

“Bank of Astana” Joint-Stock Company
Financial Statements for the year ended on
31 December 2017
and Independent Auditor Report

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Statement of the management of responsibility for preparation and approval of the financial statements for the year ended on 31 December 2017.

The following statement, which must be considered together with description of obligations of the auditors contained in the submitted report of independent auditors, is made for the purpose of division of responsibilities of auditors regarding the financial statements of "Bank of Astana" JSC (hereinafter - the "Bank").

The management of the Bank shall be liable for preparation of the financial statements reliably representing in all material aspects financial position of the Bank as at 31 December 2017, as well as the results of its activity, cash flow and changes in the capital for the period then ended, in accordance with the International Financial Reporting Standards (hereinafter - the IFRS).

When preparing the financial statements, the management shall be liable for:

- selection of proper accounting principles and their consecutive application;
- use of reasonable estimations and calculations;
- compliance with the requirements of the IFRS or disclosure of all material deviations from the IFRS in the notes to the financial statements; and
- preparation of the financial statements based on assumption that the Bank will continue its activities in the foreseeable future, except cases, when such assumption is not legally acceptable.

The management shall also be liable for:

- development, implementation and ensuring functioning of effective and reliable internal control system in the Bank;
- maintenance of the accounting system allowing preparing at any time the information about financial position with sufficient degree of accuracy and ensuring conformance of the financial statements with the requirements of the IFRS;
- keeping accounting records in accordance with the legislation of the Republic of Kazakhstan;
- taking actions within limits of its competence for the purpose of protection of the Bank's interests;
- detecting and preventing fraud and other abuses.

On 1 March 2018, these financial statements for the period ended on 31 December 2017 have been approved by the Bank's Management and signed on its behalf by:

On behalf of the Bank's management

Acting Chairman of the Management Board

M.S. Zhangabylov



Seal

Chief Accountant

Sh.K. Kurmanbayeva



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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of "Bank of Astana" Joint-Stock Company.

Qualified opinion

We have audited the financial statements of "Bank of Astana" JSC (hereinafter referred to as the Bank) consisting of the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in capital and cash flow for the period then ended, as well as the notes including basic provisions of the accounting policy and the other explanatory information.

In our opinion, with the exception of possible influence of the circumstances described in section "Basis for expressing qualified opinion" of our report, the applied financial statements reliably present in all material aspects financial position of the Bank as at 31 December 2017, as well as its financial results and cash flow for the period then ended, in accordance with the International Financial Reporting Standards ("IFRS").

Basis for expressing qualified opinion

We could not get sufficient evidences to confirm assumptions used by the management, when determining provision for impairment and, accordingly, with respect to amount of impairment losses for granted credits and other assets.

We could not get sufficient audit evidences relating to the agreement of assignment of receivables on credits to the total amount of 9,568,185 thousand tenge with respect to influence of the transaction on the statement of profit and loss for 2017 and cost of assets obtained against repayment of that debt after the reporting date as stated in Note 19.

Influence of those deviations from the requirements of the International Financial Reporting Standards on the financial statements was not determined.

We have carried out audit in accordance with the International Standards on Audit ("ISA"). In accordance with those standards, our responsibilities are described hereinafter in the section "Responsibility of the auditor for audit of the financial statements" of our report. We are independent in relation to the Bank in accordance with the Code of Ethics of the Professional Accountants of the International Ethics Standards Board for Accountants (the Code of the IESBA) and we have complied with the other ethic obligations in accordance with the Code of the IESBA. We believe that audit evidences obtained by us are sufficient and proper to be a basis for expressing our opinion.

Paragraph attracting attention

Without any reservations in our opinion, we draw attention to the legal proceeding with "Shymkentkhimmontazh" LLP described in Note 31 to the financial statements. Our opinion was not modified with respect to that circumstance.

As it is further stated in Note 1(d), the current corporate accounts and on-demand deposits include the amount of 88,658,705 thousand tenge as at 31 December 2017, which are payable on demand to one counterparty. Based on exchange of the information with the mentioned counterparty, as well as taking into consideration the terms and conditions of the Agreement, the Bank does not expect that balance to be fully withdrawn within at least next two years. However, in case that amount is withdrawn by that counterparty through lump-sum payment, beyond the terms and conditions of concluded Agreement, this may affect ability of the Bank to observe the fixed external liquidity ratios. In addition, as disclosed in this note, to ensure liquidity the Bank is able

Товарищество с ограниченной ответственностью "BDO Kazakhstan", зарегистрированное в соответствии с законодательством Республики Казахстан, является участником международного объединения BDO International Limited, британского общества с ответственностью, ограниченной гарантией его участников, и является частью международной сети независимых компаний BDO.

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to attract alternative sources of funding, which may include deposits of natural persons and legal entities, funds raising in the inter-bank market, settlement of the credit portfolio securitization transactions or security of credit portfolio repayment. Our opinion was not modified with respect to this circumstance.

Key audit issues

Key audit issues shall mean issues, which, according to our professional opinion, were the most important for our audit of the financial statements for the current period. These issues were considered in the context of our audit of the financial statements in general and at the time of preparation of our opinion on these statements, and we do not express separate opinion on these issues. With the exception of the circumstances described in sections “Basis for expressing qualified opinion”, we have ascertained that there are no other key audit issues requiring disclosure in our report.

Other information

The management shall be liable for the other information. The other information shall include information contained in the annual account for “Kazakhstan Stock Exchange” JSC, but it does not include the financial statements and our auditor’s report thereon. The annual account supposedly will be submitted to us after the date of this auditors’ report.

Our opinion on the financial statements does not extend to the other information and we do not make conclusion ensuring in any way assurance in relation to this information.

In connection with audit of the financial statements carried out by us, our obligation consists in review of the other information as far as it is obtained and consideration in this regard whether there are material discrepancies between the other information and the financial statements or our knowledge obtained in the course of the audit, and whether the other information contains other evidences of material misrepresentations.

Responsibility of the management of the Bank and persons in charge of corporate governance for the financial statements

The management shall be responsible for preparation and reliable presentation of the mentioned financial statements in accordance with the IFRS, as well as for the internal control system, which the management considers necessary for preparing the financial statements not containing material misrepresentations due to unfair acts or errors.

When preparing the financial statements, the management shall be liable for evaluating ability of the Bank to constantly continue its activities, disclosing, where appropriate, the information relating to a going concern and preparing the statements on the basis of an assumption on a going concern, with the exception of cases, where the management intends to liquidate the Bank, to terminate its activities or where it has not any other real alternative, except for liquidation or termination of activities.

The persons in charge of corporate governance shall be liable for supervising preparation of the financial statements of the Bank.

Responsibility of the auditor for audit of the financial statements

Our goal is to get reasonable assurance that the financial statements do not contain material misstatements due to unfair acts or errors and to issue the auditor’s conclusion containing our opinion. Reasonable assurance represents a high degree of assurance, but it does not mean a guarantee that the audit carried out in accordance with the International Standards on Audit always reveals material misrepresentations, if any. Misrepresentations may result from unfair acts or errors and shall be deemed material, if it is possible to reasonably assume that they may affect, separately or in the aggregate, the users’ economic decisions made on the basis of these financial statements.

In the context of the audit carried out in accordance with the International Standards on Audit, we have used the professional judgement and kept professional scepticism throughout the period of audit. Moreover, we take the following actions:

- to detect and assess risks of material misrepresentations in the financial statements due to unfair acts or errors; to develop and perform audit procedures in response to those risks; to get audit evidences sufficient and appropriate to be basis to express our opinion. A risk of failure to detect material misrepresentation as a result of unfair acts is higher than a risk of failure to detect material misrepresentation as a result of error, as unfair acts may include collusion, falsification, deliberate omission, misrepresentation of information or actions in circumvention of the internal control system;
- to understand the internal control system being important for the audit in order to develop audit procedures relevant under the circumstances, but not to express an opinion on efficiency of the internal control system of the Bank;
- to evaluate appropriateness of the applied accounting policy and reasonableness of accounting estimates and respective disclosure of the information prepared by the management;
- to make a conclusion on lawfulness of application by the management of an assumption on a going concern, and on the basis of obtained audit evidences - a conclusion on existence of substantial uncertainty in connection with events or conditions, which may result in considerable doubts about ability of the Bank to constantly continue its activities. If we conclude on existence of substantial uncertainty, we must attract attention in our auditor's conclusion to respective disclosure of information in the financial statements or modify our opinion, in case such disclosure of information is undue. Our conclusions are based on audit evidences obtained before the date of our auditor's conclusion. However, the future events or conditions may result in inability of the Bank to constantly continue its activities;
- to evaluate representation of the financial statements in general, structure and contents thereof, including disclosure of information, as well as whether the financial statements represent the underlying operations and events so as to ensure reliable representation thereof.

