (KZT), continuing operations	143.03	16.63
Basic earnings per share (KZT), discontinued operations	-	12.16
Diluted earnings per share		
Net earnings attributable to ordinary shareholders	23,155	2,691
Add: additional dividends payable upon full distributions of profit to the preferred share holders	5,645	652
Earnings used in calculation of diluted earnings per share	28,800	3,343
Weighted average number of ordinary shares	161,885,749	161,847,623
Shares deemed to be issued:		
Weighted average number of ordinary shares that would be issued for the convertible preferred shares	39,249,255	39,249,255
Weighted average number of ordinary shares for purposes of calculation of diluted earnings per share	201,135,004	201,096,878
Diluted earnings per share (KZT), continuing operations	143.19	16.62
Basic earnings per share (KZT), all operations	143.19	26.41

The Group has calculated the book value of one share per each class of shares in accordance with the methodology for computation of the book value of one share provided by KASE.

The book value of one share per each class of shares as at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017			31 December 2016		
Class of shares	Outstanding shares (number of shares)	Amount for calculation of book value KZT million	Book value of one share, KZT	Outstanding shares (number of shares)	Amount for calculation of book value KZT million	Book value of one share, KZT
Ordinary shares	161,003,835	112,642	700	162,056,950	84,669	522
Preference shares	39,249,255	11,775	300	39,249,255	11,775	300
		124,417			96,444	

The book value of one preference share is calculated as the ratio of the amount of equity attributable to preference shares to the outstanding number of preference shares as at the reporting date. The book value of one ordinary share is calculated as the ratio of the amount of net asset value of the Group for ordinary shares to the outstanding number of ordinary shares as at the reporting date. The net asset value of the Group for ordinary shares is calculated as the total equity net of intangible assets and the amount of equity attributable to preference shares as at reporting date. Outstanding number of ordinary and preference shares is calculated as outstanding shares authorized and issued net of repurchased shares by the Group as at the reporting date.

The management of the Group believes that the Group fully complies with the requirement of KASE as at the reporting date.

12. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash on hand	33,159	51,195
Nostro accounts with NBRK	127,720	170,097
Nostro accounts with other banks		
- rated AA- to AA+	6,314	5,248
- rated A- to A+	8,426	16,560
- rated BBB- to BBB+	3,506	10,897
- rated BB- to BB+	1,077	621
- rated B- to B+	188	125
- not rated	650	222
Total Nostro accounts with other banks	20,161	33,673
Term deposits with other banks		
- rated BBB- to BBB+	-	2,735
- rated BB- to BB+	3,323	-
- rated B- to B+	3,693	1,061
- not rated	-	26
Total current accounts and term deposits with other banks	7,016	3,822
Total cash and cash equivalents	188,056	258,787

The credit ratings are presented by reference to the credit ratings of Standard & Poor's ratings agency or analogues of similar international rating agencies.

No cash and cash equivalents are impaired or past due as at 31 December 2017 and 31 December 2016.

As at 31 December 2017 the Group has 1 bank (31 December 2016: 2 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2017 is KZT 127,720 million (31 December 2016: KZT 186,293 million).

Minimum reserve requirements

As at 31 December 2017 minimum reserve requirements are calculated in accordance with regulations issued by the NBRK. To meet the requirements the Bank places cash in reserve assets, which should be maintained at the level not less than average of cash on hand in the national currency and balances on current account with the NBRK in the national currency for a 4-week period, calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other Bank's liabilities. As at 31 December 2017 the minimum reserve requirements amounted to KZT 11,599 million (31 December 2016: KZT 12,743 million) and reserve asset amounted to KZT 23,932 million (31 December 2016: KZT 28,274 million).

13. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	Nominal interest rate, %	30 December 2017	Nominal interest rate, %	31 December 2016
ASSETS				
Derivative financial instruments				
Foreign currency contracts	-	19,495	-	41,953
		19,495	-	41,953
Trading securities				
Debt securities				
Government bonds of the Republic of Kazakhstan	3.87-9.60	3,086	5.50-6.00	3,237
Corporate bonds	4.63-15.00	9,278	0.00-15.00	8,428
*Equity securities**				
Shares of Kazakhstan corporations	-	637	-	538
Shares of International corporations	-	22	-	-
		13,023		12,203
Pledged under sale and repurchase agreements				
- Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	9.50-9.70	472	11.50-11.80	336
- Corporate bonds	11.20-11.50	602	-	-
		33,592		54,492
LIABILITIES				
Derivative financial instruments				
Foreign currency contracts	-	(9,199)	-	(9,227)
		(9,199)		(9,227)

* Ownership interest in equity securities is below 1%

The credit quality of debt securities at fair value through profit or loss balances may be summarised based on Standard and Poor's ratings or other international rating agencies as follows at 31 December 2017:

	Corporate bonds	Government bonds of the Republic of Kazakhstan	Total
- rated from BBB- to BBB+	479	3,558	4,037
- rated from BB- to BB+	1,332	-	1,332
- rated from B- to B+	8,069	-	8,069
	9,880	3,558	13,438

The credit quality of debt securities at fair value through profit or loss balances may be summarised based on Standard and Poor's ratings or other international rating agencies as follows at 31 December 2016:

	Corporate bonds	Government bonds of the Republic of Kazakhstan	Total
- rated from BBB- to BBB+	1,720	3,573	5,293
- rated from BB- to BB+	3,556	-	3,556
- rated from B- to B+	3,152	-	3,152
	8,428	3,573	12,001

None of the financial assets at fair value through profit and loss are past due.

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

Foreign currency contracts

As at 31 December 2017 and 31 December 2016, the Group has the following derivative financial instruments:

Type of financial instrument	Notional amount	Maturity date	Weighted average contractual exchange rates	Amounts payable by the Group	Amounts receivable by the Group	Fair value of asset	Fair value of liability
31 December 2017							
Currency swaps with NBRK (up to 1 year)	USD 131,000,000	September-October 2018	181.80	KZT 23,816 million	USD 131,000,000	19,495	-
Currency swaps with other parties (up to 1 year)	KZT 11,111 million	September 2018	182.15	USD 61,000,000	KZT 11,111 million	-	(8,471)
Option	KZT 1,622 million	September 2019	182.05	-	KZT 1,622 million	-	(728)
						19,495	(9,199)

Type of financial instrument	Notional amount	Maturity date	Weighted average contractual exchange rates	Amounts payable by the Group	Amounts receivable by the Group	Fair value of asset	Fair value of liability
31 December 2016							
Currency swaps with NBRK (up to 1 year)	USD 215,000,000	March – October 2017	181.98	KZT 39,126 million	USD 215,000,000	32,665	-
Currency swaps with NBRK (up to 5 years)	USD 61,000,000	September 2019	182.02	KZT 11,111 million	USD 61,000,000	9,288	-
Currency swaps with other parties (up to 5 years)	USD 61,000,000	September 2019	182.15	USD 61,000,000	KZT 11,111 million	-	(8,424)
Option	KZT 1,622 million	September 2019	182.05	-	KZT 1,622 million	-	(803)
						41,953	(9,227)

As at 31 December 2017, included into derivative financial instruments was a currency swap contracts concluded in 2014 with the NBRK, according to which the Group has to provide the sum of KZT 23,816 million in exchange for USD 131,000,000 in 2018. Under the contracts, the Group has recognised interest expense of KZT 1,616 million (31 December 2016: KZT 1,946 million), which equates to 3% p.a. in KZT at inception. The NBRK has a right to terminate the contract at any time prior to the maturity. As at 31 December 2017 the fair value of the swaps amounted to KZT 19,495 million (31 December 2016: KZT 41,953 million).

Approach to derivative transactions

The Group enters into swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions. A swap involves the exchange by the Group with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Group's exposure to long or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the swap positions increases or decreases depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Group's investments.

The Group's ability to meet its objectives in entering into such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Group. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of the counterparty's insolvency.

14. AVAILABLE-FOR-SALE INVESTMENTS

	Nominal interest rate, %	31 December 2017	Nominal interest rate, %	31 December 2016
Debt securities				
Government bonds of the Republic of Kazakhstan	3.87-11.00	31,840	3.87-7.13	25,162
Corporate bonds	3.88-11.00	48,958	0.00-9.13	34,814
Discounted notes	-	65,393	-	43,862
Equity securities				
Shares of Kazakhstan corporations	-	131	-	130
Shares of International corporations	-	20	-	18
Pledged under sale and repurchase agreements				
- Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	4.00-8.99	3,793	11.50-12.00	20
- NBRK discounted notes	-	-	-	2,133
		150,135		106,139

During the period ended 31 December 2017, the Group reclassified debt financial instruments from held-to-maturity investments to available-for-sale investments in the amount of KZT 21,740 million due to the sale of debt financial instruments from the held-to-maturity investments portfolio prior maturity. The Group may not classify any debt financial instruments as held-to-maturity during the two subsequent financial years.

The credit quality of debt securities available for sale may be summarised based on Standard and Poor's ratings or other international rating agencies' ratings as follows at 31 December 2017:

	Corporate bonds	NBRK discounted notes	Government bonds of the Republic of Kazakhstan	Total
Not overdue				
- NBRK	-	65,393	-	65,393
- rated from BBB- to BBB+	7,313	-	35,633	42,946
- rated from BB- to BB+	38,303	-	-	38,303
- rated from B- to B+	3,342	-	-	3,342
	48,958	65,393	35,633	149,984

The credit quality of debt securities available for sale may be summarised based on Standard and Poor's ratings or other international rating agencies' ratings as follows at 31 December 2016:

	Corporate bonds	NBRK discounted notes	Government bonds of the Republic of Kazakhstan	Total
Not overdue				
- NBRK	-	45,995	-	45,995
- rated from BBB- to BBB+	8,574	-	25,182	33,756
- rated from BB- to BB+	26,240	-	-	26,240
	34,814	45,995	25,182	105,991

No available-for-sale investments are overdue or impaired.

15 DUE FROM BANKS

	31 December 2017	31 December 2016
Term deposit		
- conditional deposit with NBRK	1,275	1,057
- rated from A- to A+	1,656	1,064
- rated from BBB- to BBB+	-	306
- c rated from BB- to BB+	1,526	1,495
- rated from B- to B+	8,638	2,900
- not rated	45	12
Total term deposits	13,140	6,834

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

No loans and advances to banks are overdue or impaired as at 31 December 2017 and 31 December 2016.

As at 31 December 2017 a conditional deposit with the NBRK consists of funds of KZT 717 million (31 December 2016: KZT 327 million) received from the Development Bank of Kazakhstan JSC ("DBK JSC") and KZT 558 million (31 December 2016: KZT 730 million) received from DAMU Entrepreneurship Development Fund JSC ("EDF DAMU JSC") in accordance with the loan agreements with DBK JSC and EDF DAMU JSC. Funds will be distributed to small and medium businesses on preferential terms. These funds may be withdrawn from the conditional deposit only after approval of DBK JSC and EDF DAMU JSC, respectively.

Concentration of accounts and deposits with banks

As at 31 December 2017 the Group has no banks (2016: none) whose balances exceed 10% of equity.

