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CENTERCREDIT

**JOINT STOCK COMPANY
BANK CENTERCREDIT**

**Separate 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 separate financial statements of Joint Stock Company Bank CenterCredit (the "Bank"), which comprise the separate statement of financial position as at 31 December 2017, the separate 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 separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial 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 (j) and 16 in the separate financial statements.

The key audit matter

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 60.59% 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 Bank.

How the matter was addressed in our audit

Our audit procedures included evaluating and testing the Bank'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 Bank 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 Bank's assumptions for calculation of the impairment allowance for loans assessed both collectively and individually. As part of this, we critically assessed the Bank'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 Bank performance. This involved recalculation of provisions based on the Bank'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 separate financial statements, we reviewed the Bank'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 Bank, its recent performance and industry developments. We have compared the actual rates to those assumed by the Bank 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 separate financial statements disclosures appropriately reflect the Bank's exposure to credit risk.
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Other Matter

The separate financial statements of the Bank as at and for the year ended 31 December 2016 were audited by other auditors who expressed an unmodified opinion on those statements on 18 March 2017.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank for 2017 but does not include the separate financial statements and our auditors' report thereon. The Annual Report of the Bank for 2017 is expected to be made available to us after the date of this auditors' report.

Our opinion on the separate 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 separate 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 separate 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 Separate Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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 separate 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. МФ-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

JOINT-STOCK COMPANY BANK CENTERCREDIT

SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Continuing operations			
Interest income		110,637	94,749
Interest expense		(62,306)	(67,999)
Net interest income before provision for impairment losses on interest-bearing assets	4	48,331	26,750
Provision for impairment losses on interest-bearing assets	5	(43,743)	(10,603)
Net interest income		4,588	16,147
Net loss on financial assets and liabilities at fair value through profit or loss	6	(3,131)	(2,378)
Net realised gain on available-for-sale investments		1,226	1,063
Net gain on foreign exchange operations	7	7,810	6,427
Fee and commission income	8	21,321	20,306
Fee and commission expense		(2,716)	(2,241)
(Charge)/recovery of impairment losses on other transactions		(143)	149
Impairment loss on investments in subsidiaries		(1,965)	(1,557)
Gain on disposal of subsidiary		-	284
Income from recognition of discount on subordinated bonds	22	34,993	-
Other income/(expense)		2,788	(3,753)
Net non-interest income		60,183	18,300
Operating income		64,771	34,447
Operating expenses	9	(27,271)	(29,918)
Operating profit before income tax		37,500	4,529
Income tax expense	10	(7,199)	(1,900)
Profit for the year		30,301	2,629

The separate financial statements as set out on pages 8 to 92 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 15 to 92 form an integral part of these separate financial statements.

JOINT-STOCK COMPANY BANK CENTERCREDIT

SEPARATE STATEMENT OF COMPREHENSIVE INCOME 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
PROFIT FOR THE YEAR	30,301	2,629
OTHER COMPREHENSIVE INCOME		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Net gain resulting on revaluation of available-for-sale investments during the period (net of tax – KZT Nil)	2,064	1,896
Reclassification adjustment relating to investments available for sale disposed of during the year (net of tax – KZT Nil)	(1,226)	(1,063)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	<i>838</i>	<i>833</i>
<i>Items that will not be reclassified to profit or loss:</i>		
Revaluation of buildings	181	4,625
Transfer of revaluation reserve for property and equipment to retained earnings	(181)	-
<i>Total items that will not be reclassified to profit or loss</i>	<i>-</i>	<i>4,625</i>
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	838	5,458
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	31,139	8,087

The separate financial statements as set out on pages 8 to 92 were approved by Management Board on 15 March 2018 and were signed on its behalf by:

G.A. Khussalnov
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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JOINT-STOCK COMPANY BANK CENTERCREDIT

SEPARATE STATEMENT OF FINANCIAL 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	11	187,913	258,742
Financial instruments at fair value through profit or loss	12	23,024	48,407
Available-for-sale investments	13	149,922	106,136
Held-to-maturity investments		-	30,579
Investments in subsidiaries	14	34,716	32,216
Due from banks	15	13,140	6,829
Loans to customers and banks	16	816,913	805,341
Current income tax assets		695	7
Property, equipment and intangible assets	17	40,768	38,914
Other assets	18	62,996	32,273
TOTAL ASSETS		1,330,087	1,359,444
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial instruments at fair value through profit or loss	12	9,199	9,227
Due to banks and financial institutions	19	97,908	107,754
Customer and bank accounts	20	977,304	1,054,358
Debt securities issued	21	17,366	24,832
Deferred income tax liabilities	10	9,580	2,381
Subordinated bonds	22	75,605	53,489
Other liabilities	23	14,444	9,861
TOTAL LIABILITIES		1,201,406	1,261,902
EQUITY:			
Share capital	24	69,856	69,856
Available-for-sale investments revaluation reserve		(1,100)	(1,938)
Property revaluation reserve		4,444	4,625
Retained earnings		55,481	24,999
Total equity		128,681	97,542
TOTAL LIABILITIES AND EQUITY		1,330,087	1,359,444

The separate financial statements as set out on pages 8 to 92 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 15 to 92 form an integral part of these separate financial statements.

JOINT-STOCK COMPANY BANK CENTERCREDIT

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

	Share capital	Available-for- sale investments revaluation reserve	Property revaluation reserve	Retained earnings	Total equity
1 January 2016	69,856	(2,771)	-	22,370	89,455
Total comprehensive income					
Profit for the year	-	-	-	2,629	2,629
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of available-for-sale investments	-	833	-	-	833
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	833	-	-	833
<i>Items that will not be reclassified to profit or loss:</i>					
Revaluation of property and equipment, net of deferred tax assets/deferred tax liabilities	-	-	4,625	-	4,625
<i>Total items that will not be reclassified to profit or loss</i>	-	-	4,625	-	4,625
Total other comprehensive income	-	833	4,625	-	5,458
Total comprehensive income for the year	-	833	4,625	2,629	8,087
31 December 2016	69,856	(1,938)	4,625	24,999	97,542

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

	Share capital	Available-for- sale investments revaluation reserve	Property revaluation reserve	Retained earnings	Total equity
1 January 2017	69,856	(1,938)	4,625	24,999	97,542
Total comprehensive income					
Profit for the year	-	-	-	30,301	30,301
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of available- for-sale investments	-	838	-	-	838
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	838	-	-	838
<i>Items that will not be reclassified to profit or loss:</i>					
Revaluation of property and equipment, net of deferred tax assets/deferred tax liabilities	-	-	(181)	181	-
<i>Total items that will not be reclassified to profit or loss</i>	-	-	(181)	181	-
Total other comprehensive income	-	838	(181)	181	838
Total comprehensive income for the year	-	838	(181)	30,482	31,139
31 December 2017	69,856	(1,100)	4,444	55,481	128,681

The separate financial statements as set out on pages 8 to 92 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 15 to 92 form an integral part of these separate financial statements.

JOINT-STOCK COMPANY BANK CENTERCREDIT

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

(in millions of Kazakhstani tenge, unless otherwise stated)

	<u>Year ended 31 December 2017</u>	<u>Year ended 31 December 2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	93,034	86,851
Interest paid	(63,434)	(68,613)
Fee and commission received	21,321	20,166
Fee and commission paid	(1,834)	(1,792)
Net foreign exchange gain	4,852	10,284
Other income (expenses) receipts (payments)	2,788	(4,205)
Operating expenses paid	(25,964)	(26,779)
Cash flows from operating activities before changes in operating assets and liabilities	30,763	15,912
Change in operating assets:		
Financial instruments at fair value through profit or loss	22,217	50,040
Due from banks	(6,393)	11,249
Loans to customers and banks	(61,942)	70,118
Other assets	(2,582)	(4,778)
Change in operating liabilities:		
Financial instruments at fair value through profit or loss	(356)	(208)
Due to banks and financial institutions	(9,250)	(73,940)
Customer and banks accounts	(75,284)	(16,996)
Other liabilities	(1,117)	(1,374)
Cash flows (used in)/from operating activities before tax	(103,944)	50,023
Income tax paid	(688)	(1,311)
Net cash flows (used in)/from operating activities	(104,632)	48,712
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on disposal and redemption of available-for-sale investments	731,964	395,993
Purchase of available-for-sale investments	(748,813)	(405,295)
Proceeds on disposal and redemption of investments held-to-maturity	7,396	6,490
Purchase of investments held to maturity	(1,590)	(32,329)
Purchase of property, equipment and intangible assets	(4,402)	(1,447)
Proceeds from sale of property and equipment	(962)	64
Proceeds from sale of subsidiary	-	1,952
Net cash flows used in investing activities	(16,407)	(34,572)

SEPARATE 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:		
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	49,569	(11,062)
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents	641	(2,946)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(70,829)	132
CASH AND CASH EQUIVALENTS, beginning of the period	258,742	258,610
CASH AND CASH EQUIVALENTS, end of the period (Note 11)	187,913	258,742

The separate financial statements as set out on pages 8 to 92 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 15 to 92 form an integral part of these separate financial statements.