We exchange information with the persons in charge of corporate governance by providing them, inter alia, with the information about planned scope and terms of the audit, as well as considerable observations based on the results of the audit, including significant deficiencies in the internal control system, which we have found out in the course of the audit.

We also make statement for the persons in charge of corporate governance that we have complied with all respective ethic requirements with respect to independence and informed those persons about all relations and other issues, which may be reasonably considered as affecting independence of the auditor, and where necessary - respective precaution measures.

Out of issues, which we have informed to the persons in charge of corporate governance, we determine the issues, which are the most important for the audit of the financial statements for the current period and, accordingly, are the key issues of the audit. We describe those issues in our auditor's conclusion, except for the cases, where public disclosure of the information about those issues is prohibited by the law or regulatory act, or where in rare instances we conclude that the information about any issue must not be disclosed in our conclusion, as one can reasonably assume that negative consequences of disclosure of such information will go beyond publicly significant benefit from disclosure thereof.

Orazgaliyeva Assem is the leader of the audit engagement based on the results of which this independent auditors' report has been issued.

BDO Kazakhstan LLP

State license of the Committee of financial control of the Ministry of Finance of the Republic of Kazakhstan No.15003448 dated 19 February 2015 to carry out audit activity

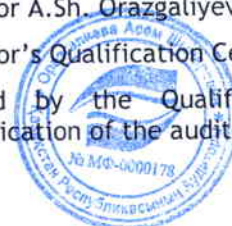
“01” March 2018


Director T.A. Omarov

Auditor A.Sh. Orazgaliyeva 

Auditor's Qualification Certificate No.МФ-0000178

issued by the Qualification Commission for certification of the auditors of RK on 21.01.2014



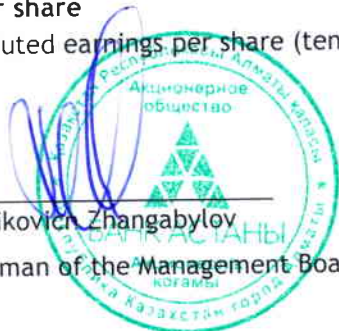
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“Bank of Astana” JSC

Statement of profit or loss and other comprehensive income for the year ended on 31 December 2017, thousand tenge

	Note	For the year ended on 31 December 2017	For the year ended on 31 December 2016
Interest incomes	4	34,131,032	26,980,845
Interest expenses	4	(19,749,101)	(19,921,595)
Net interest income		14,381,931	7,059,250
Fee incomes	5	3,821,554	2,082,616
Fee expenses	6	(1,932,071)	(474,419)
Net fee income		1,889,483	1,608,197
Net profit on foreign exchange transactions	7	509,277	194,878
Net profit on transactions with trading securities		(815,628)	(196,588)
Other operating incomes	8	6,936,153	279,048
Other operating expenses	8	(3,346,937)	(993,224)
Operating incomes		19,554,279	7,951,561
Impairment losses	9	(6,872,622)	(474,927)
Expenses for personnel	10	(2,317,590)	(1,857,848)
Other general administrative expenses	11	(8,949,126)	(4,279,396)
Profit before taxes		1,414,941	1,339,390
Expense on income tax	12	(99,689)	(474,375)
Profit for the period		1,315,252	865,015
Other comprehensive income, less income tax			
Items, which are or may be subsequently reclassified as parts of profit or loss:			
Provision for revaluation of financial assets available for sale			
- net change of fair value		801	129,925
Items, which may not be subsequently reclassified as parts of profit or loss:			
Provision for revaluation of land and buildings			
- net change of fair value		4,902,803	-
Other comprehensive income (loss) for the period, less income tax		4,903,604	129,925
Total comprehensive income for the period		6,218,856	994,940
Earnings per share			
Basic and diluted earnings per share (tenge)	25	43.6	43.2

Mukhtar Serikovich Zhangabylov
Acting Chairman of the Management Board



Shynar Kabdualiyevna Kurmanbayeva
Chief Accountant

Statement of profit or loss and other comprehensive income must be considered together with the notes, which shall be integral parts of these financial statements.

“Bank of Astana” JSC

Statement of financial position for the year ended on 31 December 2017, thousand tenge

	Note	31.12.2017	31.12.2016
Cash and cash equivalents	13	65,632,908	139,080,652
Financial instruments at fair value the changes in which are booked as parts of profit or loss for the period	14	7,945,284	-
Financial assets available for sale	15	626,790	2,874,744
Credits and advances granted/paid to the banks and other financial institutions	16	527,738	6,611,745
Credits granted to customers			
-Credits granted to corporate customers	17	16,290,532	30,245,462
-Credits granted to small and medium-scale companies	17	130,973,221	107,744,066
-Credits granted to retail customers	17	22,625,572	43,679,122
Fixed and intangible assets	18	27,471,595	4,347,900
Other assets	19	67,588,493	26,420,946
Total assets		339,682,133	361,004,637
LIABILITIES			
Accounts and deposits of banks and other financial institutions	20	20,097,849	31,099,930
Current accounts and deposits of customers			
- Current accounts and deposits of corporate customers	21	193,682,359	251,569,087
- Current accounts and deposits of retail customers	21	71,128,486	44,013,370
Accounts payable on REPO transactions	22	641,658	-
Deferred tax liability	12	1,447,133	121,743
Other liabilities	23	4,268,195	2,474,502
Total liabilities		291,265,680	329,278,632
CAPITAL			
Share capital	24	42,085,468	34,785,467
Treasury shares purchased from shareholders	24	-	(6,758,130)
Additional paid capital		(112,895)	(112,895)
Provision for covering general banking risks		957,976	957,976
Provision for revaluation of financial assets available for sale		100,800	99,999
Provision for revaluation of land and buildings		5,201,251	298,448
Retained profit		183,853	2,455,140
Total capital		48,416,453	31,726,005
Total liabilities and capital		339,682,133	361,004,637

Mukhtar Serikovich Zhangabylov
Acting Chairman of the Management Board

Shynar Kabdualiyeva Kurmanbayeva
Chief Accountant

Statement of cash flow for the year must be considered together with the notes, which shall be integral parts of these financial statements

“Bank of Astana” JSC

Statement of cash flow for the year ended on 31 December 2017, thousand tenge

	For the year ended on 31 December 2017	For the year ended on 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITY		
Received fee	25,340,466	21,019,770
Paid fee	(19,299,725)	(19,220,900)
Received commission fee	3,570,122	2,079,099
Paid commission fee	(1,867,726)	(494,502)
Net revenue from operations with financial instruments at fair value the changes in which are booked as parts of profit or loss for the period	(8,760,912)	99,332
Net revenue on foreign exchange transactions	468,685	418,257
Other payments and other revenue, net amount	3,589,216	(714,176)
Payments to personnel	(2,293,661)	(1,880,221)
Other general administrative payments	(7,278,234)	(3,718,970)
(Increase)/decrease in operating assets		
Credits and advances granted/paid to banks and other financial institutions	5,725,741	6,972,666
Credits granted to customers	19,620,733	(43,583,692)
Other assets	(47,142,797)	(2,064,012)
Increase/(decrease) in operating liabilities		
Accounts and deposits of banks and other financial institutions	(11,141,099)	(14,961,119)
Current accounts and deposits of customers	(31,081,970)	149,852,498
Accounts payable on REPO transactions	641,658	-
Other liabilities	1,814,178	435,502
Net cash from operating activity before income tax	(68,095,325)	94,239,532
Paid income tax	(229,928)	(565,670)
Cash from operating activity	(68,325,253)	93,673,862
CASH FLOWS FROM INVESTMENT ACTIVITY		
Sale (Purchase) of financial assets available for sale	2,197,689	(1,040,620)
Purchase of fixed and intangible assets	(18,004,833)	(2,635,030)
Capital expenditure	-	(3,027,879)
Fixed asset revaluation	-	-
Sale of fixed and intangible assets	172,468	289
Use of cash in investment activity	(15,634,676)	(6,703,240)
CASH FLOWS FROM FINANCIAL ACTIVITY		
Revenue from share issue	7,300,001	14,000,001
Revenue from allocation of purchase shares	3,575,180	-
Purchased ordinary shares	(403,589)	(6,758,130)
Purchase of subordinated bonds	-	(7,023,998)
Cash from financial activity	10,471,592	217,873
Net increase (decrease) in cash and cash equivalents	(73,488,338)	87,188,495
Effect of changes of foreign exchange rates on amount of cash and cash equivalents	40,593	(104,626)
Cash and cash equivalents at the beginning of the period	139,080,652	51,996,783
Cash and cash equivalents at the end of the period (Note 13)	65,632,908	139,080,652