16 LOANS TO CUSTOMERS AND BANKS

	31 December 2017	31 December 2016
Loans to customers	890,230	847,945
Net investment in finance lease	4,156	4,186
Accrued interest	36,270	37,078
	930,656	889,209
Less: impairment allowance	(113,851)	(93,454)
Total loans to consumers	816,805	795,755
Loans to banks	3	644
Accrued interest	-	21
Less: impairment allowance	-	(13)
Total loans to banks	3	652
Loans under reverse repurchase agreements	14,443	22,335
Total loans to consumers and banks	831,251	818,742

Movement in impairment allowance for loans to customers and banks for the twelve month periods ended 31 December 2017 and 31 December 2016 is disclosed in Note 5.

16 LOANS TO CUSTOMERS AND BANKS, CONTINUED

The following table provides information by types of loan products as at 31 December 2017:

	Gross amount	Impairment allowance	Carrying amount
Loans to corporate customers			
Corporate loans	511,156	(95,177)	415,979
Small and medium-sized enterprises	65,368	(2,757)	62,611
Net investment in finance lease	4,156	-	4,156
Loans to retail customers			
Mortgage loans	146,468	(4,450)	142,018
Consumer loans	113,905	(6,892)	107,013
Business development	84,533	(4,515)	80,018
Car loans	5,070	(60)	5,010
	930,656	(113,851)	816,805

The following table provides information by types of loan products as at 31 December 2016:

	Gross amount	Impairment allowance	Carrying amount
Loans to corporate customers			
Corporate loans	483,286	(77,932)	405,354
Small and medium-sized enterprises	62,708	(2,191)	60,517
Net investment in finance lease	4,186	(23)	4,163
Loans to retail customers			
Mortgage loans	146,212	(2,585)	143,627
Consumer loans	110,026	(4,140)	105,886
Business development	76,612	(6,551)	70,061
Car loans	6,179	(32)	6,147
	889,209	(93,454)	795,755

16 LOANS TO CUSTOMERS AND BANKS, CONTINUED

(a) Credit quality of corporate loans and loans to small and medium-sized enterprises

Analysis by credit quality of corporate loans and loans to small and medium-sized enterprises outstanding as at 31 December 2017 and 31 December 2016 was as follows:

	31 December 2017	31 December 2016
Loans to corporate customers		
Corporate loans		
Individually unimpaired loans assessed on a collective basis:		
Standard loans, not overdue	268,917	252,067
Overdue:		
- overdue less than 30 days	4,181	1,414
Total individually unimpaired loans assessed on a collective basis	273,098	253,481
Impaired loans measured on a collective basis		
Not overdue loans	8,835	38,538
Total impaired loans assessed on a collective basis	8,835	38,538
Individually impaired loans:		
Not overdue	139,074	95,245
Overdue:		
- overdue less than 30 days	42,180	48,088
- overdue 31-60 days	9,113	21,823
- overdue 61-90 days	516	1,386
- overdue 91-180 days	14,247	4,800
- overdue more than 180 days	24,093	19,925
Total individually impaired loans	**229,223**	**191,267**
Total corporate loans	**511,156**	**483,286**
Impairment allowance for corporate loans	(95,177)	(77,932)
Net corporate loans	**415,979**	**405,354**
Small and medium-sized enterprises		
Individually unimpaired loans assessed on a collective basis:		
Not overdue	49,360	47,090
Overdue:		
- overdue less than 30 days	1,775	703
- overdue 31-60 days	491	688
- overdue 61-90 days	1,017	287
- overdue 91-180 days	728	532
- overdue more than 180 days	462	4,205
Total individually unimpaired loans assessed on a collective basis	53,833	53,505
Impaired loans assessed on a collective basis		
Not overdue	3,626	2,227
Overdue:		
- overdue less than 30 days	1,851	409
- overdue 31-60 days	128	-
- overdue 61-90 days	522	-
- overdue 91-180 days	1,336	447
- overdue more than 180 days	4,072	6,120
Total impaired loans assessed on a collective basis	11,535	9,203
Total small and medium-sized enterprises	**65,368**	**62,708**
Impairment allowance for loans to small and medium-sized enterprises	(2,757)	(2,191)
Net loans to small and medium-sized enterprises	**62,611**	**60,517**
Total corporate loans and loans to small and medium-sized enterprises	**576,524**	**545,994**
Total impairment allowance for corporate loans and loans to small and medium-sized enterprises	(97,934)	(80,123)
Total net corporate loans and loans to small and medium-sized enterprises	**478,590**	**465,871**

16 LOANS TO CUSTOMERS AND BANKS, CONTINUED

(b) Credit quality of loans to retail customers

Analysis by credit quality of loans to retail customers outstanding as at 31 December 2017 and 31 December 2016 was as follows:

	31 December 2017	31 December 2016
Loans to retail customers		
Mortgage loans		
Individually unimpaired loans assessed on a collective basis:		
Not overdue:	106,549	97,507
Overdue:		
- overdue less than 30 days	6,014	7,190
- overdue 31-60 days	2,243	3,426
- overdue 61-90 days	894	2,466
- overdue 91-180 days	821	2,328
- overdue more than 180 days	-	8,149
Total individually unimpaired loans assessed on a collective basis	116,521	121,066
Impaired loans assessed on a collective basis		
Not overdue:	6,825	6,534
Overdue:		
- overdue less than 30 days	4,481	3,578
- overdue 31-60 days	859	3,310
- overdue 61-90 days	1,592	3,403
- overdue 91-180 days	1,129	1,102
- overdue more than 180 days	11,673	7,219
Total impaired loans assessed on a collective basis	26,559	25,146
Individually impaired loans		
Overdue:		
- overdue less than 30 days	2,011	-
- overdue 31-60 days	749	-
- overdue more than 180 days	628	-
Total individually impaired loans	3,388	-
Total mortgage loans	**146,468**	**146,212**
Impairment allowance for mortgage loans	(4,450)	(2,585)
Mortgage loans, net	**142,018**	**143,627**
Consumer loans		
Individually unimpaired loans assessed on a collective basis:		
Not overdue:	74,545	61,994
Overdue:		
- overdue less than 30 days	4,806	5,664
- overdue 31-60 days	868	3,794
- overdue 61-90 days	861	1,988
- overdue 91-180 days	1,621	3,888
- overdue more than 180 days	-	13,349
Total individually unimpaired loans assessed on a collective basis	82,701	90,677
Impaired loans assessed on a collective basis		
Not overdue	3,898	3,192
Overdue:		
- overdue less than 30 days	2,705	2,189
- overdue 31-60 days	304	1,439
- overdue 61-90 days	1,181	1,792
- overdue 91-180 days	2,145	1,606
- overdue more than 180 days	15,681	6,753
Total impaired loans assessed on a collective basis	25,914	16,971
Individually impaired loans		
Overdue:		
- overdue less than 30 days	576	-
- overdue 61-90 days	2,085	-
- overdue more than 180 days	2,629	2,378
Total individually impaired loans	5,290	2,378
Total consumer loans	**113,905**	**110,026**
Impairment allowance for consumer loans	(6,892)	(4,140)
Consumer loans, net	**107,013**	**105,886**

16 LOANS TO CUSTOMERS AND BANKS, CONTINUED

(b) Credit quality of loans to retail customers, continued

	31 December 2017	31 December 2016
Loans to individuals, continued		
Business development		
Individually unimpaired loans assessed on a collective basis:		
Not overdue loans	59,952	48,278
Overdue loans		
- overdue less than 30 days	1,420	1,953
- overdue 31-60 days	814	959
- overdue 61-90 days	1,162	375
- overdue 91-180 days	1,406	1,486
- overdue more than 180 days	29	6,502
Total individually unimpaired loans assessed on a collective basis	64,783	59,553
Impaired loans assessed on a collective basis		
Not overdue	2,413	1,553
Overdue:		
- overdue less than 30 days	850	1,041
- overdue 31-60 days	88	80
- overdue 61-90 days	621	961
- overdue 91-180 days	2,077	242
- overdue more than 180 days	11,474	12,242
Total impaired loans assessed on a collective basis	17,523	16,119
Individually impaired loans		
Not overdue	-	940
Overdue:		
- overdue 31-60 days	338	-
- overdue 61-90 days	1,075	-
- overdue 91-180 days	814	-
Total individually impaired loans	2,227	940
Total for business development	**84,533**	**76,612**
Impairment allowance on loans for business development	(4,515)	(6,551)
Net business development	**80,018**	**70,061**
Auto loans		
Individually unimpaired loans assessed on a collective basis:		
Not overdue	4,624	5,439
Overdue:		
- overdue less than 30 days	48	207
- overdue 31-60 days	29	44
- overdue 61-90 days	-	12
- overdue 91-180 days	23	46
- overdue more than 180 days	-	293
Total individually unimpaired loans assessed on a collective basis	4,724	6,041
Impaired loans assessed on a collective basis		
Not overdue	5	8
Overdue:		
- overdue less than 30 days	1	-
- overdue 31-60 days	9	4
- overdue 61-90 days	4	1
- overdue 91-180 days	5	-
- overdue more than 180 days	322	125
Total impaired loans assessed on a collective basis	346	138
Total auto loans	**5,070**	**6,179**
Impairment allowance on auto loans	(60)	(32)
Net auto loans	**5,010**	**6,147**
Total loans to individuals	**349,976**	**339,029**
Total impairment allowance on loans to individuals	(15,917)	(13,308)
Total loans to individuals, net	**334,059**	**325,721**
Total loans to corporate customers, loans to small and medium-sized companies, loans to individuals	**926,500**	**885,023**
Total impairment allowance on loans to corporate customers, loans to small and medium-sized companies, loans to individuals	(113,851)	(93,431)
Total loans to corporate customers, loans to small- and medium-sized companies, loans to individuals, net of impairment allowance	**812,649**	**791,592**

16 LOANS TO CUSTOMERS AND BANKS, CONTINUED

(c) Key assumptions and judgments for estimating loan impairment

(i) Individual assessment of impairment of loans to customers

Individual assessment of impairment losses is calculated based on analysis of the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realisable value of any collateral held and the timing of anticipated receipts: a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

The impairment allowances on individually significant loans are reviewed quarterly and more regularly if circumstances required.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to corporate customers and retail customer as at 31 December 2016 would be KZT 1,419 million lower/higher (31 December 2016: KZT 1,211 million lower/higher).

(ii) Collective assessment of impairment of loans to customers

The methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective evaluation of impairment. Such methodology incorporates factors such as type of product and borrowers, credit rating, portfolio size, loss emergence period, recovery period and applies probability of default on each assets (or pool of assets) and loss given default by type of collateral. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition.

In determining the impairment allowance for loans to corporate customers and retail customers, management makes the following key assumptions:

- loss rates are constant and can be estimated based on the historic loss pattern for the past 12 months;
- cumulative average coefficients of cash recovery are calculated based on historic data for the past 24 months;
- a delay of 12 to 36 months plus 24 months in obtaining proceeds from the foreclosure of collateral

Loss rate for individually unimpaired loans assessed on a collective basis and impaired loans assessed on a collective basis issued to corporate customers varies from 1.17% to 10.56% (31 December 2016: 0.55%-9.39%).

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to corporate customers and retail customers as at 31 December 2017 would be KZT 6,708 million lower/higher (31 December 2016: KZT 6,705 million lower/higher).

16 LOANS TO CUSTOMERS AND BANKS, CONTINUED

(d) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual and collective credit appraisal and impairment testing. The general creditworthiness of a corporate customer and small and medium-sized customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests corporate borrowers and small and medium-sized customers to provide it.