JOINT-STOCK COMPANY BANK CENTERCREDIT

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

1. BACKGROUND

(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 and 31 December 2016, the Bank had 19 branches in the Republic of Kazakhstan.

As at 31 December 2017 and 31 December 2016, ordinary shares were allocated as follows:

	31 December 2017	31 December 2016
	%	%
B.R. Baiseitov	43.89	31.46
Tsesnabank JSC	29.56	-
Kookmin Bank	-	29.56
МФК	-	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 10.0 % 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 all its ordinary and preference shares to JSC Tsesna Bank, JSC Financial Holding “Tsesna” and Bakhytbek Rymbekovich Baiseitov.

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

(b) Kazakhstan business environment

The Bank's operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of the Republic 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 separate financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Bank. The future business environment may differ from management's assessment.

JOINT-STOCK COMPANY BANK CENTERCREDIT

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

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The Bank also prepared separate financial statements for the year ended 31 December 2017 in accordance with IFRS that can be obtained from the Bank's head office.

(b) Basis of measurement

The separate 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 is Kazakhstani 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 separate financial statements.

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

(d) Use of estimates and judgments

The preparation of separate 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 to customers and banks – Note 16;
- estimates of fair values of financial assets and liabilities – Note 32;
- estimates of financial assets at fair value through profit and loss -Note 12;
- estimates of fair value of subordinated bonds issued – Note 22.

(e) Changes in accounting policies and presentation

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Accounting for investments in subsidiaries in the separate financial statements

Subsidiaries are investees controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Investments in subsidiaries are accounted for in the Bank's unconsolidated financial statements at cost.

JOINT-STOCK COMPANY BANK CENTERCREDIT

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Funds management

The Bank 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 separate financial statements of the Bank.

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

The exchange rates used by the Bank in the preparation of the separate 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 Bank the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the separate 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 Bank may designate financial assets and liabilities at fair value through profit or loss where either:

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

JOINT-STOCK COMPANY BANK CENTERCREDIT

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

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 Bank 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 Bank:

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Financial instruments, continued

(iv) *Amortised cost*

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

(v) *Fair value measurement principles*

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

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

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

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

(vi) *Gains and losses on subsequent measurement*

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

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

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

(vii) *Derecognition*

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Financial instruments, continued

(vii) Derecognition, continued

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the separate 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 and advances to banks or loans to 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.

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

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

(x) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank 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 Bank 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 Bank and all counterparties.

JOINT-STOCK COMPANY BANK CENTERCREDIT

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(f) Property, 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 separate 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.

Depreciation is charged at the following annual rates:

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

(g) Impairment

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

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the 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 Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

(i) Financial assets carried at amortised cost

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Impairment, continued

(i) *Financial assets carried at amortised cost, continued*

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

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivables' 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 Bank uses its experience and judgment to estimate the amount of any impairment loss.

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

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

(ii) *Financial assets carried at cost*

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

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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Impairment, continued

(iv) Non-financial assets

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

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

(h) Provisions

A provision is recognised in the separate statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the amount of such liability is significant, 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 the risks specific to the liability.

(i) Credit related commitments

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

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

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 Bank designates as financial liabilities at fair value through profit or loss;
- if the Bank has a past practice of selling the assets resulting from its loan commitments, shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

(j) Share capital

(i) Ordinary shares

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

(ii) Preference shares

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

JOINT-STOCK COMPANY BANK CENTERCREDIT

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(i) Credit related commitments, 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 Bank to declare and pay dividends is subject to acting legislation 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.

(k) 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 is 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 is not recognised for the following temporary differences:

- initial recognition of goodwill not deductible for tax purposes,
- temporary differences on 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;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

A deferred tax asset is 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 utilised. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. 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 taxes reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are 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

(l) 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 reduce the total lease expense over the term of the lease.

(m) Segment reporting

An operating segment is a component of a Bank 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 Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(n) Presentation of the comparatives

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

Reclassifications in the separate financial statements for the previous year

In the course of preparation of the separate financial statements of the Bank for the year ended 31 December 2017, management made certain classifications which affected comparative information, for the purpose of presentation of the separate financial statements for the year ended 31 December 2017.

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(n) 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
Separate statement of financial position as at 31 December 2016			
ASSETS			
Cash and cash equivalents	245,999	12,743	258,742
Obligatory reserves	12,743	(12,743)	-
LIABILITIES			
Financial instruments at fair value through profit or loss	-	9,227	9,227
Other liabilities	19,088	(9,227)	9,861
Separate statement of cash flows for the year ended 31 December 2016			
Cash flows from operating activities			
Net receipts from foreign exchange	-	10,284	10,284
Net cash provided from operating activities before changes in operating assets and liabilities	5,628	10,284	15,912
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 banks accounts	(6,712)	(10,284)	(16,996)
Other liabilities	(1,582)	208	(1,374)
Cash flows from operating activities before income taxes	53,231	(3,208)	50,023
Net cash flows from operating activities	51,920	(3,208)	48,712
Net increase in cash and cash equivalents	3,340	(3,208)	132
Cash and cash equivalents as at the beginning of the period	242,659	15,951	258,610
Cash and cash equivalents at the end of the period	245,999	12,743	258,742

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

(o) 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 Bank has not applied early IFRS 9 in its separate financial statements for the year ended 31 December 2017.

The Bank 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 Bank'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

(o) 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 Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- the Bank has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Bank is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank 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 (SPPI) on the principal amount outstanding.

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

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

A financial asset is classified into one of these 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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice, 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 Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- 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 Bank'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 Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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 Bank's retail loans and certain fixed-rate corporate loans contain prepayment features.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) 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.

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 as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the 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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Impairment – Financial assets, loan commitments and financial guarantee contracts, continued

The Bank 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 Bank 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 Bank’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 the Bank’s assessments, if IFRS 9 is applied as at 1 January 2018, the estimated loss allowances (before taxes) will increase by approximately KZT 17 billion.

Measurement of expected credit losses

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 Bank if the holder of commitment on loan issue will use its rights to get a loan and the cash flows that the Bank 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 Bank expects to recover.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank 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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Definition of default, continued

— 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 Bank 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 Bank; 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.

Credit risk grades

The Bank 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 judgment. The Bank 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 Bank 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 Bank 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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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 Bank 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 Bank's historical experience, expert credit assessment and forward-looking information.

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

- the remaining lifetime probability of default (PD) as at the reporting date; 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 Bank 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 Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by model and will include a backstop based on delinquency.

In certain instances, using its expert credit judgment and, where possible, relevant historical experience, the Bank 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 Bank 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 Bank 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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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 Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank'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 Bank's forbearance policy, the estimate of PD will reflect whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Inputs into measurement of ECLs, continued

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 Bank 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 Bank 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 Bank 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 Bank will measure ECLs over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank'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 Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank 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 Bank expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

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 Bank 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 Bank 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.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Transition

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

- The Bank 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 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 Bank will determine that the credit risk on the asset has not increased significantly since initial recognition.