Mukhtar Serikovich Zhangabylov
Acting Chairman of the Management Board

Shynar Kabdualiyevna Kurmanbayeva
Chief Accountant

Statement of cash flow for the year must be considered together with the notes, which shall be integral parts of these financial statements

“Bank of Astana” JSC

Statement of changes in capital for the year ended on 31 December 2017


thousand tenge	Share capital	Treasury shares purchased from shareholders	Additional paid capital	Provision for covering general banking risks	Provision for revaluation of financial assets available for sale	Provision for revaluation of land and buildings	Retained profit	Total
Balance as at 1 January 2016	20,785,466	-	(112,895)	957,976	(29,926)	301,462	1,587,111	23,489,194
Total comprehensive income								
Profit for the period	-	-	-	-	-	-	865,015	865,015
Other comprehensive income								
Items, which are or may be subsequently reclassified as parts of profit or loss:								
Net change of fair value of financial assets available for sale	-	-	-	-	129,925	-	-	129,925
Items, which may not be subsequently reclassified as parts of profit or loss:								
Carry-over of provision for revaluation of land and buildings	-	-	-	-	-	(3,014)	3,014	-
Total other comprehensive income	-	-	-	-	129,925	(3,014)	3,014	129,925
Total comprehensive income for the period	-	-	-	-	129,925	(3,014)	868,029	994,940
Transactions with owners booked directly in equity capital								
Issued shares (Note 24)	14,000,001	-	-	-	-	-	-	14,000,001
Purchased ordinary shares (Note 24)	-	(6,758,130)	-	-	-	-	-	(6,758,130)
Total transactions with owners	14,000,001	(6,758,130)	-	-	-	-	-	7,241,871
Balance as at 31 December 2016	34,785,467	(6,758,130)	(112,895)	957,976	99,999	298,448	2,455,140	31,726,005
Total comprehensive income								
Profit for the period	-	-	-	-	-	-	1,315,252	1,315,252
Other comprehensive income								
Items, which are or may be subsequently reclassified as parts of profit or loss:								
Net change of fair value of financial assets available for sale	-	-	-	-	801	-	-	801
Items, which may not be subsequently reclassified as parts of profit or loss:								
Revaluation of land and buildings	-	-	-	-	-	4,902,803	-	4,895,344
Total other comprehensive income	-	-	-	-	801	4,902,803	1,315,252	6,218,856
Total comprehensive income for the period	-	-	-	-	801	4,902,803	1,315,252	6,218,856
Transactions with owners booked directly in equity capital								

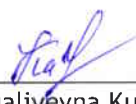
Statement of changes in capital must be considered together with the notes to these financial statements, which shall be integral parts of these financial statements.

“Bank of Astana” JSC

Statement of changes in capital for the year ended on 31 December 2017

Issued shares (Note 24)	7,300,001	-	-	-	-	-	-	7,300,001
Purchased ordinary shares (Note 24)	-	(403,589)	-	-	-	-	-	(403,589)
Revenue from allocation of purchased shares (Note 24)	-	7,161,719	-	-	-	-	(3,586,539)	3,575,180
Total transactions with owners	7,300,001	6,758,130	-	-	-	-	(3,586,539)	10,471,592
Balance as at 31 December 2017	42,085,468	-	(112,895)	57,976	100,800	5,201,251	183,853	48,416,453


Mukhtar Serikovich Zhangabylov
Acting Chairman of the Management Board


Shynar Kabdualiyevna Kurmanbayeva
Chief Accountant

Statement of changes in capital must be considered together with the notes to these financial statements, which shall be integral parts of these financial statements.

1 Basic provisions

(a) Primary activity

“Bank of Astana” JSC (hereinafter - the “Bank”) was established in the Republic of Kazakhstan as a joint stock company under the name “Bank “Astana-Finance” JSC in 2008. The primary activities are deposit taking, customer accounts opening and maintenance, lending, issuing guarantees, cash and settlement operations and transactions with securities and foreign currency. The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (hereinafter - the “RK NB”). The Bank has general license No.1.1.257 dated 6 November 2009, which was re-registered on 24 August 2011.

In accordance with Regulation of the National Bank of the Republic of Kazakhstan No.79 dated 1 July 2011 the Bank’s license on deposit taking, individuals’ bank account opening and maintenance was revoked. As the result of this, during the year ended on 31 December 2011 the Bank closed all current accounts and deposits of individuals. On 31 March 2014 the Bank received license No.1.1.10 from the National Bank of the Republic of Kazakhstan on deposit taking and individuals’ accounts maintenance and resumed these activities. On 10 March 2015 the Bank was re-registered as “Bank of Astana” JSC.

The Bank’s legal address is: at 22, Koktem-2, Almaty, 050040, the Republic of Kazakhstan.

The Bank has eight branches from which it conducts its business throughout the Republic of Kazakhstan. The majority of the assets and liabilities of the Bank are in the Republic of Kazakhstan. The bonds and ordinary shares issued by the Bank are listed on Kazakhstan Stock Exchange.

(b) Shareholders

As at 31 December 2017 and 31 December 2016, the following shareholders owned issued shares:

Shareholders	31 December 2017	31 December 2016
	%	%
O. Tokhtarov	52.39	61.07
D. Kumpeissov	-	6.58
T. Kashkinbayev	0.04	5.52
R. Shadiyev	-	5.07
Other	47.57	21.76
	100.00	100.00

On 19 March 2010, the Agency for regulation and supervision of financial market and financial organizations signed a multilateral agreement with the Bank, “Astana-Finance” JSC and other subsidiaries prohibiting certain intergroup transactions.

On 19 May 2010 the Company transferred 100% of its shareholding into the trust management of Sovereign Wealth Fund “Samruk Kazyna” JSC (hereinafter - the “Fund”). The Fund undertook to perform the Bank’s shareholder functions on a temporary basis for the shortest of 12 months and the period up to the date on which the Company’s restructuring plan is approved by the Kazakhstan court and all the actions agreed in the restructuring plan are implemented.

On 21 January 2013 “Astana Finance” JSC and two individuals, Mr. K.Kh. Rakishev and Mr. O.T. Tokhtarov, signed an agreement on sale of 100% shares of the Bank. On 3 May 2013, Astana Finance disposed 49% of its shareholding in the Bank, when the share sale deal was approved by the Committee for control and supervision of financial market and financial organizations, and new shareholders were granted the status of major shareholders. The disposal of remaining 51% issued shares was subject to satisfaction of the conditions precedent the Company completing the restructuring. The Bank’s management determined that although “Astana Finance” JSC owned 51% shares of the Bank as at 31 December 2013, it lost control over the Bank when new shareholders acquired 49% shares in the Bank on 3 May 2013. This is because the Company’s status of a bank holding company has been previously revoked by the Committee and, as a result, the Company’s rights to vote at the General Meeting of Shareholders are suspended.

On 31 December 2014, the new shareholders purchased additional 100,000 shares in the Bank.

Taking into account the satisfaction of the conditions prescribed in the Restructuring Plan of “Astana Finance” JSC approved by the RK NB and the Specialized Inter-district Economic Court of Almaty (hereinafter - the “Court”) on 24 April 2015 and 27 April 2015, respectively, the Court decided to complete restructuring on 2 June 2015. The restructuring process was completed on 23 June 2015. As a result, “Astana Finance” JSC sold remaining 51% to individuals.

“Bank of Astana” JSC

Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

On 29 July 2015, Mr. K.Kh. Rakishev also fully disposed of his share of ownership by selling 2,362,792 ordinary shares to minority shareholders of the Bank.

On 16 November 2015, Mr. O.T. Tokhtarov purchased 7,200,000 ordinary shares in the Bank. On 4 December 2015, Mr. O.T. Tokhtarov sold 1,485,047 ordinary shares in the Bank to Mr. T.I. Kashkinbaev.

On 28 June 2016, the Bank issued 6,400,000 ordinary shares of the Bank, and 4,699,515 of these shares were purchased by Mr. O.T. Tokhtarov.

On 30 September 2016, Mr. O.T. Tokhtarov purchased 8,333,334 ordinary shares in the Bank.

During 2016, the Bank made repurchases of its own shares in the total quantity of 2,851,199.

In 2017 the Bank increased the number of authorised shares up to 100,000,000 shares.

On 7 June 2017, Mr. O.T. Tokhtarov purchased additional 1,739,131 ordinary shares in the Bank, for consideration amounting to KZT 2,000,001 thousand, which was settled in cash.

On 30 June 2017, the Bank increased the share capital by the amount of 5,300,000 thousand tenge by allocating the Bank's ordinary shares among public investors in “Kazakhstan Stock Exchange” JSC, there were 4,606,696 allocated shares.