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

31 December 2017	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
Unimpared and collectively impaired loans				
Cash and deposits	3,424	3,424	-	-
Traded securities	6,875	6,875	-	-
Real estate	257,228	257,228	-	-
Motor vehicles	1,113	1,113	-	-
Equipment	3,706	3,706	-	-
Corporate guarantees	32,441	-	-	32,441
Income from future contracts	23,288	-	-	23,288
Goods in turnover	6,921	-	6,921	-
Other collateral	1,566	-	-	1,566
No collateral or other credit enhancement	7,982	-	-	7,982
Total unimpaired loans	344,544	272,346	6,921	65,277
Individually impaired loans				
Cash and deposits	74	74	-	-
Traded securities	215	215	-	-
Real estate	95,444	95,444	-	-
Motor vehicles	415	415	-	-
Equipment	2,508	2,508	-	-
Corporate guarantees	11,598	-	-	11,598
Goods in turnover	741	-	741	-
Mineral rights	7,284	7,284	-	-
Other collateral	1,140	-	1,140	-
No collateral or other credit enhancement	14,627	-	-	14,627
Total impaired loans	134,046	105,940	1,881	26,225
Total impaired loans	478,590	378,286	8,802	91,502

16 LOANS TO CUSTOMERS AND BANKS, CONTINUED

(d) Analysis of collateral and other credit enhancements, continued

(i) Loans to corporate customers, continued

31 December 2016	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
Unimpared and collectively impaired loans				
Cash and deposits	4,389	4,389	-	-
Traded securities	6,631	6,631	-	-
Real estate	251,667	251,667	-	-
Motor vehicles	764	764	-	-
Equipment	19,190	19,190	-	-
Corporate guarantees	37,073	-	-	37,073
Income from future contracts	8,132	-	-	8,132
Goods in turnover	13	-	13	-
Other collateral	141	-	-	141
No collateral or other credit enhancement	18,598	-	-	18,598
Total unimpaired loans	346,598	282,641	13	63,944
Individually impaired loans				
Cash and deposits	4	4	-	-
Traded securities	200	200	-	-
Real estate	84,308	84,308	-	-
Motor vehicles	228	228	-	-
Equipment	494	494	-	-
Corporate guarantees	3,789	-	-	3,789
Income from future contracts	281	-	-	281
Goods in turnover	3,943	-	3,943	-
Mineral rights	8,557	8,557	-	-
Other collateral	820	-	820	-
No collateral or other credit enhancement	16,649	-	-	16,649
Total impaired loans	119,273	93,791	4,763	20,719
Total loans to corporate customers	465,871	376,432	4,776	84,663

The tables above excludes overcollateralisation. In accordance with the recommendations of NBRK future contract revenues are not considered as sufficient collateral for loan impairment allowance calculation. As at 31 December 2017 the loans to corporate customers with net carrying amount of KZT 23,288 million (31 December 2016: KZT 8,413 million) are secured by income from future contracts.

Amount recorded in the item "No collateral or other credit enhancement" comprises unsecured loans and parts of loans, which are not fully secured.

For majority of loans the fair value of collateral was assessed at the reportinf day. The Group also has loans, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which the fair value of collateral is not determined and can not be determined. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of the company's borrowers, are not considered for impairment assessment purposes.

16 LOANS TO CUSTOMERS AND BANKS, CONTINUED

(d) Analysis of collateral and other credit enhancements, continued

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Business development loans are secured by real estate. Auto loans are secured by the underlying cars. Cash loans are collateralised by cash. Consumer loans are usually secured by underlying property and in some cases by assets, including real estate, cash and motor vehicle.

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of KZT 20,428 million (31 December 2016: KZT 25,733 million), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 10,089 million (31 December 2016: KZT 14,891 million).

For mortgage loans with a net carrying amount of KZT 121,590 million (31 December 2016: KZT 117,894 million) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

Business development

Included in the business developmet portfolio are loans with a net carrying amount of KZT 8,957 million (31 December 2016: KZT 5,013 million), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 3,712 million (31 December 2016: KZT 2,378 million).

Management believes that the fair value of collateral of buisness development loans with a net carrying amount of KZT 71,061 million (31 December 2016: KZT 65,048 million) is at least equal to the carrying amount of individual loans at the reporting date.

Repossessed collateral

During 2017, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 30,059 million. As at 31 December 2017, the repossessed collateral was KZT 49,442 million (31 December 2017: KZT 23,209 million of repossessed collateral) (Note 18).

(e) Loan portfolio analysis

As at 31 December 2017, the Group has 6 borrowers or groups of connected borrowers (2016: 14), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2017 is KZT 114,175 million (31 December 2016: KZT 197,436 million).

As at 31 December 2017 and 31 December 2016 included in the loans to customers are renegotiated loans that would otherwise be past due or impaired of KZT 99,468 million and KZT 84,216 million.

As at 31 December 2017 and 31 December 2016, the Group signed a finance lease agreement as a lessor. Interest rate on finance lease is fixed as of the agreement date for all lease terms.

16 LOANS TO CUSTOMERS AND BANKS, CONTINUED

(e) Loan portfolio analysis, continued

Industry and geographical analysis of the loan portfolio

As at 31 December 2017 and 31 December 2016, the components of net investment in finance lease are as follows

	31 December 2017	31 December 2016
Not more than one year	990	804
From one to five years	1,454	1,453
More than five years	9,447	9,836
Minimum finance lease payments	11,891	12,093
Less deferred income	(7,735)	(7,907)
Net investments in finance lease	4,156	4,186
Current portion	32	29
Non-current portion	4,124	4,157
Net investments in finance lease before loss allowance	**4,156**	**4,186**
Less: loss allowance	-	(23)
Net investments in finance net of loss allowance	**4,156**	**4,163**

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan who operate in the following economic sectors:

	31 December 2017	31 December 2016
Individuals	349,976	339,029
Trade	141,129	148,827
Rent of real estate	81,539	57,922
Energy	60,252	50,370
Financial services	49,946	30,460
Transportation and equipment maintenance services	35,095	31,408
Production	32,730	40,116
Housing construction	32,571	22,264
Industrial construction	29,397	33,342
Food industry	24,702	33,648
Transport and telecommunications	21,159	10,535
Agriculture	17,932	41,421
Oil and gas industry	5,526	18,827
Other	48,702	31,040
Total	**930,656**	**889,209**
Impairment loss	(113,851)	(93,454)
	816,805	**795,755**

Fair value of assets received as collateral and carrying amount of reverse repurchase agreements as at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017		31 December 2016	
	Loan carrying amount	Collateral fair value	Loan carrying amount	Collateral fair value
Government securities of the Republic of Kazakhstan	11,006	11,169	21,367	22,249
Other	3,437	4,352	968	1,386
	14,443	15,521	22,335	23,635

(f) Loan maturities

The maturity of the loan portfolio is presented in note 26, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that part of the loans will be extended at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the contractually agreed term.

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and constructions	Furniture and equipment	Construction in progress	Intangible assets	Total
Cost/revalued amount					
Balance at 1 January 2016	26,009	12,970	644	5,702	45,325
Additions	-	685	-	785	1,470
Transfers	-	591	(591)	-	-
Revaluation	6,367	-	-	-	6,367
Impairment	(134)	-	-	-	(134)
Write-off at revaluation	(1,134)	-	-	-	(1,134)
Disposals	(22)	(644)	-	(46)	(712)
31 December 2016	31,086	13,602	53	6,441	51,182
Additions	175	1,337	68	2,988	4,568
Transfers	-	16	(16)	-	-
Disposals	(251)	(963)	-	(90)	(1,304)
31 December 2017	31,010	13,992	105	9,339	54,446
Accumulated depreciation, amortisation and impairment					
31 December 2015	(910)	(7,943)	-	(3,102)	(11,955)
Charge for the year	(285)	(1,208)	-	(564)	(2,057)
Write-off at revaluation	1,134	-	-	-	1,134
Disposals	1	599	-	46	646
31 December 2016	(60)	(8,552)	-	(3,620)	(12,232)
Charge for the year	(343)	(1,264)	-	(816)	(2,423)
Disposals	10	929	-	90	1,029
31 December 2017	(393)	(8,887)	-	(4,346)	(13,626)
Net carrying amount					
31 December 2017	**30,617**	**5,105**	**105**	**4,993**	**40,820**
31 December 2016	**31,026**	**5,050**	**53**	**2,821**	**38,950**

Intangible assets comprise software, patents and licenses.

The Group revalued its buildings and constructions during 2017 and 2016. Evaluation was performed by independent appraisers. Independent appraisers used two approaches to measure the fair value of property and equipment – comparative approach using the market information to measure fair value of buildings and constructions under active market conditions, and cost approach, when no active market existed for items subject to revaluation.

As at 31 December 2017 and 31 December 2016, the total amount of fair value of buildings and constructions was KZT 30,617 million and KZT 31,026 million, respectively. If buildings and construction of the Group had been valued at cost, their carrying amount would have been KZT 24,398 million and KZT 24,793 million as at 31 December 2017 and 31 December 2016, respectively.

During 2016 the Group recognised reversal of impairment loss on buildings and other real estate in the amount of KZT 586 million.

The fair values of buildings and constructions are categorised into Levels 2 and 3 of the fair value hierarchy.

18. OTHER ASSETS

	31 December 2017	31 December 2016
Other financial assets		
Receivables	5,118	4,002
Accrued commission	7,698	1,761
Western Union and other wireless transfers	175	99
	12,991	**5,862**
Less allowance for impairment	(520)	(893)
	12,471	**4,969**
Other non-financial assets		
Repossessed collateral	49,442	23,209
Payment receivable on repossessed collateral	4,253	8,029
Investment property	5,003	3,316
Advances paid	149	1,081
Taxes receivable other than income tax	1,974	2,926
Inventory	78	22
Other assets	649	550
	61,548	**39,133**
Less allowance for impairment	(1,227)	(57)
	60,321	**39,076**
	72,792	**44,045**

Repossessed collateral. Repossessed collateral represents real estate accepted by the Group in exchange for from its non-performing borrowers. These assets have been initially recognised at fair value and subsequently measured at the lower of fair value less cost to dispose or the carrying value. The Group's policy implies sale of said assets as soon as possible.

Payment receivable on repossessed collateral. Payment on repossessed collateral comprises prepayments for repossessed collateral which is acquired under auction.

Fair value of investment property was measured using the market comparison approach, which reflects the prices of latest transactions on similar real estate items, and as at 31 December 2017 and 31 December 2016 amounted to KZT 8,374 million and KZT 4,055 million, respectively.

Included into operating lease income is investment property rental income for the years ended 31 December 2017 and 31 December 2016 amounted to KZT 234 million and KZT 141 million, respectively.

Operating expenses related to investment property from which the Group earned rental income for the years ended 31 December 2017 and 31 December 2016 amounted to KZT 105 million and KZT 167 million, respectively.

19. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	Nominal interest rate, %	31 December 2017	Nominal interest rate, %	31 December 2016
Long-term loans due to banks and financial institutions	1.00-9.08	48,776	0.85-8.50	44,668
Perpetual financial instruments	7.34	26,064	6.96	26,222
Loans due to international credit organisations	8.50-10.70	16,151	6.20-10.70	27,023
Correspondent accounts of banks	-	1,440	-	1,557
Loans due to NBRK	5.50	105	5.50	118
Short-term loans due to banks and financial institutions	-	-	3.25-10.33	6,272
Accrued interest	-	862	-	1,165
		93,398		**107,025**
Loans under repurchase agreements	9.30-11.50	5,393	11.50-12.00	2,624
		98,791		**109,649**

19. DUE TO BANKS AND FINANCIAL INSTITUTIONS, CONTINUED

Long-term loans due to banks and financial institutions. Long-term loans from banks and financial institutions comprise long-term loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") and JSC Development Bank of Kazakhstan ("JSC DBK") in the amount of KZT 34,604 million at 1%-9.08% p.a. maturing in 2018-2035, and of KZT 14,172 million at 1%-7.9 % p.a. maturing in 2019-2035 as at 31 December 2017, respectively (31 December 2016: KZT 28,434 million and KZT 16,234 million, respectively). During the 2017 and 2016, the Group has been repaying principal and interest according to the repayments schedules.

During the year ended 31 December 2017, the Group received additional tranche of long-term loans from JSC DBK in the amount of KZT 377 million at 2% p.a. maturing in 2035. Loan is intended for further financing of large-sized enterprises ("LSE") operating in processing industry.

During the year ended 31 December 2017, the Group received additional tranche of long-term loans from DAMU in the amount of 6,511 million at 9.08% p.a. maturing in 2020, and KZT 321 at 1% p.a. maturing in 2024.

During the year ended 31 December 2016, the Group has received long-term loans from DAMU in the amount of KZT 837 million at 4.50% p.a. maturing in 2023, KZT 200 million at 4.30% p.a. maturing in 2021, KZT 300 million at 3.80% p.a. and KZT 280 million at 4.50% p.a. both maturing in 2021.

During 2017 and 2016, the Group has received loans from DAMU JSC under the Government program ("the Program") to finance small and medium enterprises ("SME") of certain industries. According to the loan agreement between DAMU and the Group, the Group extends loans to SME borrowers, eligible to participate in the Program, at 4% margin with the maturity not exceeding 10 years. The Group's obligation to repay the loan to DAMU is not contingent on collectability of the loans extended to SME borrowers. The Group is obligated to pay 15% penalty on the amounts not extended to SME borrowers within 3-9 months after receiving the money from DAMU. Management of the Group believes that there are no other financial instruments similar financial instruments and due to specific nature of SME clients, this product represents a separate market. As a result, the loans from DAMU and JSC DBK were received in an orderly transaction and as such have been recorded at fair value at the recognition date.

Perpetual debt. The perpetual non-cumulative financial instruments were issued by the Bank in March 2006 with an option to repay in whole, but not in part, on any interest payment date from and including 3 March 2016 at the face value of USD 100 million. Interest payment dates are 3 March, 3 June, 3 September and 3 December in each year.

Loans from international credit organisations. Loans from international credit organisations comprise loans from the European Bank for Reconstruction and Development ("EBRD") at 8.5% - 10.7% p.a. maturing in 2019-2020.

During the year ended 31 December 2017, the Group has partially repaid a long-term loan from EBRD ahead of schedule in the amount of KZT 6,750 million at 10.7% p.a. maturing in 2020.

The Group is obligated to comply with financial covenants in relation to funds and loans from banks and financial institutions. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. As at 31 December 2017 and 31 December 2016, the Group has not breached any of these covenants.

As at 31 December 2017 and 31 December 2016, funds and loans from banks and financial institutions included loans received under repurchase agreements of KZT 5,393 million and KZT 2,624 million that were repaid in January 2018 and 2017, respectively. The fair value of assets pledged under repurchase agreements amounted to KZT 4,867 million and KZT 2,489 million, respectively, as at 31 December 2017 and 31 December 2016.

20. CUSTOMER AND BANK ACCOUNTS

	31 December 2017	31 December 2016
Due to customers		
- Retail	504,610	542,586
- Corporate	470,679	509,155
Due to banks	1,663	2,161
	976,952	1,053,902

20. CUSTOMER AND BANK ACCOUNTS, CONTINUED

	31 December 2017	31 December 2016
Term deposits	696,445	737,896
Demand deposits	274,321	308,212
	970,766	1,046,108
Accrued interest	4,523	5,633
	975,289	1,051,741

As at 31 December 2017, the Group has 5 customers (31 December 2016: 5 customers), whose balances exceed 10% of equity. The gross balances of the above mentioned customers as at 31 December 2017 are KZT 221,119 million (31 December 2016: KZT 105,814 million).

	31 December 2017	31 December 2016
Analysis by sectors:		
Individuals	504,610	542,586
Social services	133,800	178,838
Construction	84,357	66,376
Trade	48,636	55,278
Education and health care	34,260	33,595
Transportation and communication	30,164	39,765
Energy	19,670	11,351
Manufacturing	14,728	17,086
Agriculture	7,430	6,433
Insurance and pension fund activities	7,256	13,274
Fuel	5,743	2,902
Metallurgy	4,577	21,145
Entertainment services	3,841	3,999
Machinery	3,806	2,293
Chemical production	3,801	3,997
Research and engineering	2,981	9,038
Oil and gas sector	2,950	5,597
Public administration	1,024	373
Other	61,655	37,815
Total due to customers	975,289	1,051,741

21. DEBT SECURITIES ISSUED

	Currency	Issue date	Maturity date	Interest rate, %	31 December 2017	Interest rate, %	31 December 2016
Kazakhstani bonds	KZT	26/04/2014-22/09/2015	26/04/2019-22/09/2025	8.00-9.00	17,048	7.50-9.00	24,463
					17,048		24,463
Accrued interest					280		346
					17,328		24,809

On 26 April 2017, the Group repaid debt securities issued with a nominal value of KZT 10,000 million.

Coupons on debt securities issued are repayable semi-annually; principal is repayable at maturity.

22. SUBORDINATED BONDS

	Currency	Issue date	Maturity date	Interest rate, %	31 December 2017	Interest rate, %	31 December 2016
Fixed rate	KZT	27/06/2008 - 03/11/2017	27/06/2018 - 03/11/2032	4.00-11.00	54,439	10.00-11.00	29,395
Floating rate	KZT	05/12/2007 - 27/11/2009	27/11/2019 - 11/11/2023	8.70-8.80	20,193	10.00-15.00	23,156
					74,632		52,551
Accrued interest					822		782
					75,454		53,333

During the year ended 31 December 2017, the Group repaid subordinated bonds with floating rate and a nominal value of KZT 3,000 million (during the year ended 31 December 2016: KZT 9,000 million).

Coupons on subordinated bonds are repayable semi-annually; principal is repayable at maturity.

Participation in the Program of Strengthening of the Banking Sector Financial Stability

Resolution of the NBRK No.191 dated 10 October 2017 approved the Bank's participation in the Program of Strengthening Financial Stability of Banking Sector of the Republic of Kazakhstan (the "Program").

In accordance with the terms of the Program, the Bank received cash from the NBRK subsidiary – Kazakhstan Sustainability Fund JSC by means of issue of registered coupon subordinated bonds of the Bank (the "Bonds") convertible into the Bank's ordinary shares on the terms provided for in the Issue Prospectus.

The Bank accepts the following covenants in its operations, which are valid during 5 years from the Bonds placement date; breach of any covenant results in enforcement of the Bonds holders' rights to convert the Bonds into ordinary shares of the Bank:

- The Bank commits itself to comply with the capital adequacy ratios set by the authorised body for the second tier banks of the RK;

- The Bank commits itself not to take actions aimed at withdrawal of the Bank's assets; in this regard a list of cases that would be treated as the asset withdrawal are specified in the Prospectus for Bond Issue.

Within the framework of the Bank's participation in the Program, on 3 November 2017, the Bank placed the Bonds at Kazakhstan Stock Exchange in the amount of KZT 60,000 million with 15-year maturity and coupon rate of 4.00% per year. The unwinding of discount of the Bonds using the market interest rate of 13%, which was recognised as income in the statement of profit or loss at initial recognition of the Bonds, is KZT 34,993 million.

Reconciliation of changes in liabilities and cash flows from financing activities

	Liabilities		
	Debt securities issued	Subordinated bonds	Total
Balance at 1 January 2017	24,809	53,333	78,142
Changes due to cash flows from financing activities			
Proceeds from debt securities issued	2,569	-	2,569
Repayment of debt securities issued	(10,000)	-	(10,000)
Proceeds from subordinated bonds	-	60,000	60,000
Repayment of subordinated bonds	-	(3,000)	(3,000)
Total changes due to cash flows from financing activities	**17,378**	**110,333**	**127,711**
Changes in fair value	-	(34,993)	(34,993)
Other changes	**118**	**327**	**445**
Interest expense	(2,666)	(5,846)	(8,512)
Interest paid	2,498	5,633	8,131
Balance at 31 December 2017	**17,328**	**75,454**	**92,782**

23. OTHER LIABILITIES

	31 December 2017	31 December 2016
Other financial liabilities:		
Settlements on other liabilities	3,717	4,146
Liabilities in guarantees issued	7,413	1,148
Accrued commission income	769	881
Provisions for guarantees and letters of credit	115	269
	12,014	6,444
Other non-financial liabilities :		
Taxes payable other than income tax	1,093	2,195
Other non-financial liabilities	1,204	1,046
Total other liabilities	14,311	9,685

24. SHARE CAPITAL

As at 31 December 2017 the Bank's share capital is presented as follows:

	Authorised share capital	Share capital authorised and not issued	Repurchased share capital from shareholders	Total share capital
Ordinary shares	995,876,753	(833,419,953)	(1,452,965)	161,003,835
Preference shares	39,249,255	-	-	39,249,255

As at 31 December 2017 the Bank's share capital comprised the following number of shares:

	Authorized and issued share capital	Repurchased shares	Total
Ordinary shares	58,014	(220)	57,794
Preference shares	11,775	-	11,775
	69,789	(220)	69,569

As at 31 December 2016, the Bank's share capital is presented as follows:

	Authorised share capital	Share capital authorised and not issued	Repurchased share capital	Total share capital
Ordinary shares, number	260,750,745	(98,293,945)	(399,850)	162,056,950
Preference shares, number	39,249,255	-	-	39,249,255

As at 31 December 2016, the Bank's share capital comprised the following number of shares:

	Authorized and issued share capital	Sold shares	Total
Ordinary shares	57,966	48	58,014
Preference shares	11,775	-	11,775
	69,741	48	69,789

All ordinary shares are ranked equally, carry one vote, and have no par value.

Preference shares are cumulative and convertible into ordinary shares according to the decision of the Board of Directors, one preferred share can be exchanged for one ordinary share. According to the legislation of the Republic of Kazakhstan and Bank's incorporation documents, dividends are payable on ordinary shares in the form of cash or securities of the Bank, on condition that the decision was made at the annual meeting of shareholders of the Bank. In accordance with the Bank's Charter, dividend payments are made on the basis of financial results for the year. Distributable reserves are subject to rules and regulations of the Republic of Kazakhstan.

Terms and conditions of preferred shares provide for the Group to pay nominal value of dividends of KZT 0.01 per share to comply with Kazakhstani legislation. This legislation envisages that joint stock companies pay the fixed guaranteed amount of the dividend on the preference shares. According to Kazakhstan law on joint stock companies, the amount of the dividend paid on the ordinary shares may not exceed the amount of the dividends paid on preference shares. In addition, dividends on ordinary shares may not be paid until dividends on preference shares have been paid in full.