(p) Other standards

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

- *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.*

JOINT-STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

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	78,824	72,950
- interest income on impaired assets	22,846	13,944
Interest income on financial assets recorded at fair value	8,967	7,855
Total interest income	110,637	94,749
<i>Interest income on financial assets recorded at amortised cost comprises:</i>		
Interest on loans to customers and banks	99,219	84,152
Interest on investments held to maturity	1,137	940
Penalties on loans to customers and banks	625	760
Interest on due from banks	689	1,042
	101,670	86,894
<i>Interest income on financial assets recorded at fair value:</i>		
Interest income on available-for-sale investments	8,105	7,235
Interest income on financial assets at fair value through profit or loss	862	620
	8,967	7,855
Total interest income	110,637	94,749
Interest expense:		
Interest expense on financial liabilities recorded at amortised cost	(62,306)	(67,999)
Total interest expense	(62,306)	(67,999)
Interest expense on financial liabilities recorded at amortised cost:		
Interest on customer and bank accounts	(46,508)	(49,424)
Interest on debt securities issued	(2,666)	(3,091)
Interest on due to banks and financial institutions	(7,286)	(9,695)
Interest on subordinated bonds	(5,846)	(5,789)
<i>Total interest expense on financial liabilities recorded at amortised cost</i>	(62,306)	(67,999)
	48,331	26,750

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.

JOINT-STOCK COMPANY BANK CENTERCREDIT

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

(in millions of Kazakhstani tenge, unless otherwise stated)

5. PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS

Years ended	Corporate loans	Small- and medium-sized enterprises	Mortgage loans	Consumer loans	Business development	Car loans	Loans to banks	Total loans to customers and banks
31 December 2016 and 2017								
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 separate statement of profit or loss in "Provision for impairment losses on interest bearing assets" line item

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

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 on trading operations	-	1
Unrealised loss on operations with derivative financial instruments	(694)	(2,164)
Unrealised loss on movement in fair value adjustment	(1,400)	(1,630)
Realised (loss)/gain on operations with derivative financial instruments	(1,037)	1,415
	<u>(3,131)</u>	<u>(2,378)</u>

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	For the year ended 31 December 2017	For the year ended 31 December 2016
Dealing, net	5,493	7,338
Translation differences, net	2,317	(911)
	<u>7,810</u>	<u>6,427</u>

8. FEE AND COMMISSION INCOME

	For the year ended 31 December 2017	For the year ended 31 December 2016
Settlements	6,166	6,267
Payment cards	5,351	4,482
Cash operations	4,702	5,152
Guarantees issued	3,085	2,649
Foreign exchange operations	708	1,152
Custodian activities	234	220
Documentary operations	129	6
Internet-banking services	123	262
Trust operations	26	29
Other	797	87
	<u>21,321</u>	<u>20,306</u>

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

(in millions of Kazakhstani tenge, unless otherwise stated)

9. OPERATING EXPENSES

	For the year ended 31 December 2017	For the year ended 31 December 2016
Wages and salaries	11,786	13,722
Taxes other than income tax	2,946	2,470
Depreciation and amortisation	2,412	2,033
Administrative expenses	2,197	2,158
Contributions in Deposit Insurance Fund	2,229	2,765
Operating leases	1,699	1,869
Security and alarm expenses	685	731
Collection expenses	614	758
Equipment repair and maintenance	612	335
Telecommunications	551	537
Professional services	332	376
Advertising expenses	288	175
Business trip expenses	277	226
Representation costs	42	-
Other	601	1,763
	27,271	29,918

10. INCOME TAX EXPENSE

	For the year ended 31 December 2017	For the 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 2017	%	31 December 2016	%
Profit before tax	37,500		4,529	
Income tax at the applicable income tax rate	7,500	20.00	906	20.00
Non-taxable interest and other income on transactions with state and other qualified securities	(1,783)	(4.75)	(952)	(21.02)
Non-deductible provisions for doubtful debt	-	-	918	20.27
Non-deductible operating and other expenses	1,482	3.95	1,028	22.70
	7,199	19.20	1,900	41.95

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

(in millions of Kazakhstani tenge, unless otherwise stated)

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 separate financial statements.

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

2017

	Balance at 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 at 1 January 2016	Recognised in profit or loss	Recognised directly in equity	Balance at 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 Bank 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.

JOINT-STOCK COMPANY BANK CENTERCREDIT

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

(in millions of Kazakhstani tenge, unless otherwise stated)

11. 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+	1,001	621
- rated B- to B+	175	125
- not rated	596	222
Total Nostro accounts with other banks	20,018	33,673
Term deposits with other banks		
- rated BBB- to BBB+	-	2,716
- rated BB- to BB+	3,323	-
- rated B- to B+	3,693	1,061
Total current accounts and term deposits with other banks	7,016	3,777
Total cash and cash equivalents	187,913	258,742

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 Bank 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).

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

12. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	Nominal interest rate, %	31 December 2017	Nominal interest rate, %	31 December 2016
ASSETS				
Derivative financial instruments				
Foreign currency contracts	-	19,495	-	41,953
		<u>19,495</u>		<u>41,953</u>
Trading securities				
<i>Debt securities</i>				
Government bonds of the Republic of Kazakhstan				
Corporate bonds	5.60-6.00	1,631	5.50-6.00	2,965
	7.50	1,898	0.00-8.00	3,489
		<u>3,529</u>		<u>6,454</u>
		<u>23,024</u>		<u>48,407</u>
LIABILITIES				
Derivative financial instruments				
Foreign currency contracts	-	(9,199)	-	(9,227)
		<u>(9,199)</u>		<u>(9,227)</u>

* 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 BBB- to BBB+	-	1,631	1,631
- rated B- to B+	1,898	-	1,898
	<u>1,898</u>	<u>1,631</u>	<u>3,529</u>

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 BBB- to BBB+	812	2,965	3,777
- rated BB- to BB+ rated	2,677	-	2,677
	<u>3,489</u>	<u>2,965</u>	<u>6,454</u>

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

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

Foreign currency contracts

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

Type of financial instrument	Notional amount	Maturity	Weighted average contractual exchange rates	Amounts payable by the Bank	Amounts receivable by the Bank	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	Weighted average contractual exchange rates	Amounts payable by the Bank	Amounts receivable by the Bank	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 were currency swap contracts concluded in 2014 with the NBRK, according to which the Bank has to provide the sum of KZT 23,816 million in exchange for USD 131,000,000 in 2018. Under the contracts, the Bank 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 Bank 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 Bank 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.

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

Approach to derivative transactions, continued

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 Bank'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 Bank's swap positions would increase or decrease 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 a Bank's investments.

The Bank's ability to realise a profit from such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Bank. 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 Bank will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of a counterparty's insolvency.

13. AVAILABLE-FOR-SALE INVESTMENTS

	Nominal interest rate, %	31 December 2017	Nominal interest rate, %	31 December 2016
<i>Debt securities</i>				
Government bonds of the Republic of Kazakhstan	3.87-11.00	31,681	3.87-7.13	25,206
Corporate bonds	3.88-11.00	48,958	0.00-9.13	34,814
Discounted notes of NBRK	-	65,393	-	45,971
<i>Equity securities</i>				
Shares of Kazakhstan corporations	-	128	-	127
Shares of International corporations	-	20	-	18
Pledged under sale and repurchase agreements				
- Government bonds of the Republic of Kazakhstan	4.00-8.99	3,742	-	-
		<u>149,922</u>		<u>106,136</u>

During the period ended 31 December 2017, the Bank 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 Bank 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
<i>Not past due</i>				
- NBRK	-	65,393	-	65,393
- rated BBB- to BBB+	7,313	-	35,423	42,736
- rated BB- to BB+ rated	38,303	-	-	38,303
- rated B- to B+	3,342	-	-	3,342
	<u>48,958</u>	<u>65,393</u>	<u>35,423</u>	<u>149,774</u>

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

13. AVAILABLE-FOR-SALE INVESTMENTS, CONTINUED

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
<i>Not past due</i>				
- NBRK	-	45,971	-	45,971
- rated BBB- to BBB+	8,574	-	25,206	33,780
- rated BB- to BB+ rated	26,240	-	-	26,240
	34,814	45,971	25,206	105,991