For the year 2017 6,347,827 shares were issued to the total amount of 7,300,001 thousand tenge. Likewise, 30,636 shares to the total amount of 403,589 thousand tenge were purchased over the stated period.

On 15 December 2017, the Bank increased the share capital by the amount of 7,161,719 thousand tenge by offering 2,881,835 ordinary shares of the Bank to public investors on the Moscow Stock Exchange, which were previously purchased by the Bank.

(c) Conditions for carrying out financial and business activity in the Republic of Kazakhstan

The Bank carries out its activity primarily in Kazakhstan. Therefore, the Bank is exposed to economic and financial risks in the markets of Kazakhstan, which demonstrate specific features inherent in developing markets. Legal, tax and statutory acts are being improved, but may be differently interpreted and is subject to often changes, which, in combination with the other deficiencies of the legal and fiscal systems, make additional difficulties for the banks carrying out their activities in Kazakhstan. Moreover, recent considerable impairment of the Kazakhstan tenge and reduction of price for oil in the world markets increased the extent of uncertainty of the conditions for carrying out business activity.

The applied financial statements present the management's estimation of possible influence of existing conditions for carrying out financial and business activity on the results of activity and financial position of the Bank. Further development of the conditions for carrying out financial and business activity may differ from the management's estimation.

(d) Kazakhstan banking sector risk and going concern assumption

After devaluation of the tenge in 2015, the Kazakhstan banking sector experienced significant problems, and during the years 2016 and 2017 two commercial banks, as it happened, faced the difficulty when fulfilling their obligations to the creditors. These events increased the overall extent of uncertainty in the banking sector, which revealed themselves in contraction of the liquidity markets and considerable outflow of deposits for some banks. The National Bank of Kazakhstan also recently announced of its plans concerning the rehabilitation program in order to render support those banks, which experience deterioration in their asset quality.

During the years 2014-2016 the prices for energy resources considerably reduced with the result of significant decrease in export revenues. On 20 August 2015, the Government and the RK NB announced of transition to a new monetary policy based on freely floating tenge rate and abolished the exchange rate band. As a result, the tenge considerably devalued towards basic foreign currencies. High level of dollarization in Kazakhstan economy was still evidenced during September-December 2015 and January-February 2016 that resulted in considerable deficit of liquidity in tenge in the banking system, the record-breaking levels of the fee rates in the money market and suspension of credit activities. In February 2016, the RK NB introduced the base rate equal to 17% ± 2% and transited to the policy of inflation targeting. The actions taken by the RK NB allowed solving the problem of insufficient liquidity of tenge in the system and reducing the average inflation rate.

In the middle of January 2016, the international rating agency Standard & Poor's considerably cut its forecasts with respect to the prices for oil during 2016-2019. Since economy of Kazakhstan

substantially depends on oil and gas sector, Standard & Poor's expects stagnation or very insignificant GDP increase.

As at 31 December 2017, the basic rate of the RK NB was equal to $9.25\% \pm 1\%$ (as at 31 December 2016: $12\% \pm 1\%$). Notwithstanding sudden high growth of Kazakhstan GDP for 2017, the assets and deposits of the banking system for that period reduced, and the credit activities continued stagnating. From beginning of 2017, the banking sector of Kazakhstan began the period of rather scaled transformation, which already began to significantly affect the showings of the banking system. Since 2017 the equity capital adequacy criteria were raised, supervision and response measures on the part of a regulator got stringent, and from beginning of 2018 the banks must transit to the new system of accounting for formation of provisions for credit loss (IFRS 9). Such changes in many respects forced the bank to consolidate.

The Bank's management monitors current changes in economic situation and takes actions, which it deems necessary to keep stability and development of business of the Bank in the foreseeable future. However, at the moment it is difficult to determine the effect of changes in economic situation on the future results of activity and financial position of the Bank.

As at 31 December 2017, according to the management estimation there is the capital sufficient to absorb credit losses to the amount of 15,000,000 thousand tenge (2016: 10,000,000 thousand tenge) before the fixed regulatory capital ratio (k1) is distorted.

Credit risk

As at 31 December 2017, the management revealed the evidences of impairment equal to approximately 56.91% of credits composing the portfolio of corporate credits of the Bank (2016: 35%). The most of those impaired credits was secured by pledges, including cash deposit, property, land plots or other less liquid assets. The Bank calculated potential future revenues from disposal of such security with the help of independent appraisals, and this was the key assumption, which affected measurement of impaired credits and required considerable professional judgment.

Actions taken by the Bank to minimize the credit risk during 2017 are disclosed in note 26(c). They include support of sufficient level of security of corporate credits and continuous monitoring of the credit portfolio. The management also tries to increase the level of the regulatory capital of the Bank in order to mitigate sufficient buffer to absorb possible future additional credit losses, if any.

Liquidity risk

As explained in Note 26(d), as at 31 December 2017 the current corporate accounts and on-demand deposits include the amount of 88,658,705 thousand tenge (as at 31 December 2016: 85,855,496 thousand tenge), which is payable on demand to one counterparty. On the basis of exchange of the information specifying the counterparty the Bank does not expect that balance to be fully withdrawn during at least next two years, nevertheless, the liquidity risk is significantly concentrated.

These financial statements have been prepared assuming that the Bank will continue to keep its base of customer deposits. However, the Bank, together with the other banks carrying out activities in this sector, remains exposed to the risk that in case of massive and unexpected outflow of customer deposits, such outflow will adversely affect activities of the Bank.

Actions taken by the Bank to manage liquidity risk include support of substantial liquid assets in the form of cash and cash equivalents and continuous monitoring of those customer deposits, which represent considerable concentrations of liquidity risk as stated in note 26(d). Moreover, the major shareholder of the Bank informed that it is ready to grant additional financing, if necessary, in order to assist in case liquidity is insufficient, if such assistance becomes required.

The management took the following additional actions to eliminate the credit risk and liquidity risk during the period after 31 December 2017:

- the management continues to raise the level of pledges held as security of the portfolio of corporate credits;
- the management reviewed its credit facility agreements made with the other counterparties whereby the funds may be used in case of liquidity deficit;
- keeping the highly liquid assets such as “Reverse REPO” transactions, interbank deposits and loans.

2 Basic principles for preparing the financial statements

(a) Statement of conformance to the IFRS

The applied financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter - the IFRS).

(b) Basis for value measurement

The financial statements have been prepared in accordance with the accounting principle at actual costs, with the exception of the financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period, financial assets available for sale, land and buildings booked at fair value.

(c) Functional currency and representation currency of details of the financial statements

The functional currency of the Bank is the Kazakhstan tenge, which, being the national currency of the Republic of Kazakhstan, demonstrates the best the economic substance of the most of operations settled by the Bank and related circumstances influencing on its activities.

The Kazakhstan tenge is the currency of representation of details of these financial statements, as well.

All details in the financial statements are rounded off to the proximate thousand tenge.

(d) Use of professional judgements, accounting estimates and assumptions

Preparation of the financial statements in accordance with the IFRS requirements obliges the management to make judgements, accounting estimates and assumptions affecting application of the accounting policy and the amount of assets and liabilities, incomes and expenses presented in the financial statements. The actual results may differ from the mentioned estimations.

Estimations and underlying assumptions are reviewed on a regular basis. Adjustments in estimations are recognized in that reporting period in which respective estimations are reviewed and in any subsequent periods, which they relate to.

The information with respect to material uncertain estimations and critical reasonable judgements when applying the principles of the accounting policy is given in Note 17 “Credits granted to customers” and Note 19 “Other assets”.

(e) Change of the accounting policy and procedure for data presentation

The Bank adopted the “Project on review of the requirements for disclosure of information” (amendments to IAS 1) with the date of the initial application on 1 January 2016. These amendments clarify the materiality principle. In particular, it is explicitly stated that the entities must detail presentation of items of the statement of financial position and the of the statement of profit or loss and other comprehensive income, if such presentation give the users of the financial statements more useful information; and may combine the items in the statement of financial position and the statement of profit or loss and other comprehensive income, if the items determined in IAS 1 are insignificant.

3 Basic provisions of the accounting policy

The Bank consistently applied the provisions of the accounting policy described below in all reporting periods presented in these financial statements.

(a) Foreign currency

The foreign exchange transactions are translated into respective functional currencies of the Bank at the foreign exchange rates prevailing as at the date of transactions. The monetary assets and liabilities denominated in the foreign currency as at the reporting date are translated into the functional currency at the exchange rate prevailing as at that reporting date. Foreign exchange gain or loss on monetary items represents a difference between the amortized cost of respective item in functional currency at the beginning of the reporting period adjusted for interest charged at effective interest rate and payments for the reporting period and the amortized cost of that item in foreign currency translated at the exchange rate at the end of that reporting period.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into functional currency at the foreign exchange rates prevailing as at the dates of the fair value measurement. Non-monetary assets and liabilities denominated in foreign currency and

booked at actual costs are translated into functional currency at the foreign exchange rate prevailing as at the date of transaction.