24. SHARE CAPITAL, CONTINUED

	For the year ended 31 December 2017 Quantity (in thousands)	For the year ended 31 December 2016 Quantity (in thousands)
Preference shares, beginning of the period	39,249	39,249
Preference shares issued	-	-
Preference shares, end of the period	39,249	39,249
Ordinary shares, beginning of the period	162,057	161,584
Treasury shares purchased	(2,355)	(1,173)
Treasury shares sold	1,302	1,646
Ordinary shares, end of the period	161,004	162,057

Reserves for general banking risks

As at 31 December 2017 the amount of the Bank's provision for general banking risks included in retained earnings in the consolidated statement of financial position of the Group is KZT 16,895 million (31 December 2016: KZT 16,895 million).

Until 2013, in accordance with amendments to the Resolution No. 196 "On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks" issued by the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA") introduced on 31 January 2011 (that became invalid in 2013), the Bank had to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve.

During the years ended 31 December 2017 and 31 December 2016, no transfers to general reserve were made by the Bank to cover general banking risks.

In accordance with the amendments to the Resolution No. 358 "On approval of the Instruction of normative coefficients and methods of calculation of prudential norms for the second tier banks" issued on 25 December 2013 the statutory reserve capital is non-distributable.

Dynamic reserve

During 2014, the dynamic reserve is temporarily frozen by the NBRK at the level of 31 December 2013. As at 31 December 2017 and 31 December 2016 the Group's dynamic reserve is KZT 3,723 million.

Revaluation reserve for available-for-sale financial assets

Revaluation reserve for available-for-sale financial assets includes the accumulated net change in fair value until the assets are derecognised or impaired.

25. SEGMENT REPORTING

The segment information below is presented on the basis used by the Group's chief operating decision maker to evaluate performance in accordance with IFRS 8 and in accordance with the segment reporting presented in the consolidated financial statements for the year ended 31 December 2017 and 2016. The Group's reporting segments under IFRS 8 are as follows:

- Corporate banking – maintenance of settlement accounts, deposit taking, provisions of overdrafts, loan and other credit facilities.
- Retail banking – provisions of private banking services, private customer current accounts, taking of savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Investment banking – financial instruments trading, money market operations, repo agreements, foreign currency and derivative products, structured financing, corporate lease and asset management services, merger and acquisitions advice, provision of Group's funding through issue of debt securities and attracting loans. This segment is responsible for redistribution of funds attracted by other segments.

25. SEGMENT REPORTING, CONTINUED

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies, of these consolidated financial statements. The Board of Directors reviews discrete financial information for each of its segments, including measures of operating income, assets and liabilities. The segments are managed primarily on the basis of their results, which do not include the effects of intercompany eliminations.

Segment assets and liabilities comprise all assets and liabilities, which account for the major portion of the statement of financial position but excluding income tax assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. All revenues and expenses are attributable only to external customers, and there are no transactions between business segments.

The Group presents its business on the basis of three main segments. Segment information about these businesses is presented below:

	Retail banking	Corporate banking	Investment banking	For the year ended 31 December 2017
Interest income*	43,625	54,134	12,329	110,088
Interest expense*	(27,481)	(33,273)	(1,834)	(62,588)
Provision for impairment losses on interest bearing assets	(13,129)	(30,614)	-	(43,743)
Net non-interest income	6,073	55,663	(1,124)	60,612
Operating expenses	(13,757)	(14,064)	(478)	(28,299)
(Loss)/profit before income tax	**(4,669)**	**31,846**	**8,893**	**36,070**
Segment assets**	335,193	833,280	161,313	1,329,786
Segment liabilities**	525,712	514,988	151,335	1,192,035
Other segment items				
Depreciation charge on property, equipment and intangible assets	(1,240)	(1,271)	(43)	(2,554)
Loans to customers and banks	334,059	497,192	-	831,251
Customer and banks accounts	504,610	472,342	-	976,952
Financial guarantees and loan commitments	-	146,913	-	146,913

* - interest income and interest expense include non-eliminated intercompany transactions in the amount of KZT 150 million, KZT (150) million

**- net of current income tax assets and deferred tax liabilities. Income tax expense is not allocated.

25. SEGMENT REPORTING, CONTINUED

	Retail banking	Corporate banking	Investment banking	For the year 31 December 2016
Interest income*	38,077	46,551	9,971	94,599
Interest expense*	(24,045)	(40,090)	(4,145)	(68,280)
(Provision for)/ recovery of impairment losses on interest bearing assets	(13,724)	3,121	-	(10,603)
Net non-interest income	5,337	15,752	(780)	20,309
Operating expenses	(15,227)	(15,070)	(435)	(30,732)
(Loss)/profit before income tax	**(9,582)**	**10,264**	**4,611**	**5,293**
Segment assets**	326,349	852,817	183,014	1,362,180
Segment liabilities**	557,884	549,483	153,238	1,260,605
Other segment items				
Depreciation charge on property, equipment and intangible assets	(1,154)	(1,143)	(33)	(2,330)
Loans to customers and banks	325,720	493,022	-	818,742
Customer and banks accounts	542,586	511,316	-	1,053,902
Financial guarantees and loan commitments	-	88,821	-	88,821

* - interest income and interest expense include non-eliminated intercompany transactions in the amount of KZT 56 million, KZT (56) million

**- net of current income tax assets and deferred tax liabilities. Income tax expense is not allocated.

The majority of the Group's assets are located in the Republic of Kazakhstan and the Group generates income from operations conducted within the Republic of Kazakhstan.

Information on large customers

For the year ended 31 December 2017 the reporting segments have five customers (for the year ended 31 December 2016: five customers), whose income from transactions individually exceed 10% of the total income of the Group.

26. RISK MANAGEMENT POLICY

(a) Corporate governance structure

The Bank was established as an open joint-stock company in accordance with the requirements of the legislation of the Republic of Kazakhstan. The Bank's highest body is the general meeting of the shareholders, which is convened to hold the annual and extraordinary meetings. The general meeting of shareholders makes strategic decisions related to the Bank's operations.

The general meeting of shareholders determines the structure of the Board of Directors. The Board of Directors has overall responsibility for the general management of the Bank's activity.

The legislation of the Republic of Kazakhstan and Bank's Charter determine the lists of decisions, which are exclusively approved by the general shareholders' meeting and that are approved by the Board of Directors.

The Board of Directors meeting elects the Chairman of Management Board, determines the structure of the Management Board. The Bank's executive bodies are responsible for implementation of the decision made by the general meeting of shareholders and Board of Directors. The Bank's executive bodies are subordinated to the Board of Directors and general meeting of shareholders.

26. RISK MANAGEMENT POLICY, CONTINUED

(b) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk and operating risk, legal risk and reputational risk.

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

As at 31 December 2017, the Group's internal documentation establishing the methodologies for identification, managing and stress-testing the Group's significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the NBRK.

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

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. Risk Management function (Risk Department and Department of Credit risks) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. Risk Management function reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees, Finance and Risk Management Committee (FRMC) and Risk Management Committee (FMC). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees, depending on the type and amount of the exposure.

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

(c) Market risk

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

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

FRMC, FMC manages interest rate risk and market risk thus ensuring a positive interest margin for the Group. The Department of Planning and Finance exercises monitoring of the current financial position of the Group, assesses the Group's sensitivity to changes in the interest rates and their impact on the Group's profitability.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group 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.

26. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

Interest rate sensitivity analysis

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

	2017		2016	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel fall	795	795	3,070	3,070
100 bp parallel rise	(795)	(795)	(3,070)	(3,070)

An analysis of the sensitivity of net profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates, based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 150 bp symmetrical fall or rise in all yield curves, is as follows:

	2017		2016	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
150 bp parallel rise	(434)	(3,744)	(5)	(2,134)
150 bp parallel fall	505	4,073	8	2,328

(ii) Currency risk

The Group 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 Treasury Department performs currency risk management through management of open currency position, which enables the Group to minimize losses from significant fluctuations of exchange rates of national and foreign currencies. The Risk Department determines limits on open currency positions and stop-loss. All limits and restrictions are approved by the Management and the Board of Directors. The Treasury Department performs monitoring of the Group's currency position with the aim to match the requirements of the NBRK.

26. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(ii) Currency risk, continued

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

	KZT	USD USD 1 = KZT 332.33	EUR EUR 1 = KZT 398.23	Other currency	31 December 2017 Total
Financial assets					
Cash and cash equivalents	24,373	147,087	9,859	6,737	188,056
Financial instruments at fair value through profit or loss	10,949	3,148	-	-	14,097
Available-for-sale investments	98,961	51,154	20	-	150,135
Due from banks	1,278	11,862	-	-	13,140
Loans to customers and banks	644,016	177,128	10,107	-	831,251
Other financial assets	7,852	4,525	35	59	12,471
Total financial assets	**787,429**	**394,904**	**20,021**	**6,796**	**1,209,150**
Financial liabilities:					
Due to banks and financial institutions	71,162	27,629	-	-	98,791
Customer and banks accounts	570,600	381,058	19,763	5,531	976,952
Debt securities issued	17,328	-	-	-	17,328
Subordinated bonds	75,454	-	-	-	75,454
Other financial liabilities	6,849	5,053	49	63	12,014
Total financial liabilities	**741,393**	**413,740**	**19,812**	**5,594**	**1,180,539**
Open position	46,036	(18,836)	209	1,202	

Derivative financial instruments and spot contracts

The currency risk analysis by types of derivative financial instruments and spot contracts as at 31 December 2017 is presented in the following table:

	KZT	USD 1 USD = 332.33 KZT	EUR 1 EUR = 398.23 KZT	Other currency	31 December 2017 Total
Accounts receivable on spot and derivative contracts	11,111	43,535	-	-	54,646
Accounts payable on spot and derivative contracts	(24,078)	(20,272)	-	-	(44,350)
Net spot and derivative financial instruments position	**(12,967)**	**23,263**	**-**	**-**	**10,296**
Open position	**33,069**	**4,427**	**209**	**1,202**	

26. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(ii) Currency risk, continued

Derivative financial instruments and spot contracts, continued

The Group's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the table below:

	KZT	USD 1 USD = 333.29 KZT	EUR 1 EUR = 352.42 KZT	Other currency	31 December 2016 Total
Financial assets					
Cash and cash equivalents	28,361	210,660	13,028	6,738	258,787
Financial assets at fair value through profit or loss	11,459	1,080	-	-	12,539
Available-for-sale investments	78,828	23,695	3,616	-	106,139
Investments held-to-maturity	4,224	29,444	523	-	34,191
Due from banks	4,095	2,739	-	-	6,834
Loans to customers and banks	652,718	165,368	656	-	818,742
Other financial assets	4,776	118	65	10	4,969
Total financial assets	784,461	433,104	17,888	6,748	1,242,201
Financial liabilities:					
Due to banks and financial institutions	80,990	28,077	579	3	109,649
Customer and banks accounts	553,094	476,972	17,123	6,713	1,053,902
Debt securities issued	24,809	-	-	-	24,809
Subordinated bonds	53,333	-	-	-	53,333
Other financial liabilities	4,643	1,178	252	371	6,444
Total financial liabilities	716,869	506,227	17,954	7,087	1,248,137
Open position	67,592	(73,123)	(66)	(339)	

Derivative financial instruments and spot contracts

The currency risk analysis by types of derivative financial instruments and spot contracts as at 31 December 2016 is presented in the following table:

	KZT	USD 1 USD = 333.29 KZT	EUR 1 EUR = 352.42 KZT	Other currency	31 December 2016 Total
Accounts receivable on spot and derivative contracts	11,111	92,836	-	-	103,947
Accounts payable on spot and derivative contracts	(50,890)	(20,331)	-	-	(71,221)
Net spot and derivative financial instruments position	(39,779)	72,505	-	-	32,726
Open position	27,813	(618)	(66)	(339)	

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2017 and 2016, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2017	2016
10% appreciation of USD against KZT	354	(49)
10% appreciation of EUR against KZT	17	(5)
10% appreciation of other currencies against KZT	96	(27)

26. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(iii) 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 Group takes a long or short position in a financial instrument.