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

14. INVESTMENTS IN SUBSIDIARIES

The Bank is the parent company of the banking Group, which consists of the following subsidiaries that are not consolidated in its separate financial statements:

Name	Country of operation	Type of operation
LLP BCC-SAOO	Republic of Kazakhstan	Management of distressed assets
JSC BCC Invest	Republic of Kazakhstan	Brokerage and dealer activity
LLP Center Leasing	Republic of Kazakhstan	Finance lease

	31 December 2017		31 December 2016	
	Ownership interest,		Ownership interest,	
	%	Amount	%	Amount
LLP BCC-SAOO	100.00	32,751	100.00	28,285
JSC BCC Invest	95.19	5,062	95.19	5,063
LLP Center Leasing	90.75	1,139	90.75	1,139
		38,952		34,487
Less: allowance for impairment losses		(4,236)		(2,271)
Total investments in subsidiaries		34,716		32,216

The movements in provision for impairment losses on investments in subsidiaries were as follows:

1 January 2016	714
Provisions recognized	1,557
31 December 2016	2,271
Additional provisions recognized	1,965
31 December 2017	4,236

During the year ended 31 December 2017, the Bank recognised additional provision on LLP BCC SAOO in the amount of KZT 1,965 million.

During the year ended 31 December 2016, the Bank recognised provisions on LLP BCC-SAOO and LLP Center Leasing in the amount of KZT 1,279 million and KZT 278 million, respectively.

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

14. INVESTMENTS IN SUBSIDIARIES, CONTINUED

In December 2011, Kazakhstan adopted the Law of the Republic of Kazakhstan *On the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan regarding the Regulation of Banking Activities and Financial Institutions with Respect to Risk Mitigation*, which stipulated that commercial banks create special subsidiaries to purchase banks' non-working (distressed) assets and manage them. On 21 August 2013, the Bank's special subsidiary for the management of distressed assets – LLP BCC-SAOO was registered by the Ministry of Justice of the Republic of Kazakhstan.

During 2017 and 2016 the Bank provided loans to its subsidiary LLP BCC-SAOO in the amount of KZT 6,470 million and KZT 21,570 million at 0.01% p.a., respectively. Essentially this transaction assumed derecognition of a previously recorded receivable and transfer of certain loans to LLP BCC-SAOO. As a result of this transactions, during 2017 and 2016 the Bank has derecognized loans to customers and recognized loans with the fair value of KZT 2,005 million and KZT 9,775 million, respectively, at initial recognition. Subsequent amortization of discount is recognised as interest income and amortization of discount on loans to customers. During 2017 and 2016, the fair value was determined using interest rate of 13% and 6.8-13.8%, respectively. During 2017 and 2016 the difference between fair value of the loans and related nominal value in the amount of KZT 4,465 million and KZT 11,795 million, respectively, was recognized as part of the investment in LLP BCC-SAOO.

In May 1998, JSC BCC Invest was established as a limited liability partnership (previously named "LLP KIB ASSET MANAGEMENT") in accordance with legislation of the Republic of Kazakhstan. On 26 September 2006, LLP KIB ASSET MANAGEMENT was re-registered as a joint stock company. The main activity of JSC BCC Invest consists of management of assets of mutual funds and management of investment portfolios.

In September 2002, LLP Center Leasing was established as a limited liability partnership in accordance with the legislation of the Republic of Kazakhstan. The main activity of LLP Center Leasing is leasing operations, which are carried out in accordance with Article 10 on financial leasing of the Republic of Kazakhstan. In 2017, LLP Center Leasing is in the process of liquidation.

15. DUE FROM BANKS

	31 December 2017	31 December 2016
Term deposit		
- conditional deposit with NBRK	1,275	1,057
- rated A- to A+	1,656	1,064
- rated BBB- to BBB+	-	306
- rated BB- to BB+	1,526	1,495
- rated B- to B+	8,638	2,900
- not rated	45	7
Total term deposits	13,140	6,829

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.

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

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15. DUE FROM BANKS, CONTINUED

Concentration of accounts and deposits with banks

As at 31 December 2017 the Bank 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	879,376	835,552
Net investment in finance lease	4,156	4,186
Accrued interest	36,223	37,037
	919,755	876,775
Less: impairment allowance	(113,851)	(93,454)
Total loans to consumers	805,904	783,321
Loans to banks	3	645
Accrued interest	-	21
	-	(13)
Total loans to banks	3	653
Loans under reverse repurchase agreements	11,006	21,367
Total loans to consumers and banks	816,913	805,341

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.

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	500,255	(95,177)	405,078
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
	919,755	(113,851)	805,904

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	470,852	(77,932)	392,920
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
	876,775	(93,454)	783,321

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

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	273,152	222,565
Overdue:		
- overdue less than 30 days	4,181	1,414
Total individually unimpaired loans assessed on a collective basis	277,333	223,979
Impaired loans assessed 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	123,938	112,313
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	214,087	208,335
Total corporate loans	500,255	470,852
Impairment allowance for corporate loans	(95,177)	(77,932)
Net corporate loans	405,078	392,920
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	565,623	533,560
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	467,689	453,437

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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 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 61-90 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 measured on 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 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

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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	59,952	48,278
Overdue:		
- 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, and loans to small- and medium-sized companies, loans to individuals	915,599	872,589
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	801,748	779,158

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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 - 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 2017 would be KZT 1,267 million lower/higher (31 December 2016: KZT 1,381 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 6,750 million lower/higher (31 December 2016: KZT 6,410 million lower/higher).

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

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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 Bank 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
Unimpaired 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	27,523	-	-	27,523
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	348,779	272,346	6,921	69,512
Individually impaired loans				
Cash and deposits	74	74	-	-
Traded securities	215	215	-	-
Real estate	80,308	80,308	-	-
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	118,910	90,804	1,881	26,225
Total impaired loans	467,689	363,150	8,802	95,737

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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
Unimpaired and collectively impaired loans				
Cash and deposits	4,389	4,389	-	-
Traded securities	6,631	6,631	-	-
Real estate	221,345	221,345	-	-
Motor vehicles	764	764	-	-
Equipment	19,190	19,190	-	-
Corporate guarantees	37,073	-	-	37,073
Income from future contracts	8,952	-	-	8,952
Goods in turnover	13	-	13	-
Other collateral	141	-	-	141
No collateral or other credit enhancement	18,598	-	-	18,598
Total unimpaired loans	317,096	252,319	13	64,764
Individually impaired loans				
Cash and deposits	4	4	-	-
Traded securities	200	200	-	-
Real estate	101,376	101,376	-	-
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	136,341	110,859	4,763	20,719
Total loans to corporate customers	453,437	363,178	4,776	85,483

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 27,523 million (31 December 2016: KZT 9,233 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 reporting day. The Bank 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.

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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. 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 development 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 business 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 Bank 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 Bank has 7 borrowers or groups of connected borrowers (31 December 2016: 15), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2017 is KZT 133,382 million (31 December 2016: KZT 213,694 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 Bank signed a finance lease agreement as a lessor. Interest rate on finance lease is fixed as of the agreement date for all lease terms.

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16. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(e) Loan portfolio analysis, continued

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

Industry and geographical analysis of the loan portfolio

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	141,608	148,827
Rent of real estate	92,408	57,922
Energy	60,252	50,370
Transportation and equipment maintenance services	35,095	31,408
Housing construction	34,182	22,264
Production	32,730	40,116
Industrial construction	29,357	33,342
Financial services	25,890	18,026
Food industry	24,874	33,648
Transport and telecommunications	21,159	10,535
Agriculture	17,932	41,421
Oil and gas industry	5,526	18,827
Other	48,766	31,040
Total	919,755	876,775
Impairment loss	(113,851)	(93,454)
	805,904	783,321

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	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Government bonds of the Republic of Kazakhstan	11,006	11,169	21,367	22,249
	11,006	11,169	21,367	22,249

(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 Bank, 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.