The foreign exchange differences resulting from translation into foreign currency are booked as parts of profit or loss (with the exception of differences arising at translation of equity financial instruments available for sale, with the exception of cases, where the difference arises due to impairment, in which case the foreign exchange differences booked as parts of the other comprehensive income are reclassified as parts of profit or loss), the financial liability booked as hedging of net investments in foreign transactions (if hedging is effective), or respective cash flows meeting the requirements for hedging operations (if hedging is effective) booked as parts of the other comprehensive income.

(b) Cash and cash equivalents

Cash and cash equivalents include cash bank notes and coins, cash at ATMs, clear balances (accounts like “Nostro”) with the RK NB and other banks, as well as highly liquid financial assets with not less than 3-month maturity, which are not exposed to significant risk of change of the fair value and are used by the Bank to settle short-term liabilities. The statutory provision with the RK NB is not considered as cash equivalent in connection with restrictions in use thereof. Cash and cash equivalents are booked at amortized cost in the statement of financial position.

(c) Financial instruments

(i) Classification of financial instruments

The financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period represent the financial assets or liabilities, which:

- are purchased or arise mainly for the purpose of sale or purchase in the near future;
- are parts of the portfolio of the jointly controlled identifiable financial instruments with respect to which there is an evidence in the recent past of derivation of profit in the short term;
- are derivative (with the exception of derivative financial instruments, which are financial guarantee agreements or created and actually used hedging instruments, which are effective); or
- at initial recognition are classified as measured at fair value the change in which are booked as parts of profit or loss for the period.

The Bank may classify financial assets and liabilities as measure at fair value the changes in which are booked as parts of profit or loss for the period, if one of the following conditions is met:

- the assets or liabilities are managed, measured and booked in internal accounts on the basis of a fair value;
- such an approach fully or substantially eliminates the mismatch effect in the accounting records, which would exist otherwise; or
- an asset or a liability has embedded derivative financial instrument, which significantly changes cash flows, which would be expected under an agreement in the absence thereof.

All derivative financial instruments held for trade with positive fair value, as well as purchased option contracts, are booked in the financial statements as assets. All derivative financial instruments held for trade with negative fair value, as well as issued option contracts, are booked in the financial statements as liabilities.

The management determines a category in which a financial instrument should be classified at initial recognition thereof. Derivative financial instruments and financial instruments classified at initial recognition as measured at fair value the changes in which are booked as parts of profit or loss for the period are not reclassified from the financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period. If the financial assets match the definition of credits and accounts receivable, they may be reclassified from the financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period or from the assets available for sale, if an entity intends and is able to hold those assets in the foreseeable future or to maturity. The other financial instruments only rarely may be reclassified from the financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period. The rare instances are unordinary one-time events, which will not likely repeat in the nearest future.

The credits and accounts receivable represent non-derivative financial assets with fixed or definable payments, which are not quoted in actively functioning market, with the exception of those ones, which the Bank:

- intends to sell immediately or in the very near future;
- classifies at initial recognition as measured at fair value the changes in which are booked as parts of profit or loss for the period;
- classifies at initial recognition as available for sale; or
- for which the Bank may not compensate all initially made investments due to the reasons other than credit impairment.

The investments held to maturity represent non-derivative financial assets with fixed or definable payments and fixed maturity date, which the Bank intends and is able to hold to maturity, with the exception of those ones, which:

- the Bank classifies at initial recognition as measured at fair value the changes in which are booked as parts of profit or loss for the period;
- the Bank classifies as available for sale; or
- match the definition of the credits and accounts receivable.

The financial assets available for sale represent those non-derivative financial assets, which are classified as available for sale or do not match the definition of the credits and accounts receivable, investment held to maturity or financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period.

(ii) Recognition of financial instruments in the financial statements

The financial assets and liabilities are booked in the statement of financial position, if the Bank enters into contractual relations the subject matter of which implies the mentioned financial instruments. All events of standard purchase of the financial assets are booked as at the date of settlements.

(iii) Measurement of value of the financial instruments

A financial asset or liability is initially measured at fair value plus, in the event of a financial asset or liability not measured at fair value the changes in which are booked as parts of profit or loss for the period, the costs for transaction directly attributed to purchase or issue of a financial asset or liability.

After initial recognition the financial assets, including derivative financial instruments being the assets, are measured at their fair value without deducting any costs for transactions, which could be incurred as the result of sale or other retirement, with the exception of:

- the credits and accounts receivable, which are measured at amortized cost using the effective interest rate method;
- the investments held to maturity, which are measured at amortized cost using the effective interest rate method;
- the investments in equity instruments without market quotations in actively functioning market the fair value of which may not assessed with a sufficient degree of assurance. Such instruments are booked in the financial statements at actual costs.

All financial liabilities, with the exception of the financial liabilities measured at fair value the changes in which are booked as parts of profit or loss for the period and the financial liabilities arising in case transfer of a financial asset booked at fair value does not meet the criteria of derecognition, are measured at amortized cost.

(iv) Amortized cost

The amortized cost of a financial asset or liability represents a cost at which a financial asset or liability were measured at initial recognition, less payments of a principal amount of a debt adjusted for an amount of accumulated depreciation of a difference between initially recognized cost and cost at redemption assessed using the effective interest rate method, as well as less impairment loss. Amount of bonuses and discounts, as well as costs for transactions are included into book value of a respective instrument and are depreciated based on effective interest rate for that instrument.

(v) Principle of measurement at fair value

Fair value represents a price, which would result at sale of an asset or paid at transfer of a liability under conditions of a transaction settled in organized market between the market participants as at the date of measurement at primary market or, in the absence thereof, in the most favourable market to which the Bank has access as at the stated date. Fair value of liabilities represents a risk of default therein.

As far as practicable, the Bank assesses a fair value of an instrument using quotations of that instrument in active market. The market is recognized active, if asset or liability transactions are settled frequently enough and in a volume sufficient to determine quotations on a regular basis.

In the absence of current quotations in the active market the Bank uses the valuation methods, which use to the maximum observable input data and minimally use non-observable input data. The selected valuation methods include all factors, which the market participants would take into consideration under these circumstances.

The best evidence of a fair value of a financial instrument at initial recognition is usually a transaction price, id est a fair value of paid or received consideration. If the Bank ascertains that a fair value at initial recognition differs from transaction price and fair value is not confirmed by the current quotations in active market for a similar asset or liability and is not based on valuation methods using only observable input data, a financial instrument is initially measured at fair value adjusted in order to defer a difference between a fair value at initial recognition and a transaction price. After initial recognition a difference is booked accordingly as a part of profit or loss during an entire lifecycle of an instrument, but not later than at the moment when measurement is completely confirmed by observable input data or when a transaction is already closed.

(vi) Profits and losses arising at subsequent measurement

Profits or losses arising at change of a fair value of a financial asset or liability are booked as follows:

- profit or loss on a financial instrument classified as measured at fair value the changes in which are booked as parts of profit or loss for the period shall be booked as a part of profit or loss;
- profit or loss on a financial asset available for sale is booked as the other comprehensive income as part of capital (with the exception of impairment losses and profits or losses from translation of balances in foreign currency on debt financial instruments available for sale) until derecognition of an asset, when accumulated profits or losses previously booked as part of capital are carried over as parts of profit or loss. Interest incomes on a financial asset available for sale are booked as part of profit or loss using the effective interest rate method.

Profit or loss on financial assets and liabilities booked at amortized cost shall be booked as part of profit or loss in case of derecognition or impairment of a financial asset or liability, as well as in the course of accrual of respective depreciation.

(vii) Derecognition

The Bank derecognizes a financial asset at the moment when it is forfeited of contractual rights in cash flows on that financial asset or when it transfers a financial asset as the result of settlement of a transaction in which substantially all risks and benefits relating to a right of ownership in that financial asset are transferred to another party, or in which the Bank does not transfer, does not reserve substantial part of all risks and benefits relating to a right of ownership in that financial asset and does not reserve control of a financial asset. Any interest in transferred financial assets with respect to which the requirements for derecognition are met, which interest is created by the Bank or is reserved to it, is recognized as a separate asset or liability in the statement of financial position. The Bank derecognizes a financial liability at the moment, when its liabilities under a respective contract are discharges or cancelled or expire.

