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**JOINT STOCK COMPANY
BANK CENTERCREDIT**

**Unaudited Consolidated Interim Condensed
Financial Statements
for the six months ended 30 June 2018**

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

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

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of Joint Stock Company Bank CenterCredit and its subsidiaries (the "Group") as at 30 June 2018 and the related consolidated interim condensed statements of profit or loss, comprehensive income for the three- and six-month periods ended 30 June 2018 and the related consolidated interim condensed statements of changes in equity and cash flows for the six-month period ended 30 June 2018, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2018, and for the three- and six-month periods ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.


Assel Urdabayeva
Authorised representative (Partner)

KPMG Audit LLC
Almaty, Republic of Kazakhstan

12 October 2018

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

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

JOINT STOCK COMPANY BANK CENTERCREDIT

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2018

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

| | Note | For the three months ended 30 June 2018 (unaudited) | For the three months ended 30 June 2017 * (unaudited) | For the six months ended 30 June 2018 (unaudited) | For the six months ended 30 June 2017 * (unaudited) |
|---------------------------------------------------------------------------------------------------------------|------|--------------------------------------------------------------|----------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------|
| Interest income calculated using the effective interest method | | 28,259 | 28,254 | 53,744 | 52,182 |
| Other interest income | | 402 | 299 | 778 | 585 |
| Interest expense | | (16,758) | (16,100) | (32,460) | (32,480) |
| Net interest income before charge for credit losses on interest-bearing assets | | | | | |
| Charge for credit losses on interest-bearing assets | 6 | 11,903 | 12,453 | 22,062 | 20,287 |
| | 7 | (8,562) | (9,928) | (14,902) | (17,315) |
| Net interest income | | 3,341 | 2,525 | 7,160 | 2,972 |
| Net gain/(loss) on financial instruments at fair value through profit or loss | 8 | 1,804 | 1,282 | 1,206 | (2,633) |
| Net (loss)/gain from sale and redemption of financial assets at fair value through other comprehensive income | | (111) | - | 109 | - |
| Net realised gain on available-for-sale investments | | - | 242 | - | 391 |
| Net gain/(loss) on foreign exchange operations | 9 | 168 | (105) | 2,591 | 5,434 |
| Fee and commission income | | 5,964 | 5,664 | 11,187 | 10,600 |
| Fee and commission expense | | (863) | (641) | (1,587) | (1,234) |
| (Charge)/recovery of credit losses on other financial assets | | (608) | (20) | (761) | 319 |
| Recovery/(charge) of provision for credit related commitments | | 93 | (118) | 8 | 139 |
| Other income | | 2,122 | 293 | 1,829 | 387 |
| Net non-interest income | | 8,569 | 6,597 | 14,582 | 13,403 |

JOINT STOCK COMPANY BANK CENTERCREDIT

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2018

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

| | | For the three months ended 30 June 2018 (unaudited) | For the three months ended 30 June 2017 * (unaudited) | For the six months ended 30 June 2018 (unaudited) | For the six months ended 30 June 2017 * (unaudited) |
|------------------------------------|------|-----------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------|
| Operating income | Note | 11,910 | 9,122 | 21,742 | 16,375 |
| Operating expenses | 10 | (8,043) | (6,723) | (14,661) | (13,574) |
| Operating profit before income tax | | 3,867 | 2,399 | 7,081 | 2,801 |
| Income tax expense | | (1,558) | (624) | (1,956) | (729) |
| Profit for the period | | <u>2,309</u> | <u>1,775</u> | <u>5,125</u> | <u>2,072</u> |
| Attributable to: | | | | | |
| Equity holders of the Parent Bank | | 2,294 | 1,760 | 5,085 | 2,038 |
| Non-controlling interest | | 15 | 15 | 40 | 34 |
| | | <u>2,309</u> | <u>1,775</u> | <u>5,125</u> | <u>2,072</u> |
| Earnings per share | | | | | |
| Basic (KZT) | 11 | 14,22 | 8,75 | 31,50 | 10,13 |
| Diluted (KZT) | 11 | 14,22 | 8,74 | 31,50 | 10,13 |

*The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(f)).

The unaudited consolidated interim condensed financial statements as set out on pages 4 to 58 were approved by Management Board on 12 October 2018 and were signed on its behalf by:


G.A. Khusainov
Chairman of the Management Board

12 October 2018
Almaty, Kazakhstan


A.T. Nurgaliyeva
Chief Accountant

12 October 2018
Almaty, Kazakhstan

Explanatory notes as set out on pages 12 to 58 form an integral part of these unaudited consolidated interim condensed financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2018

(in millions of Kazakhstani tenge)

| | For the three months ended 30 June 2018 (unaudited) | For the three months ended 30 June 2017 * (unaudited) | For the six months ended 30 June 2018 (unaudited) | For the six months ended 30 June 2017 * (unaudited) |
|-----------------------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------|
| PROFIT FOR THE PERIOD | 2,309 | 1,775 | 5,125 | 2,072 |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that are or may be reclassified subsequently to profit or loss: | | | | |
| Movement in fair value reserve (debt instruments): | | | | |
| - Net change in fair value | (456) | 933 | (814) | 1,290 |
| - Net amount transferred to profit or loss | 111 | (242) | (109) | (391) |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX | (345) | 691 | (923) | 899 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 1,964 | 2,466 | 4,202 | 2,971 |
| Attributable to: | | | | |
| Equity holders of the Parent Bank | 1,949 | 2,451 | 4,162 | 2,937 |
| Non-controlling interest | 15 | 15 | 40 | 34 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 1,964 | 2,466 | 4,202 | 2,971 |

* The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(f)).

On behalf of the Management Board:


G.A. Khussainov
Chairman of the Management Board

12 October 2018
Almaty, Kazakhstan


A.T. Nurgaliyeva
Chief Accountant

12 October 2018
Almaty, Kazakhstan

Explanatory notes as set out on pages 12 to 58 form an integral part of these unaudited consolidated interim condensed financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

(in millions of Kazakhstani tenge)

| | Note | 30 June 2018 (unaudited) | 31 December 2017 * |
|----------------------------------------------------------------|------|--------------------------------|-----------------------|
| ASSETS: | | | |
| Cash and cash equivalents | 12 | 140,758 | 188,056 |
| Financial instruments at fair value through profit or loss | 13 | 35,494 | 33,592 |
| Investment securities | 14 | 191,594 | 150,135 |
| Due from banks | 15 | 33,399 | 13,140 |
| Loans to customers and banks | | | |
| <i>Loans to corporate customers</i> | 16 | 539,861 | 497,192 |
| <i>Loans to retail customers</i> | 16 | 349,447 | 334,059 |
| Current income tax assets | | 713 | 712 |
| Property, plant and equipment and intangible assets | | 35,084 | 40,820 |
| Other assets | 17 | 80,722 | 72,792 |
| TOTAL ASSETS | | 1,407,072 | 1,330,498 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES: | | | |
| Financial instruments at fair value through profit or loss | 13 | 9,728 | 9,199 |
| Due to banks and financial institutions | 18 | 117,486 | 98,791 |
| Customer and banks accounts | | | |
| <i>Corporate customer accounts</i> | 19 | 513,858 | 472,342 |
| <i>Retail customer accounts</i> | 19 | 526,288 | 504,610 |
| Debt securities issued | 20 | 34,410 | 17,328 |
| Deferred income tax liabilities | | 8,408 | 9,580 |
| Subordinated bonds | | 78,454 | 75,454 |
| Other liabilities | | 13,936 | 14,311 |
| TOTAL LIABILITIES | | 1,302,568 | 1,201,615 |
| EQUITY: | | | |
| Equity attributable to equity holders of the Parent Bank: | | | |
| Share capital | 21 | 57,809 | 69,569 |
| Fair value reserve related to securities | | (2,338) | (1,101) |
| Property revaluation reserve | | 4,444 | 4,444 |
| Retained earnings | | 44,153 | 55,575 |
| Total equity attributable to equity holders of the Parent Bank | | 104,068 | 128,487 |
| Non-controlling interest | | 436 | 396 |
| Total equity | | 104,504 | 128,883 |
| TOTAL LIABILITIES AND EQUITY | | 1,407,072 | 1,330,498 |
| Book value per ordinary share (KZT) | 11 | 619 | 700 |
| Book value per preference share (KZT) | 11 | 298 | 300 |

*The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(f)).

On behalf of the Management Board:


G.A. Khussainov
Chairman of the Management Board


A.T. Nurgaliyeva
Chief Accountant

12 October 2018
Almaty, Kazakhstan

12 October 2018
Almaty, Kazakhstan

Explanatory notes as set out on pages 12 to 58 form an integral part of these unaudited consolidated interim condensed financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2018 (in millions of Kazakhstani tenge)

| | Share capital | Available-for-sale investments revaluation fund | Property revaluation reserve | Retained earnings | Total equity attributable to equity holders of the Parent Bank | Non-controlling interest | Total equity |
|-----------------------------------------------------------------------------------|---------------|-------------------------------------------------|------------------------------|-------------------|----------------------------------------------------------------|--------------------------|----------------|
| 1 January 2017 | 69,789 | (1,939) | 4,625 | 26,387 | 98,862 | 403 | 99,265 |
| Total comprehensive income | | | | | | | |
| Profit for the period, unaudited | - | - | - | 2,038 | 2,038 | 34 | 2,072 |
| 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, unaudited | - | 899 | - | - | 899 | - | 899 |
| <i>Total items that are or may be reclassified subsequently to profit or loss</i> | - | 899 | - | - | 899 | - | 899 |
| Total other comprehensive income, unaudited | - | 899 | - | - | 899 | - | 899 |
| Total comprehensive income for the period, unaudited | - | 899 | - | 2,038 | 2,937 | 34 | 2,971 |
| Transactions with owners recorded directly in equity | | | | | | | |
| Treasury shares sold, net, unaudited | (16) | - | - | - | (16) | - | (16) |
| Total transactions with owners, unaudited | (16) | - | - | - | (16) | - | (16) |
| Other changes, unaudited | - | - | - | 208 | 208 | 59 | 267 |
| 30 June 2017, unaudited | 69,773 | (1,040) | 4,625 | 28,633 | 101,991 | 496 | 102,487 |

JOINT STOCK COMPANY BANK CENTERCREDIT

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2018 (in millions of Kazakhstani tenge)

| | Share capital | Fair value reserve | Property revaluation reserve | Retained earnings | Total equity attributable to equity holders of the Parent Bank | Non-controlling interest | Total equity |
|-----------------------------------------------------------------------------------|---------------|--------------------|------------------------------|-------------------|----------------------------------------------------------------|--------------------------|----------------|
| Balance as at 31 December 2017 | 69,569 | (1,101) | 4,444 | 55,575 | 128,487 | 396 | 128,883 |
| Impact of adopting IFRS 9 as at 1 January 2018 (see Note 5) (unaudited)* | - | (314) | - | (16,507) | (16,821) | - | (16,821) |
| Restated balance as at 1 January 2018 (unaudited) | 69,569 | (1,415) | 4,444 | 39,068 | 111,666 | 396 | 112,062 |
| Total comprehensive income | | | | | | | |
| Profit for the period, unaudited | - | - | - | 5,085 | 5,085 | 40 | 5,125 |
| Other comprehensive income | | | | | | | |
| <i>Items that are or may be reclassified subsequently to profit or loss:</i> | | | | | | | |
| Net change in fair value, unaudited | - | (923) | - | - | (923) | - | (923) |
| <i>Total items that are or may be reclassified subsequently to profit or loss</i> | - | (923) | - | - | (923) | - | (923) |
| Total other comprehensive income, unaudited | - | (923) | - | - | (923) | - | (923) |
| Total comprehensive income for the period, unaudited | - | (923) | - | 5,085 | 4,162 | 40 | 4,202 |
| Transactions with owners recorded directly in equity | | | | | | | |
| Repurchase of share capital, net, unaudited | (11,760) | - | - | - | (11,760) | - | (11,760) |
| Total transactions with owners, unaudited | (11,760) | - | - | - | (11,760) | - | (11,760) |
| 30 June 2018, unaudited | 57,809 | (2,338) | 4,444 | 44,153 | 104,068 | 436 | 104,504 |

* The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)).