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	<u>Buildings and constructions</u>	<u>Furniture and equipment</u>	<u>Construction in progress</u>	<u>Intangible assets</u>	<u>Total</u>
Cost/revalued amount					
Balance at 1 January 2016	26,009	12,905	644	5,690	45,248
Additions	-	662	-	785	1,447
Transfers	-	591	(591)	-	-
Revaluation	6,367	-	-	-	6,367
Impairment	(134)	-	-	-	(134)
Write-off at revaluation	(1,134)	-	-	-	(1,134)
Disposals	(22)	(632)	-	(46)	(700)
31 December 2016	31,086	13,526	53	6,429	51,094
Additions	175	1,309	68	2,988	4,540
Transfers	-	16	(16)	-	-
Disposals	(245)	(969)	-	(90)	(1,304)
31 December 2017	31,016	13,882	105	9,327	54,330
Accumulated depreciation, amortisation and impairment					
31 December 2015	(910)	(7,909)	-	(3,093)	(11,912)
Charge for the year	(285)	(1,186)	-	(562)	(2,033)
Write-off at revaluation	1,134	-	-	-	1,134
Disposals	1	584	-	46	631
31 December 2016	(60)	(8,511)	-	(3,609)	(12,180)
Charge for the year	(344)	(1,250)	-	(818)	(2,412)
Disposals	10	930	-	90	1,030
31 December 2017	(394)	(8,831)	-	(4,337)	(13,562)
Net carrying amount					
31 December 2017	30,622	5,051	105	4,990	40,768
31 December 2016	31,026	5,015	53	2,820	38,914

Intangible assets comprise software, patents and licenses.

The Bank 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 fair value of buildings and constructions was KZT 30,617 million and KZT 31,026 million, respectively. If buildings and construction of the Bank 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 Bank recognised a loss recovery on impairment of buildings and constructions 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.

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

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18. OTHER ASSETS

	31 December 2017	31 December 2016
Other financial assets		
Receivables	6,644	4,269
Accrued commission	7,651	1,713
Dividends receivable	2,687	-
Western Union and other wireless transfers	167	97
	<u>17,149</u>	<u>6,079</u>
Less allowance for impairment	(520)	(893)
	<u>16,629</u>	<u>5,186</u>
Other non-financial assets		
Repossessed collateral	41,252	15,133
Payment receivable on repossessed collateral	4,253	8,029
Advances paid	149	506
Taxes receivable other than income tax	1,231	2,926
Inventory	60	22
Other assets	649	521
	<u>47,594</u>	<u>27,137</u>
Less allowance for impairment	(1,227)	(50)
	<u>46,367</u>	<u>27,087</u>
	<u>62,996</u>	<u>32,273</u>

Repossessed collateral. Repossessed collateral represents real estate accepted by the Bank 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 Bank'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.

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	48,767	0.85-8.50	44,668
Perpetual financial instruments	7.34	26,868	6.96	26,945
Loans due to international credit organisations	8.50-10.70	16,151		27,023
Correspondent accounts of banks	-	1,440	-	1,557
Loan 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	-	867	-	1,171
		<u>94,198</u>		<u>107,754</u>
Loans under repurchase agreements	9.30	3,710	-	-
		<u>97,908</u>		<u>107,754</u>

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 14,163 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 Bank has been repaying principal and interest according to the debt repayments schedules.

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19. DUE TO BANKS AND FINANCIAL INSTITUTIONS, CONTINUED

During the year ended 31 December 2017, the Bank 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 Bank 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 Bank has received long term loans 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, and also 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 Bank 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 Bank, the Bank extends loans to SME borrowers, eligible to participate in the Program, at 4% margin with the maturity not exceeding 10 years. The Bank’s obligation to repay the loan to DAMU is not contingent on collectability of the loans extended to SME borrowers. The Bank 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 Bank 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 Bank 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 Bank 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 Bank has not breached any of these covenants.

As at 31 December 2017, funds and loans from banks and financial institutions included loans received under repurchase agreements of KZT 3,710 million were repaid in January 2018. The fair value of assets pledged under repurchase agreements amounted to KZT 3,742 million as at 31 December 2017.

20. CUSTOMER AND BANK ACCOUNTS

	31 December 2017	31 December 2016
Due to customers		
- Retail	504,610	542,586
- Corporate	471,031	509,611
Due to banks	1,663	2,161
	<u>977,304</u>	<u>1,054,358</u>

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20. CUSTOMER AND BANK ACCOUNTS , CONTINUED

	31 December 2017	31 December 2016
Term deposits	696,787	737,895
Demand deposits	274,331	308,669
	971,118	1,046,564
Accrued interest	4,523	5,633
	975,641	1,052,197

As at 31 December 2017, the Bank 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	542,587
Social services	133,800	178,838
Construction	84,357	66,376
Trade	48,636	55,277
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	1,026	373
Other	62,005	38,271
Total due to customers	975,641	1,052,197

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	17,086	7.50-9.00	24,486
Accrued interest					280		346
					17,366		24,832

On 26 April 2017, the Bank 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.

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22. SUBORDINATED BONDS

	Currency	Issue date	Maturity date	Interest rate,		31 December 2016
				%	31 December 2017	
Fixed rate	KZT	27/06/2008 -	27/06/2018 -	4.00-11.00	54,576	10.00-11.00
		03/11/2017	03/11/2032			
Floating rate	KZT	05/12/2007 -	27/11/2019 -	8.70-8.80	20,206	10.00-15.00
		27/11/2009	11/11/2023			
					<u>74,782</u>	<u>52,706</u>
Accrued interest					823	783
					<u>75,605</u>	<u>53,489</u>

During the year ended 31 December 2017, the Bank 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.

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

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22. SUBORDINATED BONDS, CONTINUED

Reconciliation of changes in liabilities and cash flows from financing activities

	Liabilities		Total
	Debt securities issued	Subordinated bonds	
Balance at 1 January 2017	24,832	53,489	78,321
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	17,401	110,489	127,890
Changes in fair value	-	(34,993)	(34,993)
Other changes	133	322	455
Interest expense	(2,664)	(5,846)	(8,510)
Interest paid	2,496	5,633	8,129
Balance at 31 December 2017	17,366	75,605	92,971

23. OTHER LIABILITIES

	31 December 2017	31 December 2016
Other financial liabilities:		
Settlements on other liabilities	4,856	4,477
Liabilities in guarantees issued	7,413	1,148
Accrued commission income	769	882
Provisions for guarantees and letters of credit	115	269
	13,153	6,776
Other non-financial liabilities:		
Taxes payable other than income tax	1,091	2,195
Other non-financial liabilities	200	890
Total other liabilities	14,444	9,861

24. SHARE CAPITAL

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

	Authorized share capital	Share capital authorized and not issued	Total share capital
Ordinary shares	995,876,753	(833,419,953)	162,456,800
Preference shares	39,249,255	-	39,249,255

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

	Authorized share capital	Share capital authorized and not issued	Total share capital
Ordinary shares	260,750,745	(98,293,945)	162,456,800
Preference shares	39,249,255	-	39,249,255

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

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24. SHARE CAPITAL, CONTINUED

As at 31 December 2017 and 2016 the Bank's share capital comprised the following number of shares:

	Authorized and issued share capital	Repurchased share capital	Total
Ordinary shares	58,081	-	58,081
Preference shares	11,775	-	11,775
	69,856	-	69,856

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 Bank 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.

	For the year ended 31 December 2017 Quantity (in thousands)	For the year ended 31 December 2017 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	162,457	162,457
Ordinary shares issued	-	-
Ordinary shares, end of the period	162,457	162,457

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 separate statement of financial position of the Bank 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 Bank's dynamic reserve is KZT 3,723 million.