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VAR model used by the Group is based on a 95 percent confidence level and assumes a 60-day holding period depending on the type of positions. The VAR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential market price movements are determined with reference to market data from at least the most recent 12 months.

Although VAR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets, as follows:

- the use of historical data as a basis for determining future events may not encompass all potential scenarios, particularly those of an extreme nature;
- a 60-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases, but may not be the case in situations in which there is severe market illiquidity for an extended period;
- The use of a 95 percent confidence level does not take into account losses that may occur beyond this level. There is a five percent probability that the loss could exceed the VAR estimate;
- VAR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day;
- The VAR measure is dependent on the position and the volatility of market prices. The VAR of an unchanged position reduces if market volatility declines and vice versa.

The Group does not solely rely on its VAR calculations in its market risk measurement due to inherent risk of usage of VAR as described above. The limitations of the VAR methodology are recognised by supplementing VAR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

A summary of the VAR estimates of losses that could occur in respect of the portfolio of financial instruments at fair value as at 31 December is as follows:

	31 December 2017	31 December 2016
Interest rate risk	4,754	2,946
	4,754	2,946

(d) Credit risk

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

26. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

The credit policy establishes:

- procedures for reviewing and approving loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Credit applications from the corporate customers are originated by the relevant credit managers. On-site visit and financial analysis can be made either with or without participation of the credit risk department employees, depending on the authority level and borrower's rating. To comply with the statutory procedures of the regulator for generating a credit file and ensuring internal risk control, the related departments (legal department, security department and credit analysis department) provide their opinions on the project. A credit decision is made by the authorised Credit committees represented by the Credit committees at the levels of branches, regions and the Head Office. In case of review of the credit applications, which are outside of the authority and limits of the branches at the Head Office Credit committees, the Credit Risk Department prepares additionally its opinion.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to ratings of international rating agencies. These models include rating models for corporate customers and scoring models for individuals and small business.

Rating model

The Group has developed an internal rating model, based on the principles and methods used by international rating agencies for the assessment of credit risk of corporate borrowers. The rating of a corporate borrower is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and the borrower's market share.

The application of the internal rating model results in a standardised approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Group revises the model when deficiencies are identified.

Scoring models

The Group uses scoring models as a statistical tool in relation to newly issued loans to assess the future creditworthiness of new and existing borrowers of the Group. Scoring models are applied for assessment of the credit risk of individuals.

The scoring models interpret socio-demographic and financial indicators, behavioural variables, the credit history of borrowers and historic data from external sources, such as Credit Bureau reports. Each of the parameters inserted into scoring model has a numeric value, the sum of which represents the borrower's internal credit score (rating). The assigned score reflects the probability of default of the borrower.

The scoring models standardise and automate the process of decision making and decrease the operating expenses and operational risks of the Group. The scoring model is also used in the internal management decision making process as it permits the forecasting of profits and losses of the credit departments. The scoring model is assessed on a continual basis for its effectiveness and validity.

26. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

The Group applies internal rating and scoring methodologies to specific corporate loans and groups of retail and small business loans, which incorporate various underlying master scales that are different from that used by international rating agencies. The scoring methodologies are tailor-made for specific products and are applied during the stage of making decision on loan issuance.

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 the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2017	2016
ASSETS		
Cash and cash equivalents	154,897	207,592
Financial instruments at fair value through profit or loss	32,933	53,954
Available-for-sale investments	149,984	105,991
Due from banks	13,140	6,834
Loans to customers and banks	831,251	818,742
Other financial assets	12,471	4,969
Total maximum exposure	**1,194,676**	**1,198,082**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see note 16.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 28.

As at 31 December 2017 the Group has 6 debtors or groups of connected debtors (31 December 2016: 14 debtors or groups of related debtors), credit risk exposure to whom exceeds 10 percent maximum credit risk exposure. The credit risk exposure for these customers as at 31 December 2017 is KZT 114,175 million (31 December 2016: KZT 197,436 million).

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 Group'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 financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements.

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

26. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

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

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

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

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

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	
Loans to customers and banks	19,467	-	19,467	-	(8,437)	11,023
Loans under reverse repurchase agreements	14,443	-	14,443	(14,443)	-	-
Total financial assets	**33,910**	**-**	**33,910**	**(14,443)**	**(8,437)**	**11,023**
Customer and bank accounts	8,437	-	8,437	(8,437)	-	-
Due to banks and financial institutions (loans under REPO agreements)	5,393	-	5,393	(4,867)	-	526
Total financial liabilities	**13,830**	**-**	**13,830**	**(13,304)**	**-**	**526**

26. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, 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:

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	
Loans to customers and banks	65,917	-	65,917	-	(8,043)	57,874
Loans under reverse repurchase agreements	22,335	-	22,335	(22,335)	-	-
Total financial assets	**88,252**	**-**	**88,252**	**(22,335)**	**(8,043)**	**57,874**
Customer and bank accounts	8,043	-	8,043	(8,043)	-	-
Due to banks and financial institutions (loans under REPO agreements)	2,624	-	2,624	(2,489)	-	135
Total financial liabilities	**10,667**		**10,667**	**(10,532)**	**-**	**135**

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 and securities lending and borrowing – amortised cost.

The securities lent under agreements to repurchase (Notes 13 and 14) represent the transferred financial assets, which are not completely derecognised. The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

26. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Geographical concentration

The Finance and Risk Management Committee ("FRMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimise potential losses from the investment climate fluctuations in the Republic of Kazakhstan.

The geographical concentration of assets and liabilities is set out below:

	Kazakhstan	Non-OECD countries	OECD countries	31 December 2017 Total
Financial assets:				
Cash and cash equivalents	164,963	5,474	17,619	188,056
Financial instruments at fair value through profit or loss	33,570	-	22	33,592
Investments available-for-sale	131,749	14,715	3,671	150,135
Due from banks	11,481	19	1,640	13,140
Loans to customers and banks	831,222	15	14	831,251
Other financial assets	12,471	-	-	12,471
Total financial assets	**1,185,456**	**20,223**	**22,966**	**1,228,645**
Financial liabilities				
Financial instruments at fair value through profit or loss	9,199	-	-	9,199
Due to banks and financial institutions	55,280	235	43,276	98,791
Customer and bank accounts	976,952	-	-	976,952
Debt securities issued	17,328	-	-	17,328
Subordinated bonds	75,454	-	-	75,454
Other financial liabilities	12,014	-	-	12,014
Total financial liabilities	**1,146,227**	**235**	**43,276**	**1,189,738**
Open position	**39,229**	**19,988**	**(20,310)**	

26. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Geographical concentration, continued

	Kazakhstan	Other non-OECD countries	OECD countries	31 December 2016 Total
Financial assets:				
Cash and cash equivalents	222,634	3,659	32,494	258,787
Financial instruments at fair value through profit or loss	54,466	-	26	54,492
Investments available-for-sale	106,121	-	18	106,139
Investment held-to-maturity	30,363	3,828	-	34,191
Due from banks	5,465	17	1,352	6,834
Loans to customers and banks	804,078	14,649	15	818,742
Other financial assets	4,969	-	-	4,969
Total financial assets	1,228,096	22,153	33,905	1,284,154
Financial liabilities				
Financial instruments at fair value through profit or loss	9,227	-	-	9,227
Due to banks and financial institutions	53,843	542	55,264	109,649
Customer and bank accounts	1,053,902	-	-	1,053,902
Debt securities issued	24,809	-	-	24,809
Subordinated bonds	53,333	-	-	53,333
Other financial liabilities	6,444	-	-	6,444
Total financial liabilities	1,201,558	542	55,264	1,257,364
Open position	26,538	21,611	(21,359)	

(e) Liquidity risk

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

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

The Treasury Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimisation. The Department of Planning and Finance determines the optimum structure of balance and limits on liquidity ratios. Gap-positions are approved by the FRMC. The Risk Department performs monitoring of liquidity ratios.

26. RISK MANAGEMENT POLICY, CONTINUED

(e) Risk liquidity, continued

The liquidity management policy requires:

- liquidity risk identification and measurement;
- monitoring of liquidity risk and liquidity positions, establishment of reporting system, including prudential and management reporting;
- liquidity risk limitation, formation of the system of limits (restrictions) and early warning indicators;
- stress-testing;
- development of alternative options of liquidity planning, maintaining liquidity and funding contingency plans and their regular review;
- organisation of internal controls over liquidity risk and liquidity risk management, exercise of internal audit;
- disclosure of respective information on liquidity risk and liquidity position.

The following tables show analysis of financial assets and liabilities grouped according to the principle of period remaining from the balance sheet date till maturity date, except for the financial assets through profit or loss and available-for-sale investments, which are based on the expected maturities as at 31 December 2017 and 31 December 2016.

26. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

31 December 2017	Weighted average effective interest rate	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
Financial assets:							
Cash and cash equivalents	6.43%	-	-	342	-	-	342
Financial instruments at fair value through profit or loss	8.52%	32,933	-	-	-	-	32,933
Available-for-sale investments	6.34%	149,984	-	-	-	-	149,984
Due from banks	2.88%	1,328	5,650	2,991	-	-	9,969
Loans to customers and banks	11.60%	78,711	52,423	179,325	318,921	201,871	831,251
Total interest bearing financial assets		**262,956**	**58,073**	**182,658**	**318,921**	**201,871**	**1,024,479**
Cash and cash equivalents		187,714	-	-	-	-	187,714
Financial instruments at fair value through profit or loss		659	-	-	-	-	659
Available-for-sale investments		151	-	-	-	-	151
Due from banks		3,171	-	-	-	-	3,171
Other financial assets		12,471	-	-	-	-	12,471
Total financial assets		**467,122**	**58,073**	**182,658**	**318,921**	**201,871**	**1,228,645**
Financial liabilities							
Financial instruments at fair value through profit or loss	3.00%	9,199	-	-	-	-	9,199
Due to banks and financial institutions	6.25%	36,023	127	9,041	33,643	18,497	97,331
Customer and bank accounts	6.09%	77,820	50,662	274,428	285,654	18,769	707,333
Debt securities issued	8.07%	67	213	-	17,048	-	17,328
Subordinated bonds	10.93%	-	409	6,407	16,870	51,768	75,454
Total interest bearing liabilities		**123,109**	**51,411**	**289,876**	**353,215**	**89,034**	**906,645**
Due to banks and financial institutions		1,441	-	-	-	19	1,460
Customer and bank accounts		261,345	-	8,274	-	-	269,619
Other financial liabilities		12,014	-	-	-	-	12,014
Total financial liabilities		**397,909**	**51,411**	**298,150**	**353,215**	**89,053**	**1,189,738**
Liquidity gap		69,213	6,662	(115,492)	(34,294)	112,818	
Interest sensitivity gap		139,847	6,662	(107,218)	(34,294)	112,837	
Cumulative interest sensitivity gap		139,847	146,509	39,291	4,997	117,834	
Cumulative interest sensitivity gap as a percentage of total financial assets		11.38%	11.98%	3.20%	0.41%	9.59%	

26. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

31 December 2016	Weighted average effective interest rate	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2016 Total
Financial assets:							
Cash and cash equivalents	6.36%	3,777	-	-	-	-	3,777
Financial instruments at fair value through profit or loss	7.58%	53,954	-	-	-	-	53,954
Available-for-sale investments	6.21%	105,991	-	-	-	-	105,991
Investments held-to-maturity	5.66%	1,331	472	8,499	6,603	17,286	34,191
Due from banks	11.45%	1,047	-	3,021	-	-	4,068
Loans to customers and banks	9.25%	161,442	45,433	135,867	304,619	171,381	818,742
Total interest bearing financial assets		**327,542**	**45,905**	**147,387**	**311,222**	**188,667**	**1,020,723**
Cash and cash equivalents		255,010	-	-	-	-	255,010
Financial instruments at fair value through profit or loss		538	-	-	-	-	538
Available-for-sale investments		148	-	-	-	-	148
Due from banks		2,766	-	-	-	-	2,766
Other financial assets		4,969	-	-	-	-	4,969
Total financial assets		**590,973**	**45,905**	**147,387**	**311,222**	**188,667**	**1,284,154**
Financial liabilities							
Financial instruments at fair value through profit or loss	3.00%	9,227	-	-	-	-	9,227
Due to banks and financial Institutions	6.50%	4,986	736	11,785	39,142	51,423	108,072
Customer and bank accounts	6.08%	49,728	70,169	276,213	308,790	36,877	741,777
Debt securities issued	7.80%	-	-	10,306	14,502	1	24,809
Subordinated bonds	11.30%	-	411	3,358	17,866	31,698	53,333
Total interest bearing liabilities		**63,941**	**71,316**	**301,662**	**380,300**	**119,999**	**937,218**
Due to banks and financial Institutions		1,577	-	-	-	-	1,577
Customer and bank accounts		312,125	-	-	-	-	312,125
Other financial liabilities		6,444	-	-	-	-	6,444
Total financial liabilities		**384,087**	**71,316**	**301,662**	**380,300**	**119,999**	**1,257,364**
Liquidity gap		206,886	(25,411)	(154,275)	(69,078)	68,668	
Interest sensitivity gap		263,601	(25,411)	(154,275)	(69,078)	68,668	
Cumulative interest sensitivity gap		263,601	238,190	83,915	14,837	83,505	
Cumulative interest sensitivity gap as a percentage of total financial assets		20.53%	18.55%	6.53%	1.16%	6.50%	

26. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

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

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

Management expects that the cash flows from certain financial assets and 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.

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognised in the statement of financial position under the effective interest rate method. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curves at the end of the reporting period.

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
Financial liabilities:						
Due to banks and financial institutions	34,522	1,886	9,692	33,773	30,455	110,328
Customer and bank accounts	81,000	56,734	286,867	288,222	19,941	732,764
Debt securities issued	280	358	1,094	18,181	6	19,919
Subordinated bonds	1,417	1,188	11,438	45,773	82,083	141,899
Total interest-bearing liabilities	117,219	60,166	309,091	385,949	132,485	1,004,910
Due to banks and financial institutions	1,441	-	-	-	19	1,460
Customer and bank accounts	261,345	-	8,274	-	-	269,619
Other financial liabilities	12,014					12,014
Total financial liabilities	392,019	60,166	317,365	385,949	132,504	1,288,003
Financial guarantees and commitments	146,913	-	-	-	-	146,913
Financial derivative liabilities						
Gross settled derivatives						
-Inflow	-	24,973	-	-	-	24,973
-Outflow	-	(11,569)	-	-	-	(11,569)

26. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2016 Total
Financial liabilities:						
Due to banks and financial institutions	15,634	1,168	7,772	44,681	65,135	134,390
Customer and bank accounts	81,581	71,794	293,462	337,019	41,441	825,297
Debt securities issued	-	-	11,575	16,804	13	28,392
Subordinated bonds	-	812	8,025	35,466	42,592	86,895
Total interest-bearing liabilities	97,215	73,774	320,834	433,970	149,181	1,074,974
Due to banks and financial institutions	1,577	-	-	-	-	1,577
Customer and bank accounts	312,125	-	-	-	-	312,125
Other financial liabilities	15,671	-	-	-	-	15,671
Total financial liabilities	426,588	73,774	320,834	433,970	149,181	1,404,347
Financial guarantees and commitments	88,821	-	-	-	-	88,821
Financial derivative liabilities						
Gross settled derivatives						
-Inflow	-	11,757	15,975	24,973	-	52,705
-Outflow	-	-	(610)	(11,569)	-	(12,179)

The timing of cash outflows has been prepared on the following basis:

Derivative financial instruments

Contractual payments for derivative financial instruments are determined based on gross settlements due to initial and final exchange of notional amounts and applicable interest rates in accordance with the terms of these financial instruments.

Prepaid liabilities

Where a financial liability can be prepaid by the counterparty, the cash outflow has been included at the earliest date on which the counterparty can require repayment regardless whether or not such early repayment results in a penalty. If the repayment of financial liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, it is included at the earliest possible date that the conditions could be fulfilled without considering probability of the conditions being met.

The financial guarantees and commitments are included in the "On demand" category because payments can be required upon request.

(f) Operational risk

Definition of operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

27. RISK MANAGEMENT

NBRK sets and monitors capital requirements for the Bank as a whole.

Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

- Tier 1 capital is a total of basic and additional capital. Basic capital comprises paid-in ordinary share capital, share premium, current and prior periods' retained earnings and reserves created thereof, less treasury share capital, intangible assets including goodwill, and current and prior periods losses, deferred tax asset net of deferred tax liability, excluding deferred tax assets recognised in relation to deductible temporary differences, other revaluation reserves, gains from sales related to asset securitisation transactions, gains or losses from revaluation of financial liabilities at fair value related to change in own credit risk, regulatory adjustments to be deducted from the additional capital, but due to insufficient levels of it deducted from basic capital, and investments in financial instruments of investees not consolidated in the Group with certain limitations. Additional capital comprises of perpetual contracts and paid-in preference share capital less adjustments for the Bank's investment in its own perpetual financial instruments, treasury preference shares, investments in financial instruments of investees not consolidated in the Group with certain limitations and regulatory adjustments to be deducted from the tier 2 capital, but due to insufficient levels of it deducted from additional capital.
- Tier 2 capital comprises subordinated debt in KZT less investments in subordinated debt of financial institutions the Bank holds 10% and more shares in.

Total capital is the sum of tier 1 and tier 2 capital less positive difference between retail deposits and statutory capital multiplied by 5.5, and less 16.67% of the positive difference between regulatory impairment provisions and IFRS impairment provision as at 31 December 2017 (total capital is the sum of tier 1 and tier 2 capital less positive difference between retail deposits and statutory capital multiplied by 5.5 as at 31 December 2016).

There are a set of different limitations and classification criteria applied to the above listed total capital elements.

In accordance with the regulations set by the NBRK the Bank has to maintain total capital adequacy within the following coefficients:

- a ratio of basic capital to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k1)
- a ratio of tier 1 capital to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k1-2)
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k2).

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

- k1 – not less than 0.055 (31 December 2016: 0.050)
- k1-2 – not less than 0.065 (31 December 2016: 0.060)
- k2 – not less than 0.080 (31 December 2016: 0.075).

The Bank complied with all externally imposed capital requirements as at 31 December 2017 and 31 December 2016. As at 31 December 2017 Bank's coefficients are as follows: k1 – 0.104, k1-2 – 0.133 and k2 – 0.214 (31 December 2016: k1 – 0.091, k1-2 – 0.132 и k2 – 0.183).

27. RISK MANAGEMENT, CONTINUED

The following table shows the composition of the capital position as at 31 December 2017 calculated in accordance with the requirements established by the resolution of Board of National Bank of the Republic of Kazakhstan of the resolution of Board of National Bank of the Republic of Kazakhstan of September 13, 2017 No. 170 "On establishment of normative values and techniques of calculations of prudential standard rates and other regulations, obligatory to observance, and limits of the size of the capital of bank for the certain date and Rules of calculation and limits of the open foreign exchange position of bank" with amendments and additions (31 December 2016: the Resolution of Board of National Bank of the Republic of Kazakhstan of May 30, 2016 No. 147).

	31 December 2017	31 December 2016
Tier 1 capital		
Basic capital:	111,582	84,077
Share capital	57,977	57,977
Additional paid-in capital	-	-
Statutory retained earnings of prior years	8,181	5,079
Retained earnings of current period	30,174	3,102
Reserves formed from statutory retained earnings of prior years	16,896	16,896
Revaluation surplus for buildings	4,444	5,781
Revaluation reserve of available-for-sale financial assets	(1,100)	(1,938)
Statutory adjustments:		
Intangible assets including goodwill	(4,990)	(2,820)
Total basic capital	**111,582**	**84,077**
Additional capital:		
Paid-in preference share capital not satisfying basic capital requirements	9,420	11,775
Bank investments in perpetual financial instruments of financial institutions in which it has ten (10) percent or more issued shares (stake in the share capital) to be deducted from additional capital	21,494	26,945
Tier 1 capital	**142,496**	**122,797**
Tier 2 capital		
Subordinated debt	76,246	16,246
Subordinated debt placed before 1 January 2015 denominated in KZT	22,676	30,619
Statutory adjustments:		
Less investments in subordinated debt of financial institutions the Bank holds 10% and more shares in	-	-
Total tier 2 capital	**98,922**	**46,865**
Statutory adjustments:		
Positive difference between retail deposits and statutory capital multiplied by 5.5	-	(9,087)
16.67% of the positive difference between regulatory impairment provisions and IFRS impairment provision	(11,999)	n/a
Total capital	**229,419**	**160,575**
Risk-weighted assets, contingent assets and liabilities and operational risk		
Credit risk-weighted assets	913,521	847,161
Credit risk-weighted contingent liabilities	113,138	74,010
Market risk-weighted assets, contingent assets and liabilities	11,208	8,192
Operational risk	32,689	40,770
Risk-weighted assets, contingent assets and liabilities, and operational risk	**1,070,556**	**970,133**
k1	**0.104**	**0.087**
k1-2	**0.133**	**0.127**
k2	**0.214**	**0.166**

28. CREDIT RELATED COMMITMENTS

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

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

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

As at 31 December 2017 and 31 December 2016, the nominal values or contractual values and risk-weighted amounts are as follows:

	31 December 2017		31 December 2016	
	Nominal value	Risk-weighted value	Nominal value	Risk-weighted value
Guarantees issued and other similar liabilities	138,445	132,700	79,168	73,450
Letters of credit and other contingent liabilities related to other transaction	8,468	1,694	9,653	1,931
	146,913	134,394	88,821	75,381

Management expects that loans and liabilities under credit facilities will be financed as required at the expense of the amounts received from repayment of the current loan portfolio according to the payment schedules.

The following tables shows the guarantees issued and other similar liabilities secured by different types of collaterals and not the fair value of the collateral itself.

	31 December 2017	31 December 2016
Unsecured	64,189	28,749
Movable property	21,334	9,324
Real estate	16,039	21,567
Receivables	11,682	3,401
Cash	5,746	5,718
Corporate guarantees	2,921	7,127
Goods in turnover	660	272
Land	231	10
Other	15,643	3,000
Total	138,445	79,168

The following tables shows the letters of credit issued and other similar liabilities secured by different types of collaterals and not the fair value of the collateral itself.