The Bank concludes transactions under the terms and conditions of which it transfers the assets recognized in the statement of financial position, but it reserves all or a part of risks and benefits resulting from a right of ownership in transferred assets. Providing reservation a all or substantially all risks and benefits, the Bank does not derecognize transferred assets.

When settling transactions under the terms and conditions of which the Bank does not reserve, but does not transfer substantially all risks and benefits resulting from a right of ownership in a financial asset, that asset is derecognized, in case the Bank loses control of an asset.

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Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

If, upon transfer of an asset, the Bank reserves control of it, it continues to recognize an asset to the extent it reserves an interest in an asset to be determined as a degree of exposure of the Bank to changes in its value.

If the Bank acquires own debt liability, then it is excluded from the statement of financial position, and a difference between a book value of a liability and paid consideration is included as a part of profit or loss from early discharge of a liability.

The Bank writes off the assets, which are recognized non-recoverable.

(viii) REPO and reverse REPO transactions

The securities sold under the agreements of sale subject to obligation to buy back (REPO transactions) are booked as an operation for fund raising secured with pledge of securities, and the securities continue to be booked in the statement of financial position, and the liabilities to counterparties are included as parts of the accounts payable on REPO transactions. A difference between selling price and buy-back price represents interest expense and is booked as part of profit or loss for the validity period of REPO transaction using the effective interest rate method.

Securities purchased under the agreements of purchase subject to obligation to sell back (reverse REPO transactions) are booked as amounts of the accounts receivable on reverse REPO transactions using the effective interest rate method.

If the assets purchased under the agreements of purchase subject to obligation to sell back are sold to third parties, an obligation to return securities are booked as a liability held for trade and measured at fair value.

(ix) Assets and liabilities offset

The financial assets and liabilities of the Bank are set off and booked in the statement of financial position in reduced form, if there are legal basis for this and the parties intend to settle a debt through offset or to dispose of an asset and to discharge a liability simultaneously.

(d) Fixed assets

(i) Fixed assets

The items of fixed assets are booked at cost less accumulated depreciation amounts and impairment losses, with the exception of land and buildings, which are booked at revalued amount as it is described hereinafter.

In the event an item of fixed assets consist of several components with different useful life, such components are booked as separate items of fixed assets.

(ii) Revaluation

land and buildings are subject to revaluation on a regular basis. Intervals of revaluation depend on changes in fair value of buildings, which are subject to revaluation. Increase as a result of revaluation in value of land and buildings classified as “Land and buildings”, which increase is booked as part of the other comprehensive income, with the exception of cases, where previous decrease as a result of revaluation in value of the mentioned items booked as part of profit or loss is compensated. In this event the result of revaluation is booked as part of profit or loss. Decrease as a result of revaluation in value of land and buildings classified as “Land and buildings”, which decrease is booked as part of profit or loss, with the exception of cases, where previous increase as a result of revaluation in value of the mentioned items, which increase is booked as part of the other comprehensive income, is written off. In this event the result of revaluation is booked as part of the other comprehensive income.

(iii) Depreciation

Depreciation on fixed assets is accrued in the straight-line method during their expected useful life and is booked as part of profit or loss. Depreciation is accrued from a date of purchase of an item, and for the items of fixed assets erected using own resources - from completion of construction of an item and its readiness for operation. The land plots are not depreciated. The useful lives of different items of fixed assets may be stated as follows:

Buildings	10-100 years;
Furniture and equipment	7-10 years;
Transport vehicles	7 years;
Computer equipment	3-5 years;
Improvement of leased property	3-5 years.

(e) Intangible assets

Purchased intangible assets are booked in the financial statements at actual costs less accumulated amortization and impairment losses.

Costs to acquire licenses for special software and implementation thereof are capitalized in a value of a respective intangible asset.

Amortization on intangible assets is accrued in the straight-line method during their expected useful life and is booked as part of profit or loss. The useful lives of intangible assets varies from 3 to 20 years.

(f) Seized assets

Seized assets are accounted for at less of two values: actual cost or net realizable value.

Net realizable value represents supposed (estimated) selling price of an item of inventories in the course of ordinary business activity of the Bank, less estimated costs for completion of work performance relating to that item and sale thereof.

(g) Asset impairment

At the end of each reporting period the Bank evaluates whether there are objective evidences of impairment of a financial asset or a group of financial assets. In case there are such evidences, the Bank measures an amount of any impairment loss.

A financial asset or a group of financial assets is impaired, and impairment losses occur provided only existence of objective evidences of impairment as a result of one or more events occurred after initial recognition of a financial asset (loss event) and provided that the mentioned event (or events) had influence on expected future cash flows on a financial asset or a group of financial assets, which may be evaluated with sufficient degree of reliability.

Objective evidences of impairment of the financial assets may include default in liabilities (default) or delays in payments by a borrower, borrower's violation of obligations under a contract or the terms and conditions of a contract, restructuring of a financial asset or a group of financial assets on conditions, which in any other case the Bank would not consider, evidences of possible bankruptcy of a borrower or issuer, disappearance of active market for a security, reduction of value of a collateral or other observable data relating to a group of assets, such as aggravation of solvency of borrowers composing a group or change of economic conditions, which correlate with default in liabilities (default) of the borrowers composing the mentioned group.

Significant or continuous decrease in fair value of an investment in equity security available for sale down to value below actual costs for that security is an objective evidence of impairment.

(i) Financial assets booked at amortized cost

The financial assets booked at amortized cost mainly consist of the credits and other accounts receivable (hereinafter - the credits and accounts receivable). The Bank regularly tests the credits and accounts receivable in order to determine possible impairment. At first the Bank evaluates existence of objective evidences of impairment separately for credits and accounts receivable, which are material on a stand-alone basis, and separately or jointly for the credits and accounts receivable, which are not material on a stand-alone basis. If the Bank determines that there are not objective evidences of impairment on a credit or accounts receivable tested separately, whether

they are material or not, the credit or accounts receivable shall be included into a group of the credits and accounts receivable with similar characteristics of credit risk and tested for impairment as part of a group of assets on a joint basis. The credits and accounts receivable separately tested for impairment, with respect to which impairment loss appears or continues to exist, shall not be included into joint test for impairment.

In case there are objective evidences of impairment loss on the credit or accounts receivable, an amount of loss is measured as a difference between a book value of the credit or accounts receivable and current present value of expected future cash flows, including recoverable amount of guarantees and collateral discounted using initial effective interest rate on the credit or accounts receivable. In accordance with the terms and conditions of concluded contracts the cash flows and historical experience of losses, which are adjusted on the basis of respective available information representing current economic conditions, are basis for determining expected cash flows.

In some cases available information required to assess an amount of impairment loss on the credit or accounts receivable may be limited or not meet anymore the current conditions and circumstances. Something similar may occur, in case a borrower experiences financial difficulties, and a scope of available information with respect to similar borrowers is limited. In such events the Bank uses its experience and judgements in order to assess an amount of impairment loss.

All impairment losses from the credits and accounts receivable are booked as parts of profit or loss and are subject to recovery only if subsequent increase in recoverable amount may be objectively related with an event occurred after recognition of impairment losses.

In case a debt on a credit may not be recovered, a credit shall be written off at the expense of respective provision for credit impairment. Such credits (and any respective provisions for credit impairment) are written off after the management determines that debt on the credits may not be recovered and all necessary procedures for recovering a debt on the credits are completed.

(ii) Financial assets booked at actual costs

The financial assets booked at actual costs include non-quoted equity instruments composing the financial assets available for sale, which are not booked at fair value, since their fair value may not be assessed with sufficient degree of reliability. In case there are objective evidences that such investments are impaired, impairment loss is calculated as a difference between book value of investments and current present value of expected future cash flows discounted using current market rate of return on similar financial assets.

All impairment losses on the mentioned investments are booked as parts of profit or loss and are not subject to recovery.

(iii) Financial assets available for sale

Impairment losses from the financial assets available for sale are recognized through carry-over of accumulated loss recognized as part of the other comprehensive income, as the parts of profit or loss as reclassified adjustment. Accumulated loss reclassified from the other comprehensive income as part of profit or loss represents a difference between purchase cost less any payments of principal amount and depreciation and current fair value less impairment loss previously recognized as part of profit or loss. Changes in provision for impairment relating to time value of money are booked as a component of interest income. In case a fair value of impaired debt security available for sale increases in subsequent period and increase may objectively relate to an event occurred after recognition of impairment loss as part of profit or loss, the impairment loss shall be recovered, and recovered amount shall be recognized as part of profit or loss. However, any subsequent recovery of fair value of impaired equity security classified as available for sale is recognized as part of the other comprehensive income.