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24. SHARE CAPITAL, CONTINUED

Revaluation reserve for available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

25. SEGMENT REPORTING

The segment information below is presented on the basis used by the Bank's chief operating decision maker to evaluate performance in accordance with IFRS 8 and in accordance with the segment reporting presented in the separate financial statements for the year ended 31 December 2017 and 2016. The Bank'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 Bank's funding through issue of debt securities and attracting loans. This segment is responsible for redistribution of funds attracted by other segments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies, of these separate 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 Bank 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	54,683	12,329	110,637
Interest expense*	(27,481)	(32,991)	(1,834)	(62,306)
Provision for impairment losses on interest bearing assets	(13,129)	(30,614)	-	(43,743)
Net non-interest income	6,073	55,237	(1,127)	60,183
Operating expenses	(13,757)	(13,036)	(478)	(27,271)
(Loss)/profit before income tax	(4,669)	33,279	8,890	37,500
Segment assets**	335,193	833,581	160,618	1,329,392
Segment liabilities**	525,712	524,359	141,755	1,191,826
Other segment items				
Depreciation charge on property, equipment and intangible assets	(1,240)	(1,129)	(43)	(2,412)
Loans to customers and banks	334,059	482,854	-	816,913
Customer and banks accounts	504,610	472,694	-	977,304
Financial guarantees and loan commitments	-	146,913	-	146,913

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

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25. SEGMENT REPORTING, CONTINUED

	Retail banking	Corporate banking	Investment banking	For the year ended 31 December 2016
Interest income	38,077	47,676	8,996	94,749
Interest expense	(24,045)	(40,031)	(3,923)	(67,999)
(Provision for)/ recovery of impairment losses on interest bearing assets	(13,724)	3,121	-	(10,603)
Net non-interest income	5,678	11,088	1,534	18,300
Operating expenses	(14,848)	(15,070)	-	(29,918)
(Loss)/profit before income tax	(8,862)	6,784	6,607	4,529
Segment assets**	326,349	861,483	171,605	1,359,437
Segment liabilities**	557,884	593,883	107,754	1,259,521
Other segment items				
Depreciation charge on property, equipment and intangible assets	(1,009)	(1,024)	-	(2,033)
Loans to customers and banks	325,720	479,621	-	805,341
Customer and banks accounts	542,586	511,772	-	1,054,358
Financial guarantees and loan commitments	-	88,821	-	88,821

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

The majority of the Bank's assets are located in the Republic of Kazakhstan and the Bank 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 Bank.

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.

(b) Risk management policies and procedures

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

26. RISK MANAGEMENT POLICY, CONTINUED

(b) Risk management policies and procedures, continued

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

As at 31 December 2017, the Bank's internal documentation establishing the methodologies for identification, managing and stress-testing the Bank'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 Bank 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 Bank 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 determination of the level of assurance over the 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 Bank. The Department of Planning and Finance exercises monitoring of the current financial position of the Bank, assesses the Bank's sensitivity to changes in the interest rates and their impact on the Bank's profitability.

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

(i) Interest rate risk

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

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:

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26. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk

(i) Interest rate risk, continued

Interest rate sensitivity analysis, continued

	2017		2016	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel fall	746	746	1,346	1,346
100 bp parallel rise	(746)	(746)	(1,346)	(1,346)

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 fall	83	3,568	4	2,318
150 bp parallel rise	(79)	(3,310)	(4)	(2,127)

(ii) Currency risk

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

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The Treasury Department performs currency risk management through management of open currency position, which enables the Bank to minimise 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 Bank's currency position with the aim to match the requirements of the NBRK.

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

	KZT	USD	EUR	Other currency	31 December
		1 USD = 332.33 KZT	1 EUR = 398.23 KZT		2017 Total
Financial assets:					
Cash and cash equivalents	24,312	147,005	9,859	6,737	187,913
Financial instruments at fair value through profit or loss	3,529	-	-	-	3,529
Available-for-sale financial assets	98,748	51,154	20	-	149,922
Due from banks	1,278	11,862	-	-	13,140
Loans to customers and banks	634,056	172,750	10,107	-	816,913
Other financial assets	12,010	4,525	35	59	16,629
Total financial assets	773,933	387,296	20,021	6,796	1,188,046
Financial liabilities:					
Due to banks and financial institutions	69,471	28,437	-	-	97,908
Customer and banks accounts	565,201	385,692	20,005	6,406	977,304
Debt securities issued	17,366	-	-	-	17,366
Subordinated bonds	75,605	-	-	-	75,605
Other financial liabilities	7,988	5,053	49	63	13,153
Total financial liabilities	735,631	419,182	20,054	6,469	1,181,336
Open position	38,302	(31,886)	(33)	327	

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26. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(ii) Currency risk, continued

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 = 332.23 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	25,335	(8,623)	(33)	327	

The Bank'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	28,333	210,650	13,028	6,731	258,742
Financial instruments at fair value through profit or loss	6,454	-	-	-	6,454
Available-for-sale investments	93,513	9,007	3,616	-	106,136
Held-to-maturity investments	612	29,444	523	-	30,579
Due from banks	4,090	2,739	-	-	6,829
Loans to customers and banks	644,111	160,574	656	-	805,341
Other financial assets	4,993	118	65	10	5,186
Total financial assets	782,106	412,532	17,888	6,741	1,219,267
Financial liabilities					
Due to banks and financial institutions	78,366	28,806	579	3	107,754
Customer and banks accounts	553,189	477,333	17,123	6,713	1,054,358
Debt securities issued	24,832	-	-	-	24,832
Subordinated bonds	53,489	-	-	-	53,489
Other financial liabilities	5,337	1,178	252	9	6,776
Total financial liabilities	715,213	507,317	17,954	6,725	1,247,209
Open position	66,893	(94,785)	(66)	16	

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	27,114	(22,280)	(66)	16	

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26. RISK MANAGEMENT POLICY

(c) Market risk, continued

(ii) Currency risk, continued

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 Bank 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	(690)	(1,782)
10% appreciation of EUR against KZT	(3)	(5)
10% appreciation of other currencies against KZT	26	1

(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 Bank 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 Bank 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 Bank 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.

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26. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(iii) Other price risk, continued

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
	<u>4,754</u>	<u>2,946</u>

(d) Credit risk

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

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 Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank 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 Bank 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 Bank revises the model when deficiencies are identified.

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26. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Scoring models

The Bank 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 Bank. 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 Bank. 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.

The Bank 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 separate statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2017	2016
ASSETS		
Cash and cash equivalents	154,754	207,547
Financial instruments at fair value through profit or loss	23,024	48,407
Available-for-sale investments	149,774	105,991
Due from banks	13,140	6,829
Loans to customers and banks	816,913	805,341
Other financial assets	16,629	5,186
Total maximum exposure	1,174,234	1,179,301

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 Bank has 7 debtors or groups of connected debtors (31 December 2016: 15 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 133,382 million (31 December 2016: KZT 213,694 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 Bank's separate 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 separate statement of financial position.

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

26. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

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

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

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

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

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

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 assets/liabilities offset in the separate statement of financial position	Net amount of financial assets/liabilities presented in the separate statement of financial position	Related amounts not offset in the separate statement of financial position		Net amount
				Financial Instruments	Cash collateral received	
Loans to customers and banks	19,467	-	19,467	-	(8,437)	11,030
Loans under reverse repurchase agreements	11,006	-	11,006	(11,006)	-	-
Total financial assets	30,473	-	30,473	(11,006)	(8,437)	11,030
Customer and bank accounts	8,437	-	8,437	(8,437)	-	-
Due to banks and financial institutions (loans under REPO agreements)	3,710	-	3,710	(3,742)	-	(32)
Total financial liabilities	12,147	-	12,147	(12,179)	-	(32)

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26. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The following table provides information on 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 assets/liabilities offset in the separate statement of financial position	Net amount of financial assets/liabilities presented in the separate statement of financial position	Related amounts not offset in the separate 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	21,367	-	21,367	(21,367)	-	-
Total financial assets	87,284	-	87,284	(21,367)	(8,043)	57,874
Customer and bank accounts	8,043	-	8,043	(8,043)	-	-
Total financial liabilities	8,043	-	8,043	(8,043)	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the separate statement of financial position that are disclosed in the above tables are measured in the separate 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 pledged under repurchased agreements (Note 13) represent the transferred financial assets that are not derecognised in their entirety. The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. Because the Bank sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the agreement.