On behalf of the Management Board:

G.A. Khussainov
Chairman of the Management Board

12 October 2018
Almaty, Kazakhstan


A.T. Nurgaliyeva
Chief Accountant

12 October 2018
Almaty, Kazakhstan

Explanatory notes as set out on pages 12 to 58 form an integral part of these unaudited consolidated interim condensed financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2018

(in millions of Kazakhstani tenge)

| | For the six months ended 30 June 2018 (unaudited) | For the six months ended 30 June 2017 * (unaudited) |
|-------------------------------------------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Interest received | 46,794 | 43,372 |
| Interest paid | (30,366) | (33,849) |
| Fee and commission received | 10,197 | 10,506 |
| Fee and commission paid | (1,293) | (709) |
| Other (expenses)/income (payments)/receipts | (163) | 388 |
| Net receipts/(payments) from transactions with derivative financial instruments) | 382 | (1,498) |
| Net foreign exchange gain | 2,891 | 2,272 |
| Operating expenses paid | (14,454) | (12,758) |
| Cash inflow from operating activities before changes in operating assets and liabilities | 13,988 | 7,724 |
| Change in operating assets: | | |
| Financial instruments at fair value through profit or loss | (3,631) | 10,217 |
| Due from banks | (20,064) | (7,538) |
| Loans to customers and banks | (84,590) | 19,558 |
| Other assets | (1,388) | (1,052) |
| Change in operating liabilities: | | |
| Financial instruments at fair value through profit or loss | - | (628) |
| Due to banks and financial institutions | 17,887 | (6,561) |
| Customer and banks accounts | 50,964 | (104,322) |
| Other liabilities | (269) | (450) |
| Cash flows used in operating activities before tax | (27,103) | (83,052) |
| Income tax paid | (217) | (371) |
| Net cash flows used in operating activities | (27,320) | (83,423) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds on disposal and redemption of investments measured at FVOCI | 161,899 | - |
| Purchase of investments measured at FVOCI | (193,482) | - |
| Proceeds on disposal and redemption of available-for-sale investments | - | 621,657 |
| Purchase of available-for-sale investments | - | (607,378) |
| Proceeds on disposal and redemption of investments held-to-maturity | - | 12,847 |
| Purchase of investments held-to-maturity | - | (1,590) |
| Purchase of property, equipment and intangible assets | (1,421) | (508) |
| Proceeds from sale of property, plant and equipment | - | 172 |
| Net cash (used in)/from investing activities | (33,004) | 25,200 |

JOINT STOCK COMPANY BANK CENTERCREDIT

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2018

(in millions of Kazakhstani tenge)

| | For the six months ended 30 June 2018 (unaudited) | For the six months ended 30 June 2017 (unaudited) |
|--------------------------------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repurchase of treasury shares, net | (11,760) | (16) |
| Receipts from debt securities issued | 16,634 | - |
| Receipts from subordinated bonds | 5,507 | - |
| Repayment of debt securities | - | (10,000) |
| Repayment of subordinated bonds | - | (3,000) |
| Net cash flows from/(used in) financing activities | 10,381 | (13,016) |
| Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents | 2,645 | (8,944) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (47,298) | (80,183) |
| CASH AND CASH EQUIVALENTS, beginning of the period | 188,056 | 258,787 |
| CASH AND CASH EQUIVALENTS, end of the period (Note 12) | 140,758 | 178,604 |

* The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)).

On behalf of the Management Board:


G.A. Khussainov
Chairman of the Management Board

12 October 2018
Almaty, Kazakhstan


A.T. Nurgaliyeva
Chief Accountant

12 October 2018
Almaty, Kazakhstan

Explanatory notes as set out on pages 12 to 58 form an integral part of these unaudited consolidated interim condensed financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 30 June 2018 and 31 December 2017, the Bank had 19 branches in the Republic of Kazakhstan.

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

| Name | Country of operation | Ownership percentage | | Activity |
|----------------|------------------------|--------------------------|------------------|---------------------------------|
| | | 30 June 2018 (unaudited) | 31 December 2017 | |
| LLP BCC-SAOO | Republic of Kazakhstan | 100% | 100% | Management of distressed assets |
| JSC BCC Invest | Republic of Kazakhstan | 96.54% | 95.19% | Brokerage and dealer activity |

As at 30 June 2018 and 31 December 2017, the number of ordinary shares was allocated as follows:

| | 30 June 2018 % (unaudited) | 31 December 2017 % |
|----------------------------------------|----------------------------|--------------------|
| B.R. Baiseitov | 48.07 | 43.89 |
| V.S. Lee | 10.05 | - |
| JSC Tsesnabank | - | 29.56 |
| Other (individually hold less than 5%) | 41.88 | 26.55 |
| | 100.00 | 100.00 |

On 14 March 2018, the membership of the Bank's shareholders has changed as follows: a block of ordinary shares owned by JSC Tsesnabank, comprising 29.56% of the total number of ordinary shares placed by the Bank, has been sold to the major participants of JSC Bank CenterCredit: 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% and 10.05% of the total number of ordinary shares placed by the Bank, respectively.

The consolidated interim condensed financial statements were approved by Management Board of JSC Bank CenterCredit on 12 October 2018.

(b) Kazakhstan business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan.

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

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION

(a) Statement of compliance with IAS 34

The accompanying consolidated interim condensed financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2017 ("last annual financial statements"). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements.

This is the first set of the Group's consolidated financial statements where IFRS 9 have been applied. Changes to significant accounting policies are described in Note 3.

(b) Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and at fair value through other comprehensive income are stated at fair values (in 2017: available-for-sale financial assets), as well as buildings and constructions at fair value, which increase is stated in the property revaluation reserve.

(c) Functional and presentation currency

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

The KZT is also the presentation currency for the purposes of these consolidated interim condensed financial statements.

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

(d) Use of estimates and judgments

The preparation of consolidated interim condensed 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.

The significant judgements made by management in applying the Group's accounting policies are the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017, except for the areas described below.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated interim condensed financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(b)(i).

Assumptions and estimations uncertainty

Information about significant estimates and assumptions made in these consolidated interim condensed financial statements for the three and six months ended 30 June 2018 is included in the following notes:

- impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL – Note 4.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION, CONTINUED

(e) Changes in accounting policies and presentation

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. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'.

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

The Group has adopted IFRS 9 'Financial Instruments' issued in July 2014 with a date of initial application of 1 January 2018 and early adopted amendments to IFRS 9 on the same date. The requirements of IFRS 9 represent a significant change from IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains 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). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 3(b)(i).

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

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 3(b)(i).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3(b)(iv).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the three and six months ended 30 June 2017 and as at 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the three and six months ended 30 June 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed 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.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

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NOTES TO UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION, CONTINUED

(e) Changes in accounting policies and presentation, continued

Transition, continued

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these consolidated interim condensed financial statements are the same as those applied in the last annual financial statements, except as explained below, related to the Group's adoption of IFRS 9 (Note 2(e)), which is applicable from 1 January 2018.

(a) Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets on initial recognition, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see (b)(iv).

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NOTES TO UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(a) Interest income and expense, continued

Presentation

Interest income and expense presented in the consolidated condensed statement of profit or loss and other comprehensive include:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- interest on non-derivative debt financial instruments measured at FVTPL is presented separately as “other interest income”. It is measured using the effective interest method, excluding transaction costs.

(b) Financial assets and financial liabilities

i. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see b(ii)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (see (b)(v)).

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NOTES TO UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Financial assets and financial liabilities, continued

i. Classification, continued

Business model assessment

The Group makes an assessment of the objective of a business model in which an 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 considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, 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 the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are 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 and 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 profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The Group should reclassify financial assets if the Group changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. Accordingly, a change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Financial assets and financial liabilities, continued

ii. *Derecognition*

Financial assets

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

iii. *Modification of financial assets and financial liabilities*

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Group due to changes in the NBRK key rate, if the loan contract entitles the Group to do so.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- inclusion of conversion feature.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower (see (b)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see (a)).

As part of credit risk management activities, the Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'). If the Group plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off (see (b)(iv)) before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Group concludes that modification of financial assets modified as part of the Group's forbearance policy is not substantial, the Group performs qualitative evaluation of whether the modification is substantial.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Financial assets and financial liabilities, continued

iii. Modification of financial assets and financial liabilities, continued

Financial liabilities, continued

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- inclusion of conversion feature;
- change the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

iv. Impairment

See also Note 4.

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 4).

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Financial assets and financial liabilities, continued

iv. Impairment, continued

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

(in millions of Kazakhstani tenge)

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Financial assets and financial liabilities, continued

iv. Impairment, continued

Credit-impaired financial assets, continued

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the consolidated interim condensed statement of financial position

Loss allowances for ECL are presented in the consolidated interim condensed statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated condensed statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

v. *Designation at fair value through profit or loss*

Financial assets

At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise rise.

Note 5 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

(c) **Loans to customers**

'Loans to customers' caption in the consolidated interim condensed statement of financial position include:

loans to customers measured at amortised cost (see b(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method.

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

(in millions of Kazakhstani tenge)

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Investment securities

The 'debt securities' caption in the consolidated interim condensed statement of financial position includes:

- debt investment securities measured at amortised cost (see c(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL (see b(i)); these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI (see b(i));
- equity investment securities designated as at FVOCI (see b(i)).

(e) Financial guarantees and loan commitments

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance (see (b)(iv)).

The Group has issued no loan commitment that are measured at FVTPL.

For other commitments to provide irrevocable loans and credit lines the Group recognises loss allowance (see (b)(iv)). As at 30 June 2018, the Group has no commitments to provide irrevocable credit lines.

Financial liabilities arising from financial guarantees and loan commitments are included within provisions.

(f) Comparative information

As a result of adoption of IFRS 9 the Group changed presentation of certain captions in the primary forms of consolidated interim condensed financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the consolidated condensed statement of financial position is disclosed in Note 5.

The effect of main changes in presentation of the consolidated condensed statement of financial position as at 31 December 2017 is as follows:

- "Available-for-sale financial assets" and "Held-to-maturity investments" were presented within "investment securities" line item.

The effect of the changes above on the consolidated interim condensed statement of financial position is summarised in the table below:

| | As previously reported | Effect of reclassifications | As reclassified |
|--------------------------------|------------------------|-----------------------------|-----------------|
| Available-for-sale investments | 150,135 | (150,135) | - |
| Investment securities | - | 150,135 | 150,135 |

(g) Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application if permitted; however, the Group has not early adopted the following new or amended standards in the preparing these consolidated interim condensed financial statements.

The Group has no updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated interim condensed financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

(in millions of Kazakhstani tenge)

4 FINANCIAL RISK REVIEW

This note presents information about the Group's exposure to financial risks. For information on the Group's financial risk management framework, see Note 25 in the consolidated financial statements of the Group for the year ended 31 December 2017.

Credit risk - Amounts arising from ECL

See accounting policy in Note 3(b)(iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

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

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors 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 so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

| Corporate exposure | All exposures (corporate and retail exposures) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections• Data from credit reference agencies, press articles, changes in external credit ratings• Quoted bond and credit default swap (CDS) prices for the borrower where available• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities | <ul style="list-style-type: none">• Payment record – this includes overdue status as well as a range of variables about payment ratios• Requests for and granting of forbearance• Existing and forecast changes in business, financial and economic conditions |

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

(in millions of Kazakhstani tenge)

4 FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Generating the term structure of PD, continued

The Group employs 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 includes 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. For most exposures, key macro-economic indicator is likely to be GDP growth.

The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Group's quantitative modelling, the objective factors are observed that entail deterioration of the financial and economic position of a counteragent. In measuring increases in credit risk, remaining lifetime ECLs are adjusted for changes in maturity.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors 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;
- there is no unwarranted volatility in loss allowance from ECL transfers between stages.

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 in accordance with the accounting policy set out in Note 3(c)(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms 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.

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4 FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Determining whether credit risk has increased significantly, continued

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(b)(iv))/in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Group considers a financial asset to be in default when:

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

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

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

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

Incorporating of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP forecasts.

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 years.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

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4 FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Measurement of ECL, continued

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are 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 are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period.

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

- instrument type;
- credit assets segmentation
- signs of restructuring.