	31 December 2017	31 December 2016
Cash	8,370	8,754
Receivables	-	155
Unsecured letters of credit	98	744
Total	8,468	9,653

These commitments do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

29. OPERATING LEASE

Leases as lessee

Non-cancellable operating lease rentals as at 31 December 2017 and 31 December 2016 are payable as follows:

	31 December 2017	31 December 2016
Less than one year	1,674	1,843

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to three years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the reporting period KZT 1,685 million were recognised as expense in the consolidated statement of profit or loss under the operating leases (31 December 2016: KZT 1,881 million).

30. FUNDS MANAGEMENT AND TRUST ACTIVITIES

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

Fiduciary assets are categorised as follows based on their nominal value:

	31 December 2017	31 December 2016
Securities	572,366	585,618
Unit investment funds	185,747	188,998
Bank deposits	71,580	58,600
Investments in buildings, machinery, equipment, transport and other property	765	782
Other assets	170	170
Total fiduciary assets	**830,628**	**834,168**

The Bank keeps accounting and prepares reporting for assets and investment funds, asset management and other legal entities and transactions with assets and makes reconciliation with the management company with regard to the assets being served, in accordance with the requirements of the legislation of the Republic of Kazakhstan and NBRK rules.

31. CONTINGENCIES

(a) Insurance

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

(b) Litigation

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

31. CONTINGENCIES, CONTINUED

(c) Taxation contingencies in Kazakhstan

The taxation system in 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, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines 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.

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

(a) 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:

	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	188,056	-	-	188,056	188,056
Financial instruments at fair value through profit or loss	33,592	-	-	-	-	33,592	33,592
Available-for-sale financial assets	-	-	-	150,135	-	150,135	150,135
Due from banks	-	-	13,140	-	-	13,140	13,140
Loans to customers and banks	-	-	831,251	-	-	831,251	822,665
Other financial assets	-	-	12,471	-	-	12,471	12,471
	33,592	**-**	**1,044,918**	**150,135**	**-**	**1,228,645**	**1,220,059**
Financial instruments at fair value through profit or loss	9,199	-	-	-	-	9,199	9,199
Due to banks and financial institutions	-	-	-	-	98,791	98,791	98,791
Customer and bank accounts	-	-	-	-	976,952	976,952	975,414
Debt securities issued	-	-	-	-	17,328	17,328	15,902
Subordinated bonds	-	-	-	-	75,454	75,454	69,131
Other financial liabilities	-	-	-	-	12,014	12,014	12,014
	9,199	**-**	**-**	**-**	**1,180,539**	**1,189,738**	**1,180,451**

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

(a) 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:

	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	258,787	-	-	258,787	258,787
Financial instruments at fair value through profit or loss	54,492	-	-	-	-	54,492	54,492
Available-for-sale financial assets	-	-	-	106,139	-	106,139	106,139
Due from banks	-	-	6,834	-	-	6,834	6,834
Held-to-maturity investments	-	34,191	-	-	-	34,191	32,481
Loans to customers and banks	-	-	818,742	-	-	818,742	815,420
Other financial assets	-	-	4,969	-	-	4,969	4,969
	54,492	34,191	1,089,332	106,139	-	1,284,154	1,279,122
Financial instruments at fair value through profit or loss	9,227	-	-	-	-	9,227	9,227
Due to banks and financial institutions	-	-	-	-	109,649	109,649	109,649
Customer and bank accounts	-	-	-	-	1,053,902	1,053,902	1,033,486
Debt securities issued	-	-	-	-	24,809	24,809	24,300
Subordinated bonds	-	-	-	-	53,333	53,333	53,198
Other financial liabilities	-	-	-	-	6,444	6,444	6,444
	9,227	-	-	-	1,248,137	1,257,364	1,236,304

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

(a) 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 transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group 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. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

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

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 5.4 – 14.0% and 6.6 – 17.4% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively;
- discount rates of 1.6 – 8.6% and 2.2 – 12.1% are used to calculate expected future cash flows from current accounts and deposits of corporate and retail customers ;
- quoted market value is used to measure the fair value of debt securities issued.

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

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

(b) Fair value hierarchy

The Group 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.
- 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 by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	Level 3	Total
Financial instruments at fair value through profit or loss			
- Derivative assets	-	19,495	19,495
- Derivative liabilities	-	(9,199)	(9,199)
Non-derivative financial instruments at fair value through profit or loss – debt securities	13,438	-	13,438
No-derivative available-for-sale investments – debt securities	150,135	-	150,135
	163,573	**10,296**	**173,869**

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

	Level 1	Level 3	Total
Financial instruments at fair value through profit or loss			
- Derivative assets	-	41,953	41,953
- Derivative liabilities	-	(9,227)	(9,227)
Non-derivative financial instruments at fair value through profit or loss – debt securities	12,001	-	12,001
Available-for-sale investments – debt securities	106,039	-	106,039
	118,040	**32,726**	**150,766**

During the period ended 31 December 2017 and 31 December 2016 there were no transfers between the Level 1 and Level 3.

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

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition

Transaction price in the market, in which swaps transaction are entered into with NBRK may differ from the fair value of swap instruments in primary markets (Note 13). Upon initial recognition the Group measures fair value of swap transactions entered into with NBRK using the valuation technique.

In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the currency market. In cases where all inputs are not /observable, for example because there are no observable trades in a similar risk at the reporting date, the Bank uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlying, expectations of termination periods. When fair value at initial recognition is not evidenced by a quoted price in an active market or based on a valuation technique that uses data only from observable markets, any difference between the fair value at initial recognition and the transaction price is not recognised in profit or loss immediately, but is deferred (see note 3).

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:

	Derivative financial assets	Derivative financial liabilities
1 January 2016	**91,205**	**(9,769)**
Total (losses)/gain recognised in profit or loss:	(2,609)	542
Settlements	(46,643)	-
31 December 2016	41,953	(9,227)
Total (losses)/gain recognised in profit or loss:	(2,386)	328
Settlements	(20,072)	(300)
31 December 2017	19,495	(9,199)

To determine the fair value of the swaps, management assumed interest rates in KZT within the range of 14.79% to 15.13% and of 1.04% to 1.18% in USD. Management believes that the NBRK does not use its right of early termination of transactions before their maturity.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

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

	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	188,056	-	188,056	188,056
Due from banks	13,140	-	13,140	13,140
Loans to customers and banks	679,069	143,596	822,665	831,251
Other financial assets	12,471	-	12,471	12,471
Liabilities				
Customer and bank accounts	975,414	-	975,414	976,952
Due to banks and financial institutions	98,791	-	98,791	98,791
Debt securities issued	15,902	-	15,902	17,328
Subordinated bonds	69,131	-	69,131	75,454
Other financial liabilities	12,014	-	12,014	12,014

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

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition, continued

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

	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	258,787	-	258,787	258,787
Due from banks	6,834	-	6,834	6,834
Loans to customers and banks	661,151	154,269	815,420	818,742
Held-to-maturity investments	32,481	-	32,481	34,191
Other financial assets	4,969	-	4,969	4,969
Liabilities				
Customer and bank accounts	1,033,486	-	1,033,486	1,053,902
Due to banks and financial institutions	109,649	-	109,649	109,649
Debt securities issued	24,300	-	24,300	24,809
Subordinated bonds	53,198	-	53,198	53,333
Other financial liabilities	6,444	-	6,444	6,444

33. RELATED PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	31 December 2017		31 December 2016	
	Related party balances	Average effective interest rate, %	Related party balances	Average effective interest rate, %
Cash and cash equivalents	3,323		204	
- Shareholders having significant influence	3,323	2.20%	204	-
Loans to customers and banks, gross	5,349		4,777	
- key management personnel of the Group or its Parent Bank	-	-	34	9.43%
- close family members of key management personnel	315	8.45%	68	10.31%
- other	5,034	7.89%	4,675	7.95%
Provision for impairment losses on loans to customers and banks	10		(23)	
- key management personnel of the Group or its Parent Bank	-	-	-	-
- close family members of key management personnel	9	-	-	-
- other	1	-	(23)	-
Due to banks and financial institutions	11		2	
- Shareholders with significant influence	11	-	2	-
Customer and bank accounts	18,370		9,386	
- key management personnel of the Group or its Parent Bank	6,911	3.29%	5,505	3.29%
- close family members of key management personnel	6,696	3.91%	3,523	9.48%
- other	4,763	7.11%	358	4.92%
Guarantees issued and similar liabilities	-		6	
- Other	-	-	6	-

33. RELATED PARTY TRANSACTIONS, CONTINUED

Secured and unsecured loans and guarantees are issued to key management personnel in the ordinary course of business. These loans are provided mostly on the same terms and conditions, including interest rates as those used in similar transactions with the persons of the same positions or, if applicable, to other employee. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Amounts deposited by the Parent Bank and other related parties earn interest at the same rates as those offered to the market or on the same terms and conditions applicable to other employees within the Group.

Included in the consolidated statement of profit or loss for the years ended 31 December 2017 and 2016 are the following amounts which arose due to transactions with related parties:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest income	**685**	**289**
- key management personnel of the Group or its parent Bank	2	3
- close relatives of key management personnel	32	5
- other	651	281
Interest expense	**(924)**	**(538)**
- key management personnel of the Group or its parent Bank	(64)	(278)
- close relatives of key management personnel	(187)	(235)
- other	(673)	(25)
Operating expenses	**(406)**	**(378)**
- key management personnel of the Group or its parent Bank	(406)	(378)

Key management personnel remuneration for the years ended 31 December 2017 and 31 December 2016 represent short-term employee benefits. Total remuneration of members of the Board of Directors and Management Board amounted to KZT 406 million, and KZT 378 million for the years ended 31 December 2017 and 31 December 2016, respectively.

34. SUBSEQUENT EVENTS

On 13 February 2018 Bank CenterCredit JSC announces repurchase of 100% of the placed preference shares convertible into ordinary shares of Bank Center Credit JSC on the following terms:

- Number of shares being repurchased – 39,249,255 (100% of placed preference shares);
- Price of one share is KZT 300 (three hundred) per share, which has been determined in accordance with the methodology of determination of a share price of Bank CenterCredit JSC in case of share repurchase by the Bank, which was approved by the general meeting of shareholders on 26 May 2006.
- Deadline for submission of applications and repurchase of shares is 14 March 2018, inclusive.

As at 14 March 2017 the procedure of repurchase of the Bank's preference shares was completed: 39,044,841 preference shares were repurchased, including 8,366,560 preference shares repurchased from Tsesnabank JSC and 27,067,109 preference shares repurchased from Financial Holding "Tsesna" JSC.

On 14 March 2018 a block of ordinary shares owned by Tsesnabank JSC, comprising 29.56% of the total number of ordinary shares placed by the Bank, has been sold to the major participants of Bank CenterCredit JSC: Mr. Bakhytbek Rymbekovich Baiseitov, Mr. Vladislav Sedinovich Lee and a group of individuals (minority shareholders). Based on results of the transaction, the shares of Mr. Bakhytbek Rymbekovich Baiseitov and Mr. Vladislav Sedinovich Lee amounted to 48.07% и 10.05% of the total number of ordinary shares placed by the Bank, respectively.