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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 Bank’s activity. This approach allows the Bank to minimize 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	164,820	5,474	17,619	187,913
Financial instruments at fair value through profit or loss	23,002	-	22	23,024
Available-for-sale investments	131,536	14,715	3,671	149,922
Due from banks	11,481	19	1,640	13,140
Loans to customers and banks	816,884	15	14	816,913
Other financial assets	16,629	-	-	16,629
Total financial assets	1,164,352	20,223	22,966	1,207,541
Financial liabilities:				
Financial instruments at fair value through profit or loss	9,199	-	-	9,199
Due to banks and financial institutions	54,397	235	43,276	97,908
Customer and bank accounts	977,304	-	-	977,304
Debt securities issued	17,366	-	-	17,366
Subordinated bonds	75,605	-	-	75,605
Other financial liabilities	13,153	-	-	13,153
Total financial liabilities	1,147,024	235	43,276	1,190,535
Open position	17,328	19,988	(20,310)	

	Kazakhstan	Non-OECD countries	OECD countries	31 December 2016 Total
Financial assets:				
Cash and cash equivalents	222,589	3,659	32,494	258,742
Financial instruments at fair value through profit or loss	48,407	-	-	48,407
Available-for-sale investments	106,118	-	18	106,136
Held-to-maturity investments	26,751	3,828	-	30,579
Due from banks	5,460	17	1,352	6,829
Loans to customers and banks	803,341	15	1,985	805,341
Other financial assets	5,186	-	-	5,186
Total financial assets	1,217,852	7,519	35,849	1,261,220
Financial liabilities:				
Financial instruments at fair value through profit or loss	9,227	-	-	9,227
Due to banks and financial institutions	51,948	542	55,264	107,754
Customer and bank accounts	1,054,358	-	-	1,054,358
Debt securities issued	24,832	-	-	24,832
Subordinated bonds	53,489	-	-	53,489
Other financial liabilities	6,776	-	-	6,776
Total financial liabilities	1,200,630	542	55,264	1,256,436
Open position	17,222	6,977	(19,415)	

26. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk

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

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

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

The 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 optimization. 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.

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.

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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	6.73%	23,024	-	-	-	-	23,024
Available-for-sale investments	6.34%	149,771	-	-	-	-	149,771
Due from banks	2.88%	1,328	5,650	2,991	-	-	9,969
Loans to customers and banks	11.60%	81,884	52,423	179,256	301,479	201,871	816,913
Total interest bearing financial assets		256,007	58,073	182,589	301,479	201,871	1,000,019
Cash and cash equivalents		187,571	-	-	-	-	187,571
Available-for-sale investments		151	-	-	-	-	151
Due from banks		3,171	-	-	-	-	3,171
Other financial assets		16,629	-	-	-	-	16,629
Total financial assets		463,529	58,073	182,589	301,479	201,871	1,207,541
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%	35,140	127	9,041	33,643	18,497	96,448
Customer and bank accounts	6.09%	77,820	50,708	274,734	285,654	18,769	707,685
Debt securities issued	8.07%	67	214	32	17,053	-	17,366
Subordinated bonds	10.93%	151	409	6,407	16,870	51,768	75,605
Total interest bearing liabilities		122,377	51,458	290,214	353,220	89,034	906,303
Due to banks and financial institutions		1,441	-	-	-	19	1,460
Customer and bank accounts		261,345	-	8,274	-	-	269,619
Other financial liabilities		13,153	-	-	-	-	13,153
Total financial liabilities		398,316	51,458	298,488	353,220	89,053	1,190,535
Liquidity gap		65,213	6,615	(115,899)	(51,741)	112,818	
Interest sensitivity gap		133,630	6,615	(107,625)	(51,741)	112,837	
Cumulative interest sensitivity gap		133,630	140,245	32,620	(19,121)	93,716	
Cumulative interest sensitivity gap as a percentage of total financial assets		11.07%	11.61%	2.70%	(1.58%)	7.76%	

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26. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

31 December 2016	Weighted average effective interest rate	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	5.65%	48,407	-	-	-	-	48,407
Available-for-sale investments	3.43%	105,991	-	-	-	-	105,991
Held-to-maturity investments	5.61%	-	-	6,916	6,424	17,239	30,579
Due from banks	11.45%	1,047	-	3,016	-	-	4,063
Loans to customers and banks	9.25%	160,476	46,240	135,867	287,755	175,003	805,341
Total interest bearing financial assets		319,698	46,240	145,799	294,179	192,242	998,158
Cash and cash equivalents		254,965	-	-	-	-	254,965
Available-for-sale investments		145	-	-	-	-	145
Due from banks		2,766	-	-	-	-	2,766
Other financial assets		5,186	-	-	-	-	5,186
Total financial assets		582,760	46,240	145,799	294,179	192,242	1,261,220
Financial liabilities							
Financial instruments at fair value through profit or loss	3.00%	9,227	-	-	-	-	9,227
Due to banks and financial institutions	6.45%	2,361	736	11,785	39,142	52,153	106,177
Customer and bank accounts	6.08%	49,728	70,169	276,213	308,789	36,877	741,776
Debt securities issued	7.80%	-	-	10,311	14,510	11	24,832
Subordinated bonds	11.30%	-	410	3,364	17,879	31,836	53,489
Total interest bearing liabilities		61,316	71,315	301,673	380,320	120,877	935,501
Due to banks and financial institutions		1,577	-	-	-	-	1,577
Customer and bank accounts		312,582	-	-	-	-	312,582
Other financial liabilities		6,776	-	-	-	-	6,776
Total financial liabilities		382,251	71,315	301,673	380,320	120,877	1,256,436
Liquidity gap		200,509	(25,075)	(155,874)	(86,141)	71,365	
Interest sensitivity gap		258,382	(25,075)	(155,874)	(86,141)	71,365	
Cumulative interest sensitivity gap		258,382	233,307	77,433	(8,708)	62,657	
Cumulative interest sensitivity gap as a percentage of total financial assets		20.49%	18.50%	6.14%	(0.69%)	4.97%	

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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 Bank 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	33,639	1,886	9,692	33,773	30,455	109,445
Customer and bank accounts	81,000	56,780	287,173	288,222	19,941	733,116
Debt securities issued	280	359	1,126	18,186	6	19,957
Subordinated bonds	1,568	1,188	11,438	45,773	82,083	142,050
Total interest-bearing liabilities	116,487	60,213	309,429	385,954	132,485	1,004,568
Due to banks and financial institutions	1,441	-	-	-	19	1,460
Customer and bank accounts	261,345	-	8,274	-	-	269,619
Other financial liabilities	13,153	-	-	-	-	13,153
Total financial liabilities	392,426	60,213	317,703	385,954	132,504	1,288,800
Financial guarantees and commitments	146,913	-	-	-	-	146,913
Financial derivative liabilities						
Gross settled derivatives						
- Inflow	-	24,973	-	-	-	24,973
- Outflow	-	(11,569)	-	-	-	(11,569)

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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	13,010	1,168	7,772	44,681	65,864	132,495
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	94,591	73,774	320,834	433,970	149,910	1,073,079
Due to banks and financial institutions	1,557	-	-	-	-	1,557
Customer and bank accounts	312,125	-	-	-	-	312,125
Other financial liabilities	16,003	-	-	-	-	16,003
Total financial liabilities	424,276	73,774	320,834	433,970	149,910	1,402,764
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.

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26. RISK MANAGEMENT POLICY, CONTINUED

(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 Bank'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 Bank's operations.

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

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

27. CAPITAL MANAGEMENT

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

The 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 Bank 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 Bank 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.

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27. CAPITAL MANAGEMENT, CONTINUED

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 and k2 – 0.183).

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).

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27. CAPITAL MANAGEMENT, CONTINUED

	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 reserves for 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 equity	229,419	160,575
Risk-weighted assets, contingent liabilities and derivative financial instruments 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 liabilities and derivative financial instruments and operational risk	1,070,556	970,133
k1	0.104	0.087
k1-2	0.133	0.127
k2	0.214	0.166

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

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28. CREDIT RELATED COMMITMENTS

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

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

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

The contractual amounts of commitments are set out in the following table by category. 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	132,727	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	134,421	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

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

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28. CREDIT RELATED COMMITMENTS, CONTINUED

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 Bank 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 separate statement of profit or loss under the operating leases (31 December 2016: KZT 1,881 million).