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

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

| | Carrying amount at 30 June 2018 | External benchmarks used | |
|---------------------------|------------------------------------|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | PD | LGD |
| Cash and cash equivalents | 140,758 | | 70%; |
| Due from banks | 33,399 | Moody's default study | 0% - if counteragent is Government of the Republic of Kazakhstan |
| Investment securities | 191,594 | Moody's default study | LGD for investment securities issued by financial institutions is 70%; for other companies LGD is based on recovery rate depending of rating; 0% - if counteragent is Government of the Republic of Kazakhstan |

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (in millions of Kazakhstani tenge)

4 FINANCIAL RISK REVIEW, CONTINUED

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI investment securities as at 30 June 2018 and available-for sale investments as at 31 December 2017. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(b)(iv).

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL not credit- impaired | Stage 3 Lifetime ECL credit-impaired | Unaudited 30 June 2018 Total |
|-------------------------------------------------------------------|-------------------------|----------------------------------------------------|--------------------------------------------|----------------------------------------|
| Cash and cash equivalents | | | | |
| - Rated from AA- to AA+ | 374 | - | - | 374 |
| - Rated from A- to A+ | 2,362 | - | - | 2,362 |
| - Rated from BBB- to BBB+ | 80,650 | - | - | 80,650 |
| - Rated from BB- to BB+ | 3,157 | - | - | 3,157 |
| - Rated from B- to B+ | 10,974 | - | - | 10,974 |
| - Not rated | 177 | - | - | 177 |
| | 97,694 | - | - | 97,694 |
| Loss allowance | - | - | - | - |
| Total cash and cash equivalents (less cash on hand) | 97,694 | - | - | 97,694 |
| Investment securities at amortised cost | | | | |
| - Rated from BBB- to BBB+ | 6,161 | - | - | 6,161 |
| - Rated from BB- to BB+ | 1,036 | - | - | 1,036 |
| - Rated from B- to B+ | 5,527 | - | - | 5,527 |
| | 12,724 | - | - | 12,724 |
| Loss allowance | (25) | - | - | (25) |
| Total investment securities measured at amortised cost | 12,699 | - | - | 12,699 |
| Debt investment securities at FVOCI | | | | |
| - Rated from BBB- to BBB+ | 126,588 | - | - | 126,588 |
| - Rated from BB- to BB+ | 52,156 | - | - | 52,156 |
| Total debt investment securities at FVOCI | 178,744 | - | - | 178,744 |
| Loss allowance | (195) | - | - | (195) |
| Gross carrying amount | 181,275 | - | - | 181,275 |
| Due from banks | | | | |
| - Rated from BBB- to BBB+ | 1,994 | - | - | 1,994 |
| - Rated from BB- to BB+ | 901 | - | - | 901 |
| - Rated from B- to B+ | 28,790 | - | - | 28,790 |
| - Not rated | 1,714 | - | - | 1,714 |
| | 33,399 | - | - | 33,399 |
| Loss allowance | - | - | - | - |
| Total due from banks | 33,399 | - | - | 33,399 |

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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4 FINANCIAL RISK REVIEW, CONTINUED

Credit quality analysis, continued

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL not credit- impaired | Stage 3 Lifetime ECL credit-impaired | Purchased or originated credit impaired (POCI-assets) | Unaudited 30 June 2018 Total |
|----------------------------------------------------------------------------------|----------------------------|----------------------------------------------------|--------------------------------------------|----------------------------------------------------------------|----------------------------------------|
| Loans to customers at amortised cost – corporate customers | | | | | |
| Not overdue | 303,390 | 57,406 | 91,914 | - | 452,710 |
| Overdue | | | | | |
| Overdue less than 30 days | 12,170 | 1,257 | 49,786 | 4,375 | 67,588 |
| Overdue 31-60 days | - | 6,527 | 25,323 | - | 31,850 |
| Overdue 61-90 days | - | 1,772 | 10,475 | - | 12,247 |
| Overdue 91-180 days | - | - | 4,238 | - | 4,238 |
| Overdue more than 180 days | - | - | 29,426 | - | 29,426 |
| | 315,560 | 66,962 | 211,162 | 4,375 | 598,059 |
| Loss allowance | (1,914) | (4,035) | (83,668) | - | (89,617) |
| Total loans to customers measured at amortised cost – corporate customers | 313,646 | 62,927 | 127,494 | 4,375 | 508,442 |
| Loans to customers at amortised cost – retail customers | | | | | |
| Not overdue | 232,974 | 33,856 | 9,067 | - | 275,897 |
| Overdue | | | | | |
| Overdue less than 30 days | 7,555 | 4,189 | 8,087 | - | 19,831 |
| Overdue 31-60 days | - | 3,218 | 1,814 | - | 5,032 |
| Overdue 61-90 days | - | 3,742 | 1,324 | - | 5,066 |
| Overdue 91-180 days | - | - | 14,353 | - | 14,353 |
| Overdue more than 180 days | - | - | 51,248 | - | 51,248 |
| | 240,529 | 45,005 | 85,893 | - | 371,427 |
| Loss allowance | (298) | (903) | (20,779) | - | (21,980) |
| Total loans to customers measured at amortised cost – retail customers | 240,231 | 44,102 | 65,114 | - | 349,447 |

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (in millions of Kazakhstani tenge)

5. TRANSITION TO IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018

| | Note | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | Reclassification | Remeasurement | New carrying amount under IFRS 9 |
|------------------------------------------------------------|------|--------------------------------------|---------------------------------|---------------------------------------|------------------|-----------------|----------------------------------|
| Financial assets | | | | | | | |
| Cash and cash equivalents | 12 | Loans and receivables | Amortised cost | 188,056 | - | - | 188,056 |
| Investment securities (a) | 14 | Available for sale | FVOCI | 150,135 | (10,048) | - | 140,087 |
| Investment securities - debt (b) | 14 | Available for sale | Amortised cost | - | 10,048 | (57) | 9,991 |
| Financial instruments at fair value through profit or loss | 13 | FVTPL | FVTPL (mandatory) | 33,592 | (3,528) | - | 30,064 |
| Investment securities - debt (a) | 14 | FVTPL | FVOCI | - | 1,631 | - | 1,631 |
| Investment securities - debt (b) | 14 | FVTPL | Amortised cost | - | 1,897 | (65) | 1,832 |
| Due from banks | 15 | Loans and receivables | Amortised cost | 13,140 | - | - | 13,140 |
| Loans to customers and banks | 16 | Loans and receivables | Amortised cost | 831,251 | - | (20,063) | 811,188 |
| Total financial assets | | | | 1,216,174 | - | (20,185) | 1,195,989 |

There are no changes in classification or measurement of financial liabilities as a result of transition to IFRS 9.

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(b)(i). The application of these policies resulted in the reclassifications set out in the table above and explained below.

- Certain debt securities are held by the Group in separate portfolios to meet everyday liquidity needs. The Group seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Before the adoption of IFRS 9, certain trading assets and investment securities were reclassified out of the FVTPL and available-for-sale categories to loans and receivables at their then fair values. On transition date securities classified under IAS 39 as held for trading do not meet the criteria of held for trading and are held by the Group to maturity to gain the interest income. On the adoption of IFRS 9, the carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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5. TRANSITION TO IFRS 9, CONTINUED

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9, continued

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to the liability credit reserve, the fair value reserve and retained earnings. There is no impact on other components of equity.

| | Impact of adopting IFRS 9 at 1 January 2018 |
|--------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| Provision for changes in fair value of securities | |
| Opening balance under IAS 39 (31 December 2017) | (1,101) |
| Reclassification of debt investment securities from available-for-sale to amortised cost | (323) |
| Reclassification of debt investment securities from FVTPL to FVOCI | 130 |
| Recognition of expected credit losses under IFRS 9 for debt investment securities at FVOCI | (121) |
| Opening balance under IFRS 9 (1 January 2018) | (1,415) |
| Retained earnings | |
| Opening balance under IAS 39 (31 December 2017) | 55,575 |
| Remeasurement due to reclassification under IFRS 9 | 234 |
| Recognition of expected credit losses under IFRS 9 (including ECL on loans to customers, receivables, financial guarantee contracts) | (14,318) |
| Loss from modification of financial assets terms | (2,423) |
| Opening balance under IFRS 9 (1 January 2018) | 39,068 |

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

| | Impairment (loss) allowance and other provisions | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|------------------|--------------------|------------------------------|
| | 31 December 2017 IAS 39 / IAS 37 | Reclassification | Remeasure- ment | 1 January 2018 IFRS 9) |
| Loans and receivables and held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9 (includes loans to customers, receivables and other financial assets) | 113,851 | - | 17,018 | 130,869 |
| Total measured at amortised cost | 113,851 | - | 17,018 | 130,869 |
| Debt security available for sale under IAS 39/debt investment securities at FVOCI under IFRS 9 | - | - | 170 | 170 |
| Total measured at FVOCI | - | - | 170 | 170 |
| Financial guarantee contracts | 115 | - | 42 | 157 |

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

(in millions of Kazakhstani tenge)

6. NET INTEREST INCOME

| | For the three months ended 30 June 2018 (unaudited) | For the three months ended 30 June 2017 (unaudited) | For the six months ended 30 June 2018 (unaudited) | For the six months ended 30 June 2017 (unaudited) |
|-----------------------------------------------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|
| Interest income calculated using effective interest rate method: | | | | |
| Interest income on financial assets recorded at amortised cost: | | | | |
| - interest income on credit-unimpaired assets | 19,376 | 19,413 | 37,849 | 36,356 |
| - interest income on credit-impaired assets | 6,718 | 6,512 | 11,066 | 11,051 |
| Interest income on financial assets recorded at fair value through other comprehensive income | 2,165 | - | 4,829 | - |
| Interest on investments available for sale | - | 2,329 | - | 4,775 |
| Total interest income calculated using effective interest rate method | 28,259 | 28,254 | 53,744 | 52,182 |
| <i>Interest income on financial assets recorded at amortised cost comprise:</i> | | | | |
| Interest on loans to customers and banks | 25,237 | 25,392 | 47,322 | 46,154 |
| Interest on investment securities measured at amortised cost | 415 | 79 | 830 | 504 |
| Penalties on loans to customers and banks | 157 | 277 | 301 | 360 |
| Interest on due from banks | 285 | 177 | 462 | 389 |
| | 26,094 | 25,925 | 48,915 | 47,407 |
| Interest income on financial assets at fair value through profit or loss | 402 | 299 | 778 | 585 |
| Other interest income | 402 | 299 | 778 | 585 |
| Total interest income | 28,661 | 28,553 | 54,522 | 52,767 |
| Interest expense: | | | | |
| Interest expense on financial liabilities recorded at amortised cost | (16,758) | (16,100) | (32,460) | (32,480) |
| Total interest expense | (16,758) | (16,100) | (32,460) | (32,480) |
| Interest expense on financial liabilities recorded at amortised cost: | | | | |
| Interest on customer and bank accounts | (11,425) | (12,352) | (22,687) | (24,594) |
| Interest on debt securities issued | (897) | (636) | (1,566) | (1,450) |
| Interest on due to banks and financial institutions | (2,372) | (1,717) | (4,180) | (3,506) |
| Interest on subordinated bonds | (2,064) | (1,395) | (4,027) | (2,930) |
| Total interest expense on financial liabilities recorded at amortised cost | (16,758) | (16,100) | (32,460) | (32,480) |
| | 11,903 | 12,453 | 22,062 | 20,287 |

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

(in millions of Kazakhstani tenge)

7. CHARGE FOR CREDIT LOSSES ON INTEREST BEARING ASSETS

| For the three months ended 30 June 2017 and 30 June 2018 | Corporate loans (unaudited) | Small and medium-sized enterprises (unaudited) | Mortgage loans (unaudited) | Consumer loans (unaudited) | Business development (unaudited) | Car loans (unaudited) | Loans to banks (unaudited) | Total loans to customers and banks (unaudited) |
|----------------------------------------------------------|-----------------------------|------------------------------------------------|----------------------------|----------------------------|----------------------------------|-----------------------|----------------------------|------------------------------------------------|
| 1 April 2017 (unaudited) | 81,309 | 2,374 | 3,445 | 5,340 | 2,082 | 56 | 443 | 95,049 |
| Charge/(recovery) of allowance** | 4,252 | 509 | 1,762 | 1,479 | 2,331 | 26 | (431) | 9,928 |
| Unwinding of discount* | (3,150) | (308) | (808) | (1,037) | (579) | (13) | - | (5,895) |
| Write-off of assets | (755) | (96) | (658) | (787) | (13) | (7) | - | (2,316) |
| Recovery of assets previously written-off | (5) | 209 | 259 | 181 | 92 | (5) | - | 731 |
| Foreign exchange difference | (218) | 106 | 125 | 201 | 318 | 1 | - | 533 |
| 30 June 2017 (unaudited) | 81,433 | 2,794 | 4,125 | 5,377 | 4,231 | 58 | 12 | 98,030 |
| 1 April 2018 (unaudited) | 130,259 | 2,635 | 7,161 | 8,145 | 5,633 | 114 | - | 153,947 |
| Charge/(recovery) of allowance** | 4,993 | 298 | 850 | 812 | 1,077 | 9 | - | 8,039 |
| Newly created or acquired financial assets ** | 740 | 18 | 15 | 74 | 1 | - | - | 848 |
| Derecognised financial assets** | (249) | (20) | (22) | (24) | (10) | - | - | (325) |
| Unwinding of discount*** | (8,440) | 43 | (552) | (196) | (275) | (4) | - | (9,424) |
| Write-off of assets | (41,919) | (99) | (362) | (1,057) | (58) | - | - | (43,495) |
| Recovery of assets previously written-off | 65 | 6 | 244 | 168 | 10 | - | - | 493 |
| Foreign exchange difference | 1,259 | 28 | 79 | 87 | 60 | 1 | - | 1,514 |
| 30 June 2018 (unaudited) | 86,708 | 2,909 | 7,413 | 8,009 | 6,438 | 120 | - | 111,597 |

Comparative amounts for the three months ended 30 June 2017 represent impairment allowance and reflect measurement basis under IAS 39.