(iv) Non-financial assets

The non-financial assets other than deferred taxes are tested for impairment as at each reporting date. Recoverable amount of non-financial assets is the largest value of fair value less selling expenses and value in use. When calculating a value in use, the cash flows expected in the future are discounted to their present value using pre-tax discounting rate representing the current market measurement of time value of money and risks specific for that asset or CFGU. When assessing a value in use, the expected future cash flows are discounted to their current present value using a discounting rate before taxes, which represents the current market measurement of time value of money and risks inherent in that asset. Impairment loss is recognized if a book value of an asset or its respective cash flow generating unit (CFGU) is higher than its estimated recoverable amount.

All impairment losses from non-financial assets are booked as parts of profit or loss and are subject

to recovery only if estimates used at assessment of recoverable amount have changed. Any impairment loss of an asset is subject to recovery to the extent a book value of an asset does not exceed such book value (less amortization and deterioration), which would exist, if impairment loss was not booked in the financial statements.

(h) Provisions

Provision is booked in the statement of financial position, where the Bank has a legal or constructive liability as the result of a past event and it is probable that funds diversion will be required to discharge that liability. If an amount of such a liability is significant, then provisions are determined by discounting expected future cash flows using a discounting rate before taxes, which represents the current market measurement of time value of money and, where applicable, the risks inherent in that liability.

(i) Liabilities of credit nature

In the course of the current business activity the Bank assumes contingent credit liabilities including unused credit facilities, letters of credit and guarantees and provides other forms of credit insurance.

Financial guarantees mean contracts obliging the Bank to make particular payments compensating a holder of a financial guarantee the losses incurred as the result of inability of an individual debtor to pay on terms fixed by conditions of a debt instrument.

Liability on a financial guarantee is initially recognized at fair value less related costs for transaction and is subsequently measured at the largest of two values: amounts recognized initially less accumulated depreciation or amount of provision for possible losses on that guarantee. Provisions for possible losses on financial guarantees and other credit liabilities are recognized, when losses are highly probable and amounts of such losses may be assessed with sufficient degree of reliability.

Liabilities on financial guarantees and provisions for other credit liabilities are included into the other liabilities.

Liabilities on granting credits are not recognized in the financial statements with the exception of the following:

- liabilities on granting credits, which the Bank classifies as financial liabilities measured at fair value the changes in which are booked as parts of profit or loss for the period;
- if the Bank has past experience in sales of assets purchased due to liabilities on granting credits, shortly after incurrence thereof, similar liabilities on granting credits attributed to the same category of instruments are considered as derivative financial instruments;
- liabilities on granting credits the settlement of payments on which are made under a contract in net amount in cash or through transfer or issue of another financial instrument;
- liabilities on granting credits at a rate below market one.

(j) Share capital

(i) Ordinary shares

The ordinary shares are classified as capital. Costs directly related with issue of ordinary shares and options on shares are recognized as decrease in capital less any tax effects.

(ii) Dividends

The Bank's ability to declare and pay dividends shall be determined in accordance with the requirements of the legislation of the Republic of Kazakhstan.

Dividends on ordinary shares are booked as use of retained profit as far as they are declared.

(k) Taxation

Income tax includes income tax of the current period and deferred tax. Income tax is booked as part of profit or loss, with the exception of that part thereof, which relates to the items of the other comprehensive income, or operations recognized by shareholders directly as part of capital, in which case it is also recognized as part of the other comprehensive income or directly as part of capital.

Current income tax represents an amount of tax, which, as expected, will be paid or compensated with respect to taxable profit or tax loss for the year, and which is calculated on the basis of tax

rates in effect or substantially in effect as at the reporting date, as well as adjustments for income tax of prior years. Deferred tax is recognized with respect to temporary differences arising between book value of the assets and liabilities assessed in order to book them in the financial statements and their tax base. Deferred tax is not recognized with respect to the following temporary differences: differences relating to goodwill booking in the financial statements and not reducing the taxable base; differences relating to assets and liabilities initial presentation of which affects neither accounting nor taxable profit; as well as temporary differences relating to investments in subsidiaries, where a parent company is able to control a time of realization of the mentioned differences and there is certainty that those temporary differences will not be realized in the foreseeable future. An amount of deferred tax is assessed based on the tax rates, which will be applied in the future, at recovery of temporary differences based on the laws in effect or substantially in effect as at the reporting date.

Calculation of deferred tax assets and deferred tax liabilities presents tax effects, which depend on a way in which the Bank is planning to recover or discharge book value of assets and liabilities at the end of the reporting period. Deferred tax asset is recognized only to the extent earning of taxable profit with respect to which respective temporary differences and unused tax losses and credits may be realized is highly probable. An amount of deferred tax assets reduces to the extent realization of respective tax benefits is not probable anymore.

(l) Recognition of incomes and expenses in the financial statements

Interest incomes and expenses are booked as parts of profit or loss using the effective interest rate method.

Credits arrangement fees, credits service fees and other fees considered as integral parts of total return on credits, as well as respective costs for transactions are booked as deferred incomes and depreciated as interest incomes during expected term of a financial instrument using the effective interest rate method.

The other fees, as well as the other incomes and expenses are booked, when respective service is already provided.

Payments under the operating lease contracts are recognized as parts of profit or loss for the period on a straight-line basis throughout the lease term. An amount of received benefits reduces the total amount of expenses for lease throughout the entire lease term.

(m) Segment statements

The banking operations are highly integrated and represent one business segment for the purposes of conformance to the requirements of IFRS 8 “Operating Segments”. The Bank’s assets are mainly concentrated in the Republic of Kazakhstan, and the most of incomes and revenues of the Bank are generated as the result of activities carried out by it and are connected with the Republic of Kazakhstan. A person responsible for making operating decisions (of the Bank is the Chairman of the Management Board) shall receive and analyse information about the Bank in general.

(n) Changes in the accounting policy and principles of information disclosure

The adopted accounting policy corresponds to the accounting policy applied in the previous reporting year, with the exception of influence of application of the following revised standards dated 1 January 2017. Influence of each amendment applied to operations of the Bank is described below:

Amendments to IAS 7 “Statement of Cash Flows: Disclosure Initiative”. The amendments require from the Bank to disclose the information facilitating evaluation of change of a liability as the result of financial activities, including changes conditioned by cash flows and changes not conditioned thereby.

Amendments to IAS 12 “Recognition of deferred tax assets for unrealized losses”. The amendments clarify that an entity need to evaluate whether the tax laws restrict sources of taxable profit against which deductions may be made apart from deductible temporary differences. Moreover, the amendments clarify the manner in which an entity may measure the future taxable profit and provide for compensation of some assets in amount exceeding their book value. The entities shall be obliged to apply these amendments retrospectively. However, at initial application an entity may recognize a change of equity capital at the beginning of the earliest comparable period as part of opening retained profit (or as part of another capital component, if necessary) without allocating change among retained profit and other components of equity capital. Entities applying that approach must disclose this fact. This amendment does not influence on the financial position and

results of activity of the Bank, as the Bank has not deductible temporary differences or assets, which are within scope of these amendments.

(o) New standards and interpretations not effective yet

A number of new standards, amendments to the standards and interpretations are not effective as at 31 December 2017 yet and have not been applied when preparing these financial statements. Out of the mentioned new developments the following standards, amendments and interpretations potentially may influence on activity of the Bank. The Bank is going to begin to apply the mentioned standards, amendments and interpretations starting from their effectiveness.

IFRS 9 “Financial Instruments”

IFRS 9 “Financial Instruments” published in July 2014 replaces existing IAS 39 “Financial Instruments: Recognition and Measurement” and includes revised guidelines with respect to classification and measurement of the financial assets, including a new model of expected credit losses to measure impairment and the new general requirements for hedging accounting.

(i) Classification and measurement

IFRS 9 contains three basic measurement categories of the financial assets: measured at amortized cost, measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit or loss (FVTPL). Under IFRS 9, classification of the financial assets is mainly determined based on a business model in the context of which a financial asset and characteristics of contractual cash flows are controlled. The standard abolishes the category of the financial assets applicable in IAS 39: financial assets held to maturity, credits and accounts receivable, and the financial assets available for sale. Under IFRS 9, the derivative instruments embedded into a principal contract representing a financial asset within the scope of the standard are not separated from a principal contract. Instead, the entire hybrid contract shall be entirely evaluated for classification. The equity instruments are measured at fair value.

IFRS 9 considerably retains existing requirements of IAS 39 as regards classification of the financial liabilities. Furthermore, in accordance with IAS 39 all changes in fair value of financial liabilities classified as measured at fair value through profit or loss are recognized as parts of profit or loss, while in accordance with IFRS 9 those changes are recognized in general as follows:

- an amount representing a change of fair value of a financial liability conditioned by changes in credit risk on such a liability is recognized as part of the other comprehensive income;
- remaining amount of change of fair value of a liability is recognized as part of profit or loss.