30. FUNDS MANAGEMENT AND TRUST ACTIVITIES

The Bank 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 Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognised in the separate statement of financial position. The Bank 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	571,935	585,088
Unit investment funds	162,953	163,223
Bank deposits	71,580	58,600
Investments in buildings, machinery, equipment, transport and other property	765	782
Other assets	170	170
Total fiduciary assets	807,403	807,863

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

(b) Litigations

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

(c) Taxation contingencies 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 separate financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

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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	-	-	187,913	-	-	187,913	187,913
Financial instruments at fair value through profit or loss	23,024	-	-	-	-	23,024	23,024
Available-for-sale investments	-	-	-	149,922	-	149,922	149,922
Due from banks	-	-	13,140	-	-	13,140	13,140
Loans to customers and banks	-	-	816,913	-	-	816,913	808,325
Other financial assets	-	-	16,629	-	-	16,629	16,629
	23,024	-	1,034,595	149,922	-	1,207,541	1,198,953
Financial instruments at fair value through profit or loss	9,199	-	-	-	-	9,199	9,199
Due to banks and financial institutions	-	-	-	-	97,908	97,908	97,908
Customer and bank accounts	-	-	-	-	977,304	977,304	975,766
Debt securities issued	-	-	-	-	17,366	17,366	15,940
Subordinated bonds	-	-	-	-	75,605	75,605	69,282
Other financial liabilities	-	-	-	-	13,153	13,153	13,153
	9,199	-	-	-	1,181,336	1,190,535	1,181,248

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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:

	<u>Trading</u>	<u>Held to maturity</u>	<u>Loans and receivables</u>	<u>Available-for-sale</u>	<u>Other amortised cost</u>	<u>Total carrying amount</u>	<u>Fair value</u>
Cash and cash equivalents	-	-	258,742	-	-	258,742	258,742
Financial instruments at fair value through profit or loss	48,407	-	-	-	-	48,407	48,407
Available-for-sale investments	-	-	-	106,136	-	106,136	106,136
Due from banks	-	-	6,829	-	-	6,829	6,829
Held-to-maturity investments	-	30,579	-	-	-	30,579	29,050
Loans to customers and banks	-	-	805,341	-	-	805,341	798,019
Other financial assets	-	-	5,186	-	-	5,186	5,186
	<u>48,407</u>	<u>30,579</u>	<u>1,076,098</u>	<u>106,136</u>	<u>-</u>	<u>1,261,220</u>	<u>1,252,369</u>
Financial instruments at fair value through profit or loss	9,227	-	-	-	-	9,227	9,227
Due to banks and financial institutions	-	-	-	-	107,754	107,754	107,754
Customer and bank accounts	-	-	-	-	1,054,358	1,054,358	1,033,943
Debt securities issued	-	-	-	-	24,832	24,832	24,324
Subordinated bonds	-	-	-	-	53,489	53,489	53,340
Other financial liabilities	-	-	-	-	6,776	6,776	6,776
	<u>9,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,247,209</u>	<u>1,256,436</u>	<u>1,235,364</u>

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 Bank determines fair values using other valuation techniques.

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

Valuation techniques include net present value and discounted cash flow models and 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 and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models 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 as interest rate swaps.

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

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 for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively;
- quoted market prices are used for determination of fair value of debt securities issued.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or 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	3,529	-	3,529
No-derivative available-for-sale investments – debt securities	149,922	-	149,922
	<u>153,451</u>	<u>10,296</u>	<u>163,747</u>

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	6,454	-	6,454
No-derivative available-for-sale investments – debt securities	106,136	-	106,136
	<u>112,590</u>	<u>32,726</u>	<u>145,316</u>

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

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

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition

The transaction price of the swap transactions with the NBRK is different from fair value of the swap instruments in the principal markets (Note 12). At initial recognition, the Bank estimates the fair values of the swaps transacted with the NBRK using valuation techniques.

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:

	<u>Derivative financial assets</u>	<u>Derivative financial liabilities</u>
1 January 2016	91,205	(9,769)
Total (losses)/gain recognised in profit or loss:		
Settlements	(2,609)	542
31 December 2016	41,953	(9,227)
Total (losses)/gain recognised in profit or loss:		
Settlements	(2,386)	328
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 Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

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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 2017.

	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	187,913	-	187,913	187,913
Due from banks	13,140	-	13,140	13,140
Loans to customers and banks	680,575	127,750	808,325	816,913
Other financial assets	16,629	-	16,629	16,629
Liabilities				
Customer and bank accounts	975,766	-	975,766	977,304
Due to banks and financial institutions	97,908	-	97,908	97,908
Debt securities issued	15,940	-	15,940	17,366
Subordinated bonds	69,282	-	69,282	75,605
Other financial liabilities	13,153	-	13,153	13,153

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	258,742	-	258,742	258,742
Due from banks	6,829	-	6,829	6,829
Loans to customers and banks	647,042	150,977	798,019	805,341
Held-to-maturity investments	29,050	-	29,050	30,579
Other financial assets	5,186	-	5,186	5,186
Liabilities				
Customer and bank accounts	1,033,943	-	1,033,943	1,054,358
Due to banks and financial institutions	107,754	-	107,754	107,754
Debt securities issued	24,324	-	24,324	24,832
Subordinated bonds	53,340	-	53,340	53,489
Other financial liabilities	6,776	-	6,776	6,776

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in millions of Kazakhstani tenge, unless otherwise stated)

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 Bank 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		661	
- parties with joint control or influence on the Bank	3,323	2.20%	204	-
- subsidiaries	-		457	-
Investments in subsidiaries	34,716		32,216	
- subsidiaries	34,716	-	32,216	-
Loans to customers and banks, gross	50,987		47,531	
- key management personnel of the Bank or its Parent Bank	-	-	11	9.43%
- close family members of key management personnel	315	8.45%	23	10.31%
- subsidiaries	45,638	0.01%-4%	42,856	0.01%-5%
- other	5,034	7.89%	4,641	7.95%
Provision for impairment losses on loans to customers and banks	(6,108)		(7,690)	
- close family members of key management personnel	(9)	-	-	-
- subsidiaries	(6,098)	-	(7,667)	-
- other	(1)	-	(23)	-
Due to banks and financial institutions	11		731	
- parties with joint control or influence on the Bank	11	-	2	-
- subsidiaries	-	-	729	-
Customer and bank accounts	18,715		9,483	
- key management personnel of the Bank or its Parent Bank	6,911	3.29%	5,517	3.29%
- close family members of key management personnel	6,696	3.91%	3,153	9.48%
- subsidiaries	342	0.3%-5%	455	0.3%-5%
- other	4,766	7.11%	358	4.92%
Debt securities issued	38		23	
- subsidiaries	38	8%-9%	23	7.5%-9%
Subordinated bonds	151		157	
- subsidiaries	151	11%	157	11%
Share capital	287		67	
- subsidiaries	287	-	67	-
Guarantees issued and similar liabilities	-		6	
- Other	-	-	6	-

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 Bank.

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33. RELATED PARTY TRANSACTIONS, CONTINUED

Included in the separate 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	704	1,629
- close family members of key management personnel	32	5
- subsidiaries	-	1,335
- other	672	289
Interest expense	(927)	(501)
- key management personnel of the Bank or its Parent Bank	(64)	(245)
- close family members of key management personnel	(187)	(232)
- other	(676)	(24)
Fee and commission income	4	3
- subsidiaries	4	3
Fee and commission expense	(5)	(14)
- subsidiaries	(5)	(14)
Impairment loss on investments in subsidiaries	(1,965)	(1,557)
- subsidiaries	(1,965)	(1,557)
Gain on disposal of subsidiary	-	284
- subsidiaries	-	284
Other income	2,687	4,508
- subsidiaries	2,687	4,508
Operating expenses	(406)	(378)
- key management personnel of the Bank or its Parent Bank	(406)	(378)

Key management personnel remuneration for the years ended 31 December 2017 and 31 December 2016 comprises 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 2018 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.