* 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.

** Provisions recognised during the three months ended 30 June 2018 and 2017 are presented in the consolidated interim condensed statement of profit or loss in "Charge for credit losses on interest-bearing assets" line item

*** Unwinding of discount on present value of expected credit losses.

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7. CHARGE FOR CREDIT LOSSES ON INTEREST BEARING ASSETS, CONTINUED

| For the six months ended 30 June 2017 and 30 June 2018 | Corporate loans (unaudited) | Small and medium- sized enterprises (unaudited) | Mortgage loans (unaudited) | Consumer loans (unaudited) | Business development (unaudited) | Car loans (unaudited) | Loans to banks (unaudited) | Total loans to customers and banks (unaudited) |
|---------------------------------------------------------------------------------------------------------------|-----------------------------------|-------------------------------------------------------|-------------------------------|-------------------------------|----------------------------------------|--------------------------|-------------------------------|------------------------------------------------------|
| 1 January 2017 | 77,955 | 2,191 | 2,585 | 4,140 | 6,551 | 32 | 13 | 93,467 |
| Charge/(recovery) of allowance** | 10,954 | 871 | 3,320 | 3,478 | (1,363) | 56 | (1) | 17,315 |
| Unwinding of discount* | (5,464) | (537) | (1,321) | (1,725) | (1,007) | (23) | - | (10,077) |
| Write-off of assets | (755) | (96) | (937) | (993) | (308) | (7) | - | (3,096) |
| Recovery of assets previously written-off | - | 289 | 388 | 331 | 127 | - | - | 1,135 |
| Foreign exchange difference | (1,257) | 76 | 90 | 146 | 231 | - | - | (714) |
| 30 June 2017 (unaudited) | 81,433 | 2,794 | 4,125 | 5,377 | 4,231 | 58 | 12 | 98,030 |
| 1 January 2018 | 95,177 | 2,757 | 4,450 | 6,892 | 4,515 | 60 | - | 113,851 |
| Effect of transition to IFRS 9 as related to expected credit losses | 13,615 | 264 | 2,123 | 371 | 621 | 40 | - | 17,034 |
| Effect of transition to IFRS 9 as related to adjustment of interest income of credit- impaired loans | 17,772 | 434 | 388 | 441 | 613 | 15 | - | 19,663 |
| 1 January 2018 (restated) | 126,564 | 3,455 | 6,961 | 7,704 | 5,749 | 115 | - | 150,548 |
| Charge/(recovery) of allowance** | 10,978 | (258) | 1,278 | 1,554 | 1,304 | 3 | - | 14,859 |
| Newly created or acquired financial assets** | 1,332 | 19 | 24 | 122 | 1 | - | - | 1,498 |
| Derecognised financial assets** | (1,112) | (46) | (158) | (103) | (36) | - | - | (1,455) |
| Unwinding of discount*** | (8,942) | (179) | (742) | (160) | (496) | (2) | - | (10,521) |
| Write-off of assets | (41,919) | (99) | (414) | (1,265) | (75) | - | - | (43,772) |
| Recovery of assets previously written-off | 134 | 19 | 443 | 248 | 34 | 5 | - | 883 |
| Foreign exchange difference | (327) | (2) | 21 | (91) | (43) | (1) | - | (443) |
| 30 June 2018 (unaudited) | 86,708 | 2,909 | 7,413 | 8,009 | 6,438 | 120 | - | 111,597 |

Comparative amounts for the six months ended 30 June 2017 represent impairment allowance and reflect measurement basis under IAS 39.

*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.

**Provisions recognised during the six months ended 30 June 2018 and 2017 are presented in the consolidated interim condensed statement of profit or loss in "Charge for credit losses on interest-bearing assets" line item.

***Unwinding of discount on present value of expected credit losses.

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

| | For the three-months ended 30 June 2018 (unaudited) | For the three-months ended 30 June 2017 (unaudited) | For the six-months ended 30 June 2018 (unaudited) | For the six-months ended 30 June 2017 (unaudited) |
|----------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
| Realised gain on trading operations | 221 | 10 | 222 | 49 |
| Unrealised gain/(loss) on operations with derivative financial instruments | 2,024 | 1,220 | 1,095 | (1,708) |
| Unrealised (loss)/gain on movement in fair value | (595) | 168 | (271) | 573 |
| Realised gain/(loss) on operations with derivative financial instruments | 154 | (116) | 160 | (1,547) |
| | 1,804 | 1,282 | 1,206 | (2,633) |

9. NET GAIN/(LOSS) ON FOREIGN EXCHANGE OPERATIONS

| | For the three-months ended 30 June 2018 (unaudited) | For the three-months ended 30 June 2017 (unaudited) | For the six-months ended 30 June 2018 (unaudited) | For the six-months ended 30 June 2017 (unaudited) |
|------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
| Dealing, net | 1,627 | 1,090 | 2,891 | 2,272 |
| Translation differences, net | (1,459) | (1,195) | (300) | 3,162 |
| | 168 | (105) | 2,591 | 5,434 |

10. OPERATING EXPENSES

| | For the three-months ended 30 June 2018 (unaudited) | For the three-months ended 30 June 2017 (unaudited) | For the six-months ended 30 June 2018 (unaudited) | For the six-months ended 30 June 2017 (unaudited) |
|-----------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
| Wages and salaries | 3,379 | 2,999 | 6,422 | 5,895 |
| Taxes other than income tax | 864 | 692 | 1,583 | 1,353 |
| Depreciation and amortisation | 609 | 661 | 1,252 | 1,289 |
| Administrative expenses | 741 | 609 | 1,242 | 1,145 |
| Leases expenses | 869 | 431 | 1,244 | 877 |
| Contributions in Deposit Insurance Fund | 555 | 525 | 1,115 | 1,091 |
| Security and alarm expenses | 218 | 186 | 422 | 356 |
| Telecommunications | 131 | 119 | 286 | 253 |
| Equipment repair and maintenance | 166 | 38 | 239 | 460 |
| Collection expenses | 106 | 87 | 209 | 288 |
| Business trip expenses | 104 | 77 | 151 | 124 |
| Advertising costs | 51 | 21 | 82 | 41 |
| Professional services expenses | 57 | 47 | 76 | 108 |
| Representation costs | 8 | 15 | 16 | 21 |
| Other expenses | 185 | 216 | 322 | 273 |
| | 8,043 | 6,723 | 14,661 | 13,574 |

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11. EARNINGS PER SHARE

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

| | For the three months ended 30 June 2018 (unaudited) | For the three months ended 30 June 2017 (unaudited) | For the six months ended 30 June 2018 (unaudited) | For the six months ended 30 June 2017 (unaudited) |
|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|
| Basic earnings per share | | | | |
| Net profit attributable to the Bank's shareholders | 2,294 | 1,760 | 5,085 | 2,038 |
| Less: additional dividends payable upon full distributions of profit to the preference shareholders | (3) | (342) | (6) | (397) |
| Net profit attributable to ordinary share holders | 2,291 | 1,418 | 5,079 | 1,641 |
| Weighted average number of ordinary shares for purposes of basic earnings per share | 161,161,773 | 162,045,071 | 161,231,784 | 162,000,514 |
| Basic earnings per share (in KZT) | 14,22 | 8,75 | 31,50 | 10,13 |
| Diluted earnings per share | | | | |
| Earnings used in calculation of diluted earnings per share | 2,291 | 1,418 | 5,079 | 1,641 |
| Add: additional dividends payable upon full distributions of profit to the preference shareholders | 3 | 342 | 6 | 397 |
| Earnings used in calculation of diluted earnings per share | 2,294 | 1,760 | 5,085 | 2,038 |
| Weighted average number of ordinary shares | 161,161,773 | 162,045,071 | 161,231,784 | 162,000,514 |
| Shares deemed to be issued: | | | | |
| Weighted average number of ordinary shares that would be issued for the convertible preference shares | 204,414 | 39,249,255 | 204,414 | 39,249,255 |
| Weighted average number of ordinary shares for purposes of diluted earnings per share | 161,366,187 | 201,294,326 | 161,436,198 | 201,249,769 |
| Diluted earnings per share (KZT) | 14,22 | 8,74 | 31,50 | 10,13 |

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

The book value of one share per each class of shares as at 30 June 2018 and 31 December 2017 is as follows:

| Type of shares | 30 June 2018 (unaudited) | | | 31 December 2017 | | |
|-------------------|---------------------------------------|--------------------------------------|------------------------------|---------------------------------------|--------------------------------------|------------------------------|
| | Outstanding shares (number of shares) | Amount for calculation of book value | Book value of one share, KZT | Outstanding shares (number of shares) | Amount for calculation of book value | Book value of one share, KZT |
| Ordinary shares | 161,275,581 | 99,871 | 619 | 161,003,835 | 112,642 | 700 |
| Preference shares | 204,414 | 61 | 298 | 39,249,255 | 11,775 | 300 |
| | | 99,932 | | | 124,417 | |

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

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

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12. CASH AND CASH EQUIVALENTS

| | 30 June 2018 (unaudited) | 31 December 2017 |
|------------------------------------------------------------------|-----------------------------|---------------------|
| Cash on hand | 43,064 | 33,159 |
| Nostro accounts with NBRK | 80,066 | 127,720 |
| Nostro accounts with other banks | | |
| - rated AA- to AA+ | 371 | 6,314 |
| - rated A- to A+ | 2,362 | 8,426 |
| - rated BBB- to BBB+ | 584 | 3,506 |
| - rated BB- to BB+ | 981 | 1,077 |
| - rated B- to B+ | 48 | 188 |
| - not rated | 177 | 650 |
| Total Nostro accounts with other banks | 4,523 | 20,161 |
| Term deposits with other banks | | |
| - rated AA- to AA+ | 3 | - |
| - rated BB- to BB+ | 2,176 | 3,323 |
| - rated B- to B+ | 10,926 | 3,693 |
| Total current accounts and term deposits with other banks | 13,105 | 7,016 |
| Total cash and cash equivalents | 140,758 | 188,056 |

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

There is no provision for expected credit losses as at 30 June 2018, unaudited, and 31 December 2017. No cash and cash equivalents are impaired.

As at 30 June 2018 the Group has 1 bank, unaudited (31 December 2017: 1 bank), whose account and deposit account balances exceed 10% of equity. The gross value of these balances as at 30 June 2018 is KZT 80,066 million, unaudited (31 December 2017: KZT 127,720 million).

Minimum reserve requirements

In accordance with the regulations issued by the NBRK, minimum reserve requirements are calculated as a total of specified proportions of different groups of banks' liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (local currency cash and NBRK balances) equal or in excess of the average minimum requirements. As at 30 June 2018 the minimum reserve is KZT 12,225 million, unaudited (31 December 2017: minimum reserve requirements amounted to KZT 11,599 million, while the reserve asset was KZT 23,932 million).

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13. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

| | Nominal rate, % | 30 June 2018 (unaudited) | Nominal rate, % | 31 December 2017 |
|-----------------------------------------------------|-----------------|-----------------------------|-----------------|------------------|
| ASSETS | | | | |
| Derivative financial instruments | | | | |
| Foreign currency contracts | | 20,736 | | 19,495 |
| | | <u>20,736</u> | | <u>19,495</u> |
| Trading securities | | | | |
| <i>Debt securities</i> | | | | |
| Government bonds of the Republic of Kazakhstan | 3.87-9.60 | 511 | 3.87-9.60 | 3,086 |
| NBRK discounted notes | - | 557 | - | - |
| Corporate bonds | 4.37-15.00 | 7,923 | 4.63-15.00 | 9,278 |
| <i>Equity securities*</i> | | | | |
| Shares of Kazakhstani companies | - | 766 | - | 637 |
| Shares of International companies | - | 21 | - | 22 |
| | | <u>9,778</u> | | <u>13,023</u> |
| Pledged under sale and repurchase agreements | | | | |
| Government bonds of the Republic of Kazakhstan | 3.87-9.20 | 4,111 | 9.50-9.70 | 472 |
| NBRK discounted notes | - | 103 | - | - |
| Corporate bonds | 12.50-15.00 | 766 | 11.20-11.50 | 602 |
| | | <u>35,494</u> | | <u>33,592</u> |
| LIABILITIES | | | | |
| Derivative financial instruments | | | | |
| Foreign currency contracts | | (9,728) | | (9,199) |
| | | <u>(9,728)</u> | | <u>(9,199)</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 rating or other international rating agencies as follows at 30 June 2018, unaudited:

| | Corporate bonds (unaudited) | Government bonds of the Republic of Kazakhstan (unaudited) | Total (unaudited) |
|----------------------|--------------------------------|---------------------------------------------------------------------|----------------------|
| - rated AAA- to AAA+ | 30 | - | 30 |
| - rated BBB- to BBB+ | - | 4,622 | 4,622 |
| - rated BB- to BB+ | 1,802 | - | 1,802 |
| - rated B- to B+ | 6,857 | - | 6,857 |
| | <u>8,689</u> | <u>4,622</u> | <u>13,311</u> |

The credit quality of debt securities at fair value through profit or loss balances may be summarised based on Standard and Poor's rating 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+ | 479 | 3,558 | 4,037 |
| - rated BB- to BB+ | 1,332 | - | 1,332 |
| - rated B- to B+ | 8,069 | - | 8,069 |
| | <u>9,880</u> | <u>3,558</u> | <u>13,438</u> |

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

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14 INVESTMENT SECURITIES

| | 30 June 2018 (unaudited) | 31 December 2017 |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------|
| Investment securities measured at fair value through other comprehensive income, including those pledged under sale and repurchase agreements | 178,895 | - |
| Investment financial assets measured at amortised cost, including those pledged under sale and repurchase agreements | 12,699 | - |
| Investments available for sale | - | 150,135 |
| Total investment securities | 191,594 | 150,135 |

Investment securities measured at fair value through other comprehensive income

| | Nominal rate, % | 30 June 2018 (unaudited) |
|---------------------------------------------------------------------------|-----------------|-----------------------------|
| <i>Debt securities</i> | | |
| Government bonds of the Republic of Kazakhstan | 3.87-10.2 | 28,919 |
| Corporate bonds | 3.87-11.5 | 64,831 |
| NBRK discounted notes | | 74,758 |
| <i>Equity securities</i> | | |
| Shares of Kazakhstani companies | | 131 |
| Shares of International companies | | 20 |
| Pledged under sale and repurchase agreements | | |
| - Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan | 3.87-7.13 | 8,133 |
| - NBRK discounted notes | | 2,103 |
| | | 178,895 |

Investment securities measured at amortised cost

| | Nominal rate, % | 30 June 2018 (unaudited) |
|---------------------------------------------------------------------------|-----------------|-----------------------------|
| <i>Debt securities</i> | | |
| Government bonds of the Republic of Kazakhstan | 5.60-6.70 | 3,945 |
| Corporate bonds | 7.50-8.0 | 6,563 |
| Pledged under sale and repurchase agreements | | |
| - Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan | 5.80-6.50 | 2,216 |
| | | 12,724 |
| Provision for expected credit losses | | (25) |
| | | 12,699 |

Investments available for sale

| | Nominal rate, % | 31 December 2017 |
|---------------------------------------------------------------------------|-----------------|------------------|
| <i>Debt securities</i> | | |
| Government bonds of the Republic of Kazakhstan | 3.87-11.00 | 31,840 |
| Corporate bonds | 3.88-11.00 | 48,958 |
| NBRK discounted notes | | 65,393 |
| <i>Equity securities</i> | | |
| Shares of Kazakhstani companies | | 131 |
| Shares of International companies | | 20 |
| Pledged under sale and repurchase agreements | | |
| - Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan | 4.00-8.99 | 3,793 |
| | | 150,135 |

15. DUE FORM BANKS

| | 30 June 2018 (unaudited) | 31 December 2017 |
|---------------------------------|-----------------------------|------------------|
| Term deposit | | |
| - conditional deposit with NBRK | 1,994 | 1,275 |
| - rated from A- to A+ | - | 1,656 |
| - rated from BBB- to BBB+ | - | - |
| - c rated from BB- to BB+ | 901 | 1,526 |
| - rated from B- to B+ | 28,790 | 8,638 |
| - not rated | 1,714 | 45 |
| Total term deposits | 33,399 | 13,140 |

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15. DUE FROM BANKS, CONTINUED

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

There is no provision for expected credit losses as at 30 June 2018, unaudited, and 31 December 2017. No due from banks are overdue or impaired.

Concentration of accounts and deposits with banks

As at 30 June 2018 the Group has no banks (2017: none) whose balances exceed 10% of equity.

16. LOANS TO CUSTOMERS AND BANKS

| | 30 June 2018 (unaudited) | 31 December 2017 |
|-------------------------------------------|-----------------------------|---------------------|
| Loans to customers | 921,604 | 890,230 |
| Net investment in finance lease | - | 4,156 |
| Accrued interest | 47,882 | 36,270 |
| | 969,486 | 930,656 |
| Less: credit loss allowance | (111,597) | (113,851) |
| Total loans to consumers | 857,889 | 816,805 |
| Loans to banks | 7 | 3 |
| Total loans to banks | 7 | 3 |
| Loans under reverse repurchase agreements | 31,412 | 14,443 |
| Total loans to consumers and banks | 889,308 | 831,251 |

Movement in loss allowance for loans to customers and banks for the six months ended 30 June 2018 and 30 June 2017, unaudited, is disclosed in Note 7.

The following table provides information by types of loan products as at 30 June 2018, unaudited:

| | Gross amount (unaudited) | Impairment allowance (unaudited) | Carrying amount (unaudited) |
|-------------------------------------|-----------------------------|----------------------------------------|--------------------------------|
| Loans to corporate customers | | | |
| Corporate loans | 546,588 | (86,708) | 459,880 |
| Small and medium-sized enterprises | 51,471 | (2,909) | 48,562 |
| Loans to retail customers | | | |
| Mortgage loans | 155,660 | (7,413) | 148,247 |
| Consumer loans | 118,970 | (8,009) | 110,961 |
| Business development | 90,417 | (6,438) | 83,979 |
| Auto loans | 6,380 | (120) | 6,260 |
| | 969,486 | (111,597) | 857,889 |

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 | 532,935 | (95,846) | 437,089 |
| Small and medium-sized enterprises | 43,589 | (2,088) | 41,501 |
| 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 |
| Auto loans | 5,070 | (60) | 5,010 |
| | 930,656 | (113,851) | 816,805 |

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16. LOANS TO CUSTOMERS AND BANKS, CONTINUED

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

Analysis by credit quality of loans to customers outstanding as at 30 June 2018, unaudited, was as follows:

| | Corporate loans | Small and medium-sized enterprises | Mortgage loans | Consumer loans | Business development | Auto loans | Total |
|---------------------------------------------------------------------|-----------------|------------------------------------|----------------|----------------|----------------------|--------------|----------------|
| Loans to customers | | | | | | | |
| Not overdue | 412,836 | 39,874 | 120,864 | 83,354 | 65,716 | 5,963 | 728,607 |
| Overdue: | | | | | | | |
| - overdue less than 30 days | 65,595 | 1,993 | 8,532 | 8,364 | 2,864 | 71 | 87,419 |
| - overdue 31-60 days | 30,799 | 1,051 | 2,458 | 1,814 | 750 | 10 | 36,882 |
| - overdue 61-90 days | 11,770 | 477 | 2,070 | 1,495 | 1,500 | 1 | 17,313 |
| - overdue 91-180 days | 2,464 | 1,774 | 6,780 | 2,889 | 4,670 | 14 | 18,591 |
| - overdue more than 180 days | 23,124 | 6,302 | 14,956 | 21,054 | 14,917 | 321 | 80,674 |
| Total gross loans to customers | 546,588 | 51,471 | 155,660 | 118,970 | 90,417 | 6,380 | 969,486 |
| Credit loss allowance | (86,708) | (2,909) | (7,413) | (8,009) | (6,438) | (120) | (111,597) |
| Total loans to customers, net of allowance for credit losses | 459,880 | 48,562 | 148,247 | 110,961 | 83,979 | 6,260 | 857,889 |

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16. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(a) Credit quality of corporate loans, loans to small and medium-sized enterprises and loans to retail customers, continued

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

| | Corporate loans | Small and medium-sized enterprises | Mortgage loans | Consumer loans | Business development | Auto loans | Total |
|--------------------------------------------------------------------|-----------------|------------------------------------|----------------|----------------|----------------------|--------------|----------------|
| Loans to customers | | | | | | | |
| Individually unimpaired loans assessed on a collective basis: | | | | | | | |
| Not overdue | 285,492 | 32,692 | 106,549 | 74,545 | 59,952 | 4,624 | 563,854 |
| Overdue: | | | | | | | |
| - overdue less than 30 days | 5,201 | 756 | 6,014 | 4,806 | 1,420 | 48 | 18,245 |
| - overdue 31-60 days | - | 491 | 2,243 | 868 | 814 | 29 | 4,445 |
| - overdue 61-90 days | 449 | 568 | 894 | 861 | 1,162 | 23 | 3,957 |
| - overdue 91-180 days | 220 | 508 | 821 | 1,621 | 1,406 | - | 4,576 |
| - overdue more than 180 days | 264 | 197 | - | - | 29 | - | 490 |
| Total individually unimpaired loans assessed on a collective basis | 291,626 | 35,212 | 116,521 | 82,701 | 64,783 | 4,724 | 595,567 |
| Impaired loans assessed on a collective basis | | | | | | | |
| Not overdue | 10,092 | 2,368 | 6,825 | 3,898 | 2,413 | 5 | 25,601 |
| Overdue: | | | | | | | |
| - overdue less than 30 days | 951 | 900 | 4,481 | 2,705 | 850 | 1 | 9,888 |
| - overdue 31-60 days | - | 175 | 859 | 304 | 88 | 9 | 1,435 |
| - overdue 61-90 days | 256 | 266 | 1,592 | 1,181 | 621 | 4 | 3,920 |
| - overdue 91-180 days | 740 | 596 | 1,129 | 2,145 | 2,077 | 5 | 6,692 |
| - overdue more than 180 days | - | 4,072 | 11,673 | 15,681 | 11,474 | 322 | 43,222 |
| Total impaired loans assessed on a collective basis | 12,039 | 8,377 | 26,559 | 25,914 | 17,523 | 346 | 90,758 |
| Individually impaired loans | 139,167 | - | - | - | - | - | 139,167 |
| Overdue: | | | | | | | |
| - overdue less than 30 days | 42,180 | - | 2,011 | 576 | - | - | 44,767 |
| - overdue 31-60 days | 9,067 | - | 749 | - | 338 | - | 10,154 |
| - overdue 61-90 days | 516 | - | - | 2,085 | 1,075 | - | 3,676 |
| - overdue 91-180 days | 14,247 | - | - | - | - | - | 14,247 |
| - overdue more than 180 days | 24,093 | - | 628 | 2,629 | 814 | - | 28,164 |
| Total individually impaired loans | 229,270 | - | 3,388 | 5,290 | 2,227 | - | 240,175 |
| Total gross loans to customers | 532,935 | 43,589 | 146,468 | 113,905 | 84,533 | 5,070 | 926,500 |
| Impairment allowance for loans to customers | (95,846) | (2,088) | (4,450) | (6,892) | (4,515) | (60) | (113,851) |
| Total loans to customers net of impairment allowance | 437,089 | 41,501 | 142,018 | 107,013 | 80,018 | 5,010 | 812,649 |

Effective from 1 January 2018, when adopting IFRS 9, the Group has reviewed the criteria of limits for classification of loans to large corporates and small and medium-sized enterprises. Under the approved provisioning methodology, the loans exceeding 0.2% of the Group's equity are categorised as loans to large corporates (2017: USD 1 million). This change has the following effect as at 31 December 2017: gross loans which have been transferred from loans to small and medium-sized enterprises to loans to large corporates and impairment allowance amount to KZT 21,779 million and KZT 669 million, respectively.

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16. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(b) Analysis of movement in the credit loss allowance

| | Six months ended 30 June 2018 (unaudited) | | | Total |
|----------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|---------------|
| | Stage 1 12-month expected credit losses | Stage 2 Life-time expected credit losses for not credit-impaired assets | Stage 3 Life-time expected credit losses for credit impaired assets | |
| Loans to corporate customers and small and medium-sized enterprises | | | | |
| Allowance for ECL at the beginning of the period | 2,257 | 1,975 | 125,787 | 130,019 |
| Transition to 12-month expected credit losses | 5 | (5) | - | - |
| Transition to lifetime expected credit losses for credit-unimpaired assets | (5) | 12 | (7) | - |
| Transition to life-time expected credit losses for credit-impaired assets | (8) | (190) | 198 | - |
| Charge/(recovery) of allowance | (546) | 2,796 | 8,470 | 10,720 |
| New financial assets originated or purchased | 1,323 | - | 28 | 1,351 |
| Financial assets that have been derecognised | (1,057) | (4) | (97) | (1,158) |
| Unwinding of discount | - | - | (9,121) | (9,121) |
| Write-off of assets | - | - | (42,018) | (42,018) |
| Recovery of assets previously written-off | - | - | 153 | 153 |
| Foreign exchange difference | 245 | (19) | (555) | (329) |
| Allowance for ECL at the end of the period | 2,214 | 4,565 | 82,838 | 89,617 |

| | Six months ended 30 June 2018 (unaudited) | | | Total |
|-----------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|---------------|
| | Stage 1 12-month expected credit losses | Stage 2 Life-time expected credit losses for not credit-impaired assets | Stage 3 Life-time expected credit losses for credit impaired assets | |
| Loans to retail customers | | | | |
| Allowance for ECL at the beginning of the period | 302 | 1,403 | 18,824 | 20,529 |
| Transition to 12-month expected credit losses | 209 | (112) | (97) | - |
| Transition to life-time expected credit losses for credit-unimpaired assets | (13) | 401 | (388) | - |
| Transition to life-time expected credit losses for credit-impaired assets | (16) | (684) | 700 | - |
| Charge/(recovery) of allowance | (263) | 450 | 3,952 | 4,139 |
| New financial assets originated or purchased | 115 | 3 | 29 | 147 |
| Financial assets that have been derecognised | (45) | (69) | (183) | (297) |
| Unwinding of discount | (9) | (472) | (919) | (1,400) |
| Write-off of assets | - | - | (1,754) | (1,754) |
| Recovery of assets previously written-off | - | - | 730 | 730 |
| Foreign exchange difference | 17 | (17) | (114) | (114) |
| Allowance for ECL at the end of the period | 297 | 903 | 20,780 | 21,980 |

(c) Loan portfolio analysis

As at 30 June 2018 the Group has 11 borrowers or groups of connected borrowers, unaudited, (31 December 2017: 6), whose loan balances exceed 10% of equity. The gross value of these loans as at 30 June 2018 is KZT 196,057 million, unaudited (31 December 2017: KZT 114,175 million).

As at 30 June 2018 and 31 December 2017 included in the loans to customers are renegotiated loans that would otherwise be past due or impaired of KZT 81,223 million, unaudited, and KZT 99,468 million, respectively.

During the six months ended 30 June 2018, net investments in finance lease of KZT 4,156 million have been repaid, unaudited.

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16. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(c) Loan portfolio analysis, continued

Fair value of assets received as collateral and carrying amount of reverse repurchase agreements as at 30 June 2018, unaudited, and 31 December 2017 is as follows:

| | 30 June 2018 (unaudited) | | 31 December 2017 | |
|------------------------------------------------|--------------------------|-----------------------|----------------------|-----------------------|
| | Loan carrying amount | Collateral fair value | Loan carrying amount | Collateral fair value |
| Government bonds of the Republic of Kazakhstan | 25,000 | 28,406 | 11,006 | 11,169 |
| Other | 6,412 | 7,285 | 3,437 | 4,352 |
| | <u>31,412</u> | <u>35,691</u> | <u>14,443</u> | <u>15,521</u> |

17. OTHER ASSETS

| | 30 June 2018 (unaudited) | 31 December 2017 |
|----------------------------------------------|--------------------------|------------------|
| Other financial assets | | |
| Receivables | 5,660 | 5,118 |
| Accrued commission | 8,688 | 7,698 |
| Western Union and other wireless transfers | 888 | 175 |
| | <u>15,236</u> | <u>12,991</u> |
| Less impairment allowance | (1,698) | (1,747) |
| | <u>13,538</u> | <u>11,244</u> |
| Other non-financial assets | | |
| Repossessed collateral | 48,125 | 49,442 |
| Investment property | 11,465 | 5,003 |
| Payment receivable on repossessed collateral | 4,585 | 4,253 |
| Advances paid | 849 | 149 |
| Taxes receivable other than income tax | 1,381 | 1,974 |
| Inventories | 76 | 78 |
| Other assets | 703 | 649 |
| | <u>67,184</u> | <u>61,548</u> |
| | <u>80,722</u> | <u>72,792</u> |

Repossessed collateral. Repossessed collateral represents real estate accepted by the Group in exchange for from its non-performing borrowers. These assets have been initially recognised at fair value and subsequently measured at the lower of fair value less cost to dispose or the carrying value.

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

Investment property. During the six months ended 30 June 2018, the Group transferred property worth of KZT 5,837 million from property, plant and equipment to investment property as the Group intended to receive a rental income from said property, unaudited.

18. DUE TO BANKS AND FINANCIAL INSTITUTIONS

| | Nominal interest rate, % (unaudited) | 30 June 2018 (unaudited) | Nominal interest rate, % | at 31 December 2017 |
|---------------------------------------------------------|--------------------------------------|--------------------------|--------------------------|---------------------|
| Long-term loans due to banks and financial institutions | 1.00-9.1 | 54,788 | 1.00-9.08 | 48,776 |
| Perpetual financial instruments | 8.34 | 26,632 | 7.34 | 26,064 |
| Loans due to international credit organisations | 8.50-10.70 | 12,440 | 8.50-10.70 | 16,151 |
| Short-term loans due to financial institutions | 1.00 | 3,458 | - | - |
| Correspondent accounts of banks | - | 2,738 | - | 1,440 |
| Loan due to NBRK | 5.50 | 98 | 5.50 | 105 |
| Accrued interest | - | 880 | - | 862 |
| | | <u>101,034</u> | | <u>93,398</u> |
| Loans under repurchase agreements | 9.60-11.50 | 16,452 | 9.30-11.50 | 5,393 |
| | | <u>117,486</u> | | <u>98,791</u> |

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18. DUE TO BANKS AND FINANCIAL INSTITUTIONS, CONTINUED

Long-term loans due to banks and financial institutions. Long-term loans from banks and financial institutions comprise long-term loans from JSC Entrepreneurship Development Fund DAMU (“DAMU”) and JSC Development Bank of Kazakhstan (“JSC DBK”) in the amount of KZT 39,295 million at 1%-9.1% p.a., unaudited, maturing in 2018-2035, and of KZT 15,493 million at 1%-7.9 % p.a. maturing in 2019-2037, unaudited, as at 30 June 2018, respectively (31 December 2017: KZT 34,604 million and KZT 14,172 million, respectively). During the six months ended 30 June 2018 and 30 June 2017, the Group has been repaying principal and interest according to the repayments schedules, unaudited.

During the six months ended 30 June 2018 the Group received additional tranches of a long-term loan from JSC DBK in the amount of KZT 445 million (six months ended 30 June 2017: KZT 377 million) at 2% p.a. maturing in 2035, and a long-term loan in the amount of KZT 1,875 million at 1% p.a. maturing in 2037. The loans are intended for further financing of large-sized enterprises (“LSE”) operating in processing industry and further financing of retail customers who purchase cars produced in Kazakhstan.

During the six months ended 30 June 2018, the Group received a long-term loan from DAMU JSC in the amount of KZT 5,408 million at 9.1% p.a. maturing in 2020. The Group has received loans from DAMU JSC under the Government program (“the Program”) to finance small and medium enterprises (“SME”) of certain industries. According to the loan agreement between DAMU and the Group, the Group extends loans to SME borrowers, eligible to participate in the Program, at 4% margin with the maturity not exceeding 10 years. The Group’s obligation to repay the loan to DAMU is not contingent on collectability of the loans extended to SME borrowers. The Group is obligated to pay 15% penalty on the amounts not extended to SME borrowers within 3-9 months after receiving the money from DAMU.

Management of the Group believes that there are no other financial instruments similar to the loans received from DAMU, DBK JSC and Agrarian Credit Corporation JSC at 1-2% p.a. and due to specific nature of SME clients, this product represents a separate market. As a result, the loans from DAMU, DBK JSC and Agrarian Credit Corporation JSC at 1-2% p.a. were received in an orderly transaction and as such have been recorded at fair value at the recognition date.

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.

Short-term loans from financial institutions. During the six months ended 30 June 2018, the Group received a short-term-loan of KZT 3,458 million from Agrarian Credit Corporation JSC bearing the interest rate of 1% p.a. and maturing on 1 December 2018. The loans are intended for further financing of entities of the agricultural and industrial complex and agricultural and production cooperatives.

Perpetual financial instruments. 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.

The Group is obligated to comply with financial covenants in relation to funds and loans from banks and financial institutions. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. As at 30 June 2018, unaudited, and 31 December 2017, the Group has not breached any of these covenants.

As at 30 June 2018 and 31 December 2017, funds and loans from banks and financial institutions included loans received under repurchase agreements of KZT 16,452 million, unaudited, and KZT 5,393 million that were repaid in July and January 2018, respectively. The fair value of assets pledged under repurchase agreements amounted to KZT 17,432 million, unaudited, and KZT 4,867 million as at 30 June 2018 and 31 December 2017, respectively.

19. CUSTOMER AND BANK ACCOUNTS

| | 30 June 2018 (unaudited) | 31 December 2017 |
|------------------|--------------------------------|---------------------|
| Due to customers | | |
| - Retail | 526,288 | 504,610 |
| - Corporate | 498,889 | 470,679 |
| Due to banks | 14,969 | 1,663 |
| | <u>1,040,146</u> | <u>976,952</u> |

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19. CUSTOMER AND BANK ACCOUNTS, CONTINUED

| | 30 June 2018 (unaudited) | 31 December 2017 |
|------------------|--------------------------------|---------------------|
| Term deposits | 672,379 | 696,445 |
| Demand deposits | 348,411 | 274,321 |
| | 1,020,790 | 970,766 |
| Accrued interest | 4,387 | 4,523 |
| | 1,025,177 | 975,289 |

As at 30 June 2018, the Group has 6 customers, unaudited (31 December 2017: 5 customers), whose balances exceed 10% of equity. The gross balances of the above mentioned customers as at 30 June 2018 are KZT 118,048 million, unaudited (31 December 2017: KZT 221,119 million).

20. DEBT SECURITIES ISSUED

| | Currency | Issue date | Maturity date | Interest rate, % | 30 June 2018 (unaudited) | Interest rate, % | 31 December 2017 |
|-------------------|----------|---------------------------|---------------------------|---------------------|--------------------------------|---------------------|---------------------|
| Kazakhstani bonds | KZT | 26/04/2014- 05/02/2018 | 26/04/2019- 05/02/2028 | 8.00-12.00 | 33,482 | 8.00-9.00 | 17,048 |
| | | | | | 33,482 | | 17,048 |
| Accrued interest | | | | | 928 | | 280 |
| | | | | | 34,410 | | 17,328 |

During the six months ended 30 June 2018, the Group issued debt securities with a nominal value of KZT 17,328 million, unaudited.

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

21. SHARE CAPITAL

As at 30 June 2018, the Bank's share capital is presented as follows:

| | Authorised share capital (unaudited) | Share capital authorised and not issued (unaudited) | Repurchased share capital from shareholders (unaudited) | Total share capital (unaudited) |
|-------------------|--------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------|------------------------------------|
| Ordinary shares | 995,876,753 | (833,419,953) | (1,181,219) | 161,275,581 |
| Preference shares | 39,249,255 | - | (39,044,841) | 204,414 |

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. 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.

As at 30 June 2018, the Bank's share capital comprised the following number of shares, unaudited:

| | Authorized and issued share capital | Repurchased shares | Total |
|-------------------|-------------------------------------------|-----------------------|---------------|
| Ordinary shares | 57,794 | (46) | 57,748 |
| Preference shares | 11,775 | (11,714) | 61 |
| | 69,569 | (11,760) | 57,809 |

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

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

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21. SHARE CAPITAL, CONTINUED

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

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

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

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

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

| | For the six months ended 30 June 2018 (unaudited) Quantity (in thousands) | For the six months ended 30 June 2017 (unaudited) Quantity (in thousands) |
|--------------------------------------------|---------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Preference shares, beginning of the period | 39,249 | 39,249 |
| Preference shares repurchased | (39,045) | - |
| Preference shares, end of the period | <u>204</u> | <u>39,249</u> |
| Ordinary shares, beginning of the period | 161,004 | 162,057 |
| Treasury shares purchased | (928) | (600) |
| Treasury shares sold | 1,200 | 472 |
| Ordinary shares, end of the period | <u>161,276</u> | <u>161,929</u> |

Reserves for general banking risks

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 provision for future expected losses.

As at 30 June 2018, reserve for general banking risks of the Bank included in retained earnings in the unaudited consolidated interim condensed statement of financial position of the Group amounts to KZT 4,981 million, unaudited (31 December 2017: KZT 16,896 million). During the six months ended 30 June 2018, the Group utilised the accumulated reserve to recognise the effect of transition to IFRS 9.

22. FINANCIAL COMMITMENTS AND CONTINGENCIES

(a) Credit related commitments

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

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22. FINANCIAL COMMITMENTS AND CONTINGENCIES, CONTINUED

(a) Credit related commitments, continued

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

As at 30 June 2018 and 31 December 2017, the nominal values or contractual values and risk-weighted amounts are as follows:

| | 30 June 2018 (unaudited) | | 31 December 2017 | |
|---------------------------------------------------------------------------------|--------------------------|---------------------|------------------|---------------------|
| | Nominal value | Risk-weighted value | Nominal value | Risk-weighted value |
| Contingent obligations and loan commitments | | | | |
| Guarantees issued and other similar liabilities | 158,687 | 153,191 | 138,445 | 132,700 |
| Letters of credit and other contingent liabilities related to other transaction | 9,001 | 1,800 | 8,468 | 1,694 |
| | <u>167,688</u> | <u>154,991</u> | <u>146,913</u> | <u>134,394</u> |

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

(b) Operating lease commitments

There were no material operating lease commitments outstanding as at 30 June 2018, unaudited, and 31 December 2017.

(c) Fiduciary activities

In the normal course of its business, the Group enters into agreements with limited rights on decision making with customers in relation to their asset management in accordance with specific criteria established by the customers. The Group may be liable for losses or actions aimed at appropriation of the customer's funds until such funds or securities are returned to the customer. These amounts represent the balances of the clients' funds under management of the Group as at 30 June 2018 and 31 December 2017, including assets under trusteeship in the amount of KZT 822,761 million, unaudited, and KZT 830,628 million, respectively.

Managed assets are not included in the consolidated interim condensed statement of financial position of the Group, as these assets are not assets of the Group.

(d) Insurance

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

(e) Legal proceedings

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

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22. FINANCIAL COMMITMENTS AND CONTINGENCIES, CONTINUED

(f) Tax contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the consolidated interim condensed 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 the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated interim condensed financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

23. SEGMENT REPORTING

The segment information below is presented on the basis used by the Group's chief operating decision maker to evaluate performance in accordance with IFRS 8 and in accordance with the segment reporting presented in the consolidated financial statements for the six months ended 30 June 2018 and 2017.

Segment information about these businesses is presented below:

| | Retail banking (unaudited) | Corporate banking (unaudited) | Investment banking (unaudited) | For the six months ended 30 June 2018 (unaudited) |
|---------------------------------------------------------------------|-------------------------------|----------------------------------|-----------------------------------|---------------------------------------------------------------|
| Interest income calculated using the effective interest rate method | 24,013 | 23,451 | 6,280 | 53,744 |
| Other interest income | - | - | 778 | 778 |
| Interest expense | (13,820) | (17,702) | (938) | (32,460) |
| Charge for credit losses on interest-bearing assets | (3,989) | (10,913) | - | (14,902) |
| Net non-interest income | 3,055 | 10,106 | 1,421 | 14,582 |
| Operating expenses | (7,804) | (6,379) | (478) | (14,661) |
| Profit/(loss) before income tax | 1,455 | (1,437) | 7,063 | 7,081 |
| Segment assets* | 349,447 | 835,273 | 221,639 | 1,406,359 |
| Segment liabilities* | 532,867 | 586,790 | 174,503 | 1,294,160 |
| Other segment items | | | | |
| Depreciation charge on property, equipment and intangible assets | (641) | (571) | (39) | (1,251) |
| Loans to customers and banks | 349,447 | 539,861 | - | 889,308 |
| Customer and bank accounts | 526,288 | 513,858 | - | 1,040,146 |
| Financial guarantees and loan commitments | - | 167,688 | - | 167,688 |

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

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23. SEGMENT REPORTING, CONTINUED

| | Retail banking (unaudited) | Corporate banking (unaudited) | Investment banking (unaudited) | For the six months ended 30 June 2017 (unaudited) |
|----------------------------------------------------------------------|-------------------------------|----------------------------------|-----------------------------------|---------------------------------------------------------------|
| Interest income calculated using the effective interest rate method* | 21,007 | 24,480 | 6,740 | 52,227 |
| Other interest income | - | 585 | - | 585 |
| Interest expense* | (13,912) | (17,900) | (713) | (32,525) |
| Provision for impairment losses on interest bearing assets | (5,490) | (11,825) | - | (17,315) |
| Net non-interest income | 2,988 | 12,532 | (2,117) | 13,403 |
| Operating expenses | (6,434) | (6,971) | (169) | (13,574) |
| (Loss)/profit before income tax | (1,841) | 901 | 3,741 | 2,801 |
| Segment assets** | 322,913 | 757,084 | 149,289 | 1,229,286 |
| Segment liabilities** | 514,595 | 457,592 | 151,945 | 1,124,132 |
| Other segment items | | | | |
| Depreciation charge on property, equipment and intangible assets | (648) | (625) | (16) | (1,289) |
| Loans to customers and banks | 321,172 | 468,745 | - | 789,917 |
| Customer and bank accounts | 499,404 | 439,547 | - | 938,951 |
| Financial guarantees and loan commitments | - | 115,554 | - | 115,554 |

* interest income and interest expense include non-eliminated intercompany transactions in the amount of KZT 45 million, KZT (45) million.

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

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

Information on large customers

For the six months ended 30 June 2018 the reporting segments have no corporate and retail customers (for the six months ended 30 June 2017: nil), whose income from transactions individually exceed 10% of the total income of the Group, unaudited.

24. RISK MANAGEMENT POLICY

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

As at 30 June 2018, there have been no significant changes in the market risk since 31 December 2017, unaudited. Information on credit risk management is disclosed in Note 4.

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24. RISK MANAGEMENT POLICY, CONTINUED

(a) Currency risk

The Group's exposure to foreign currency exchange rate risk as at 30 June 2018 is presented in the table below:

| | (Unaudited) | | | | |
|-------------------------------------------------------------------|----------------|------------------------------|------------------------------|-------------------|-----------------------|
| | KZT | USD 1 USD = 341.08 KZT | EUR 1 EUR = 397.26 KZT | Other currency | 30 June 2018 Total |
| Financial assets | | | | | |
| Cash and cash equivalents | 27,788 | 102,025 | 6,156 | 4,789 | 140,758 |
| Financial instruments at FVTPL | 8,354 | 6,374 | - | 30 | 14,758 |
| Investment financial assets at FVOCI - debt financial instruments | 99,066 | 79,809 | 20 | - | 178,895 |
| Investment financial assets measured at amortised cost | 12,699 | - | - | - | 12,699 |
| Due from banks | 2,002 | 29,212 | 2,185 | - | 33,399 |
| Loans to customers and banks | 681,039 | 198,243 | 10,018 | 8 | 889,308 |
| Other financial assets | 7,596 | 5,840 | 81 | 21 | 13,538 |
| Total financial assets | 838,544 | 421,503 | 18,460 | 4,848 | 1,283,355 |
| Financial liabilities | | | | | |
| Due to banks and financial institutions | 87,298 | 30,187 | 1 | - | 117,486 |
| Customer and bank accounts | 603,921 | 412,373 | 18,560 | 5,292 | 1,040,146 |
| Debt securities issued | 34,410 | - | - | - | 34,410 |
| Subordinated bonds | 78,454 | - | - | - | 78,454 |
| Other financial liabilities | 6,933 | 5,871 | 61 | 77 | 12,942 |
| Total financial liabilities | 811,016 | 448,431 | 18,622 | 5,369 | 1,283,438 |
| Open position | 27,528 | (26,928) | (162) | (521) | |

Derivative financial instruments and spot contracts

The currency risk analysis by types of derivative financial instruments and spot contracts as at 30 June 2018 is presented in the following table:

| | (Unaudited) | | | | |
|---------------------------------------------------------------|-----------------|------------------------------|------------------------------|-------------------|--------------------------|
| | KZT | USD 1 USD = 322.27 KZT | EUR 1 EUR = 367.52 KZT | Other currency | 30 June 2018 Total |
| Accounts receivable on spot and derivative contracts | 11,111 | 44,681 | - | - | 55,792 |
| Accounts payable on spot and derivative contracts | (23,978) | (20,806) | - | - | (44,784) |
| Net spot and derivative financial instruments position | (12,867) | 23,875 | - | - | 11,008 |
| Open position | 14,661 | (3,053) | (162) | (521) | |

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24. RISK MANAGEMENT POLICY, CONTINUED

(a) Currency risk, continued

The Group's exposure to foreign currency exchange rate risk as at 31 December 2017 is presented in the table below:

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

Derivative financial instruments and spot contracts

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

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

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25 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 Group with certain limitations. Additional capital comprises of perpetual contracts and paid-in preference share capital less adjustments for the Bank's investment in its own perpetual financial instruments, treasury preference shares, investments in financial instruments of investees not consolidated in the Group with certain limitations and regulatory adjustments to be deducted from the tier 2 capital, but due to insufficient levels of it deducted from additional capital.

Tier 2 capital comprises subordinated debt in KZT less investments in subordinated debt of financial institutions the Bank holds 10% and more shares in.

Total capital is the sum of tier 1 and tier 2 capital less positive difference between retail deposits and statutory capital multiplied by 5.5, and less 16.67% of the positive difference between regulatory impairment provisions and IFRS allowance for ECL.

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

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

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

As at 30 June 2018 and 31 December 2017 the minimum level of ratios as applicable to the Bank are as follows:

- k1 – not less than 0.055 (31 December 2017: 0.050);
- k1-2 – not less than 0.065 (31 December 2017: 0.060);
- k2 – not less than 0.080 (31 December 2017: 0.075).

The Bank complied with all externally imposed capital requirements as at 30 June 2018, unaudited, and 31 December 2017. As at 30 June 2018 Bank's coefficients are as follows: k1 – 0.079, k1-2 – 0.091 and k2 – 0.164, unaudited (31 December 2017: k1 – 0.104, k1-2 – 0.133 and k2 – 0.214).

The following table shows the composition of the capital position of the Bank as at 30 June 2018 and 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" with amendments and additions.

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25. CAPITAL MANAGEMENT, CONTINUED

| | 30 June 2018 (unaudited) | 31 December 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------|
| Tier 1 capital | | |
| Basic capital: | 94,600 | 111,582 |
| Share capital | 57,977 | 57,977 |
| Additional paid-in capital | - | - |
| Statutory retained earnings of prior years | 30,009 | 8,181 |
| Retained earnings of current period | 7,898 | 30,174 |
| Reserves formed from statutory retained earnings of prior years | 4,981 | 16,896 |
| Revaluation surplus for buildings | 872 | 4,444 |
| Revaluation reserve of investment securities | (2,338) | (1,100) |
| Statutory adjustments: | | |
| Intangible assets including goodwill | (4,799) | (4,990) |
| Total basic capital | 94,600 | 111,582 |
| Additional capital: | | |
| Paid-in preference share capital not satisfying basic capital requirements | 5,887 | 9,420 |
| Bank's treasury preference shares | (5,857) | - |
| 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 | 13,787 | 21,494 |
| Tier 1 capital | 108,417 | 142,496 |
| Tier 2 capital | | |
| Subordinated debt | 81,754 | 76,246 |
| Subordinated debt placed before 1 January 2015 denominated in KZT | 12,670 | 22,676 |
| Total tier 2 capital | 94,424 | 98,922 |
| Statutory adjustments: | | |
| 16.67% of the positive difference between regulatory impairment provisions and IFRS impairment provision | (8,152) | (11,999) |
| Total capital | 194,689 | 229,419 |
| Risk-weighted assets, contingent liabilities and derivative financial instruments and operational risk | | |
| Credit risk-weighted assets | 992,589 | 913,521 |
| Credit risk-weighted contingent liabilities | 136,968 | 113,138 |
| Market risk-weighted assets, contingent assets and liabilities | 15,095 | 11,208 |
| Operational risk | 44,136 | 32,689 |
| Risk-weighted assets, contingent liabilities and derivative financial instruments and operational risk | 1,188,788 | 1,070,556 |
| k1 | 0,079 | 0,104 |
| k1-2 | 0,091 | 0,133 |
| k2 | 0,164 | 0,214 |

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

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

Valuation techniques include net present value and discounted cash flow models 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 Group uses widely recognised valuation models to determine the fair value of common and simpler 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.

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

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

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26. FAIR VALUES OF FINANCIAL INSTRUMENTS, CONTINUED

The table below analyses financial instruments measured at fair value as at 30 June 2018 and 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised.

| Financial assets/liabilities | Fair value at | | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|-------------------------------------------------------------------------------------------------------|--------------------------|------------------|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------------------------------|
| | 30 June 2018 (unaudited) | 31 December 2017 | | | | |
| Non-derivative financial instruments at fair value through profit or loss - debt securities (Note 13) | 13,971 | 13,438 | Level 1 | Quoted bid prices in an active market. | Not applicable | Not applicable |
| Non-derivative investment securities at fair value through profit or loss (Note 14) | 178,895 | - | Level 1 | Quoted bid prices in an active market. | Not applicable | Not applicable |
| Non-derivative investments available-for-sale - debt securities (Note 14) | - | 150,135 | Level 1 | Quoted bid prices in an active market. | Not applicable | Not applicable |
| Derivative financial assets (Note 13) | 20,736 | 19,495 | Level 3 | Discounted cash flows. Future cash flows in USD are calculated using observable inputs and spot rates, future cash flows in KZT are calculated using implied rate by calibration to market. | KZT implied rate | The higher is KZT implied rate – the lower is fair value |
| Derivative financial liabilities (Note 13) | (9,728) | (9,199) | Level 3 | Discounted cash flows. Future cash flows in USD are calculated using observable inputs and spot rates, future cash flows in KZT are calculated using implied rate by calibration to market. | KZT implied rate | The higher is KZT implied rate – the lower is fair value |

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26. FAIR VALUES OF FINANCIAL INSTRUMENTS, CONTINUED

There were no transfers between Level 1 and 3 during the periods ended 30 June 2018 and 31 December 2017.

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

| | Derivative financial assets | Derivative financial liabilities |
|----------------------------------------------------|----------------------------------------|---------------------------------------------|
| 31 December 2016 | 41,953 | (9,227) |
| Total losses/(gains) recognised in profit or loss: | (2,515) | 167 |
| Settlements | (9,850) | 461 |
| 30 June 2017, unaudited | 29,588 | (8,599) |
| | Derivative financial assets | Derivative financial liabilities |
| 31 December 2017 | 19,495 | (9,199) |
| Total losses/(gains) recognised in profit or loss: | (652) | 167 |
| Settlements | 1,893 | (696) |
| 30 June 2018, unaudited | 20,736 | (9,728) |

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Except as detailed below, the Management of the Bank considers that the fair value of financial assets and liabilities, which varies from carrying value within the range of 5%, approximates their carrying value:

| | 30 June 2018 (unaudited) | | 31 December 2017 | |
|--------------------------------------------------|-----------------------------|------------|------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Investment securities measured at amortised cost | 12,699 | 12,053 | - | - |
| Loans to customers and banks | 889,308 | 876,415 | 831,251 | 822,665 |
| Customer and banks accounts | 1,040,146 | 1,038,487 | 976,952 | 975,414 |
| Debt securities issued | 34,410 | 32,574 | 17,328 | 15,902 |
| Subordinated bonds | 78,454 | 73,203 | 75,454 | 69,131 |

The carrying amount of cash and cash equivalents, due from banks, debt securities issued, other financial assets and other financial liabilities approximates fair value due to short-term nature of such financial instruments.

| | 30 June 2018 (unaudited) | | | 31 December 2017 | | |
|--------------------------------------------------|-----------------------------|---------|-----------|------------------|---------|---------|
| | Level 2 | Level 3 | Total | Level 2 | Level 3 | Total |
| Investment securities measured at amortised cost | - | 12,053 | 12,053 | - | - | - |
| Loans to customers and banks | 687,781 | 188,634 | 876,415 | 679,069 | 143,596 | 822,665 |
| Customer and banks accounts | 1,038,487 | - | 1,038,487 | 975,414 | - | 975,414 |
| Debt securities issued | 32,574 | - | 32,574 | 15,902 | - | 15,902 |
| Subordinated bonds | 73,203 | - | 73,203 | 69,131 | - | 69,131 |

The fair value of debt securities issued and subordinated bonds was calculated based on quoted market prices.

Fair value of loans to customers and banks was determined on the basis of contractual cash flows discounted at market rates, published by NBRK and prevailed at the year end and adjusted for credit risk of counterparties.

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

- discount rates of 4.9% – 13.6% and 9.5% – 19.1%, are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively;
- discount rates of 0.9% – 7.1% and 1.8% – 11.2%, are used for calculation of future cash flows from current accounts of customers and banks: corporate customers and retail customers, respectively;
- quoted market value is used to estimate the fair value of debt securities issued.

To estimate the fair value of currency swaps, the Management used rates of 13.11% - 13.21% for KZT cash flows and 2.36% - 2.38% for USD cash flows. The Management believes that the NBRK shall not exercise its right to terminate the transactions prior to their maturity.

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

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27. TRANSFERRED FINANCIAL ASSETS

Transfers that did not qualify for derecognition of the financial asset in its entirety

Repo and reverse repo transactions

The Group enters into repo and reverse repo transactions on a regular basis. The securities placed or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These transactions are conducted under KASE terms. The Group has concluded that it retains substantially all the risks and rewards of these securities, which include credit and market risks, and therefore it has not derecognised them. In addition, the Group recognises financial liabilities related to the cash received as collateral.

The Group may repledge any securities borrowed or purchased under repo agreements, but has no obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Therefore, the Group does not recognise the securities, instead, the Group accounts for a separate asset for any cash provided as collateral.

Details of transferred financial assets that are not derecognised in their entirety as at 30 June 2018 and 31 December 2017 are disclosed below:

| | <u>Assets held for trade</u> | <u>Investment securities measured at FVOCI</u> | <u>Investment securities measured at amortised cost</u> | <u>Total</u> |
|------------------------------------------------------------------------------------------|----------------------------------|------------------------------------------------|---------------------------------------------------------|--------------|
| At 30 June 2018: | | | | |
| Carrying amount of assets, unaudited | 4,980 | 10,236 | 2,216 | 17,432 |
| Carrying amount of associated liabilities (loans under repurchase agreements), unaudited | 4,530 | 8,853 | 3,069 | 16,452 |
| | <u>Financial assets at FVTPL</u> | <u>Available-for-sale investments</u> | <u>Held-to-maturity investments</u> | <u>Total</u> |
| At 31 December 2017: | | | | |
| Carrying amount of assets | - | 4,867 | - | 4,867 |
| Carrying amount of associated liabilities (loans under repurchase agreements) | - | 5,393 | - | 5,393 |

28. RELATED PARTY TRANSACTIONS

Mr. B.R. Baiseitov is an ultimate controlling party of the Group.

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

| | <u>30 June 2018 (unaudited)</u> | | <u>31 December 2017</u> | |
|-------------------------------------------------------------|-----------------------------------|----------------------------------------|-----------------------------------|----------------------------------------|
| | <u>Related party transactions</u> | <u>Average effective interest rate</u> | <u>Related party transactions</u> | <u>Average effective interest rate</u> |
| Cash and cash equivalents | - | - | 3,323 | - |
| - Shareholders with significant influence | - | - | 3,323 | 2.20% |
| Loans to customers and banks, gross | 198 | - | 5,330 | - |
| - key management personnel of the Group or its parent Bank | 58 | 4.02% | 20 | 12.67% |
| - close relatives of key management personnel | 83 | 4.18% | 315 | 8.45% |
| - other | 57 | 7.60% | 4,995 | 7.90% |
| Provision for losses on loans to customers and banks | - | - | 10 | - |
| - key management personnel of the Group or its parent Bank | - | - | - | - |
| - close relatives of key management personnel | - | - | 9 | - |
| - other | - | - | 1 | - |
| Due to banks and financial institutions | - | - | 11 | - |
| - Shareholders with significant influence | - | - | 11 | - |
| Customer and banks accounts | 12,670 | - | 18,370 | - |
| - key management personnel of the Group or its parent Bank | 3,886 | 3.24% | 6,911 | 3.29% |
| - close relatives of key management personnel | 7,013 | 1.86% | 6,696 | 3.91% |
| - other | 1,771 | 2.62% | 4,763 | 7.11% |

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28. RELATED PARTY TRANSACTIONS, CONTINUED

Secured and unsecured loans and guarantees are issued to key management personnel and other related parties in the ordinary course of business. These loans are issued mostly on the same terms, including interest rates, that are used in other similar transactions with the persons of similar status or, if applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

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

Included in the consolidated statement of profit or loss for the six months ended 30 June 2018 and 2017 are the following amounts which arose due to transactions with related parties:

| | For the six months ended 30 June 2018 (unaudited) | | For the six months ended 30 June 2017 (unaudited) | |
|-----------------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------|
| | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption |
| Interest income calculated using the effective interest method | | | | |
| - key management personnel of the Group or its parent Bank | 9 | 53,744 | 471 | 52,767 |
| - close relatives of key management personnel | 3 | - | 1 | - |
| - other | 3 | - | 4 | - |
| | 3 | - | 466 | - |
| Interest expense | | | | |
| - key management personnel of the Group or its parent Bank | (298) | (32,460) | (192) | (32,480) |
| - close relatives of key management personnel | (124) | - | (97) | - |
| - other | (130) | - | (71) | - |
| | (44) | - | (24) | - |
| Operating income/(expense) | | | | |
| - key management personnel of the Group or its parent Bank | 193 | (14,661) | (240) | (13,574) |
| | 193 | - | (240) | - |

Key management personnel remuneration for the six months ended 30 June 2018 and 2017 represent short-term employee benefits. Total remuneration of members of the Board of Directors and the Management Board amounted to KZT 193 million, unaudited and KZT 240 million, for the six months ended 30 June 2018 and 2017, respectively.