(ii) Impairment

IFRS 9 replaces the “incurred losses” model used in IAS 39 with the “expected credit loss” model. The new impairment model is applied to the financial assets measured at amortized cost and FVOCI, the accounts receivable on lease, some liabilities on granting a credit and financial guarantee contracts. The new impairment model requires in general recognizing expected credit losses as parts of profit or loss on all financial assets - even those, which have just been created or purchased. Under IFRS 9, an amount of impairment is measured as an amount of expected credit losses due to default events on a financial instrument, which are probable within 12 months after the reporting date (“12-month ECL”), or expected credit losses as the result of all possible default events on a financial instrument throughout expected term thereof (“ECL over the entire term”). An amount of expected credit losses recognized on a financial asset initially is equal to amount of 12-month ECL (with the exception of some trade receivables, accounts receivable on lease, assets under a contract or purchased or originated credit-impaired financial assets (POCI assets)). In case of significant increase of credit risk on a financial instrument after initial recognition the loss allowance is recognized in the amount of ECL over the entire term.

The financial assets on which 12-month ECL are recognized relate to stage 1; the financial assets on which significant increase of credit risk after initial recognition is evidenced, but on which there is no default event relate to stage 2; and the financial assets on which there is a default event or which anyway are credit-impaired relate to stage 3.

Measurement of expected credit losses must be objective and weighted by level of probability, it must represent time value of money and include reasonable and justifiable information, which may be obtained without excess expenditure or efforts with respect to past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognized earlier than under IAS 39 and results in increase in volatility in profit or loss. This also will result in increase in

loss allowance, since expected impairment losses on all financial assets will be measured at least in the amount of 12-month ECL and an aggregate of the financial assets on which ECL over the entire term will be measured will be, with high probability, in excess of an aggregate of the financial assets with revealed objective evidences of impairment under IAS 39.

The expected credit losses with high probability will be calculated on the basis of an approach (at least with respect to some portfolios) depending on a type of an item exposed to credit risk, stage to which an item relates under IFRS 9, measurement on a case-by-case or group basis, etc.

(iii) Hedging accounting

Requirements for general procedure for hedging accounting are aimed at simplification of hedging accounting, better harmonization of hedging accounting and strategies of risk management. The standard does not contain direct instructions with respect to macro-hedging accounting, which is considered in the context of a separate project. IFRS 9 provides for selection of the accounting policy with respect to the Bank's ability to continue to account for hedging in accordance with IAS 39.

(iv) Transition to IFRS 9

Requirements for classification and measurement, as well as impairment in general are applied retrospectively (subject to specific exemptions) by adjusting an opening balance of retained profit and provisions as of a date of initial application. The standard does not contain the requirements for recalculation of comparable data for the prior periods.

IFRS 9 becomes effective for the annual reporting periods beginning on or after 1 January 2018. Early application of the standard is allowed.

The Bank has transited to IFRS 9 within fixed terms, at the moment the Bank is completing technical implementation of the business requirements for making changes in the methods and accounting.

IFRS 16 “Lease”

IFRS 16 replaces applicable guidelines with respect to lease, including IAS 17 “Lease”, IFRIC Interpretation 4 “Determining Whether an Arrangement Contains a Lease”, SIC Interpretation 15 “Operating Leases - Incentives”, and SIC Interpretation 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”. The new standard abolishes double accounting model applicable at the present time in the lessee accounting. This model requires classifying a lease as financial lease booked in the balance sheet and operating lease accounted for off balance sheet. Instead of it, a unified accounting model assuming lease booking in the balance sheet and similar to accounting for financial lease effective at the present time is introduced. For the lessors the accounting rules in effect at the present time generally remain unchanged: the lessors will continue to classify lease as financial and operating. IFRS 16 becomes effective for the annual reporting periods beginning on or after 1 January 2019. Early application of the standard is allowed provided that IFRS 15 “Revenue from Contracts with Customers” will be applied, as well. The Bank is not going to early apply that standard. The Bank is evaluating possible influence of IFRS 16 on the financial statements.

The Bank did not apply the following new and revised IFRS issued, but not effective yet:

In May 2017 the new standard - IFRS 17 “Insurance Contracts” - has been issued, which standard replaces IFRS 4 “Insurance Contracts” since 1 January 2021. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designated to achieve the purpose of consistent principle-based insurance contracts accounting. It is not possible to evaluate influence of application of IFRS 17 before detailed analysis is made by the management.

Other changes

The following new standards or amendments to the standards will not have, as expected, significant influence on the financial statements of the Bank:

- “Project to review the requirements for disclosures” (amendments to IAS 7 “Statement of Cash Flows”);
- Recognition of deferred tax assets for unused tax loss carry-forwards (amendments to IAS 12 “Income Taxes”);
- IFRS 15

4 Net interest incomes

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Interest incomes		
Credits granted to customers	26,777,723	21,040,555
Cash and cash equivalents	5,019,491	5,203,722
Credits and advances granted/paid to banks and other financial institutions	2,192,816	562,716
Financial assets available for sale	141,002	173,852
	34,131,032	26,980,845
Interest expenses		
Current accounts and deposits of customers	(17,597,702)	(15,292,663)
Accounts and deposits of banks and other financial institutions	(2,136,863)	(4,011,340)
Subordinated bonds and issued debt securities	-	(614,209)
Accounts payable on REPO transactions	(14,536)	(3,383)
	(19,749,101)	(19,921,595)
	14,381,931	7,059,250

Different items of interest incomes for the period ended on 31 December 2017 includes the total amount equal to 4,774,011 thousand tenge (31 December 2016: 4,187,764 thousand tenge) accrued on impaired financial assets.

The interest expenses on current accounts and deposits for the period ended on 31 December 2017 include expenses on agency fees in the amount of 592,362 thousand tenge (31 December 2016: 2,804,201 thousand tenge), which directly relate to attraction of the mentioned deposits.

5 Fee incomes

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Issue of guarantees and opening letters of credit	1,492,987	1,430,067
Cash transactions	257,901	192,119
Settlement transactions	218,790	166,323
Foreign exchange transactions	132,846	131,640
Credit arrangement fee	168	228
Fee on MasterCard	1,112,175	-
Other	606,687	162,239
	3,821,554	2,082,616

6 Fee expenses

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Transfer operations	(142,837)	(63,930)
Trust operations	(22,000)	(9,520)
Expenses on MasterCard	(759,672)	-
Attribution amounts on transactions using payment cards to expenses	(636,642)	-
Expenses on custodial activity	(323,435)	-
Other	(47,485)	(400,969)
	(1,932,071)	(474,419)

7 Net profit from foreign exchange transactions

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Net profit from sport transactions	784,600	418,257
Net loss from revaluation of financial assets and liabilities	(275,323)	(223,379)
	509,277	194,878

8 Other operating incomes/expenses, net

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Other operating incomes		
Penalties and fines	6,524,092	242,245
Fee on MasterCard	63,924	-
Recovery of overpayment under return for 2015	20,073	-
Other	328,064	36,803
	6,936,153	279,048
Other operating expenses		
Appraising services	(279,640)	-
Collection agency services	(37,367)	(201,487)
Subscriptions and information services	(55,315)	(178,432)
Inventories, FA and IA write-off	(363,467)	(116,174)
Corporate events	(33,932)	(105,777)
Expenses on Cash back function	(686,632)	(104,997)
Rating agency services	(7,349)	(36,069)
Penalties and fines	(167,551)	(19,837)
	(2,000)	(275)
Charity		-
Customer base maintenance	(1,021,913)	-
Legal services	(185,349)	-
Courier services	(160,939)	-
Air ticket purchase	(63,124)	-
Other	(282,359)	(230,176)
	(3,346,937)	(993,224)
	3,589,216	(714,176)

9 Impairment loss

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Credits granted to customers	(5,047,257)	(118,058)
Other assets	(1,823,754)	(361,290)
Credits and advances granted/paid to banks and other financial institutions	(1,611)	4,421
	(6,872,622)	(474,927)

The information about changes in measurements and assumptions relating to impairment of credits granted to customers is disclosed in note 17, as the mentioned changes influenced on profit for 2017.

10 Expenses for personnel

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Employees' benefits	(2,090,700)	(1,684,487)
Salary taxes	(226,890)	(173,361)
	(2,317,590)	(1,857,848)

11 Other general administrative expenses

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Professional services	(2,911,304)	(1,147,680)
Expenses on operating lease	(936,738)	(821,977)
Deterioration and depreciation	(901,490)	(562,954)
Advertisement and marketing	(1,226,341)	(337,209)
Taxes other than income tax	(998,299)	(317,159)
Communication services and information services	(313,533)	(146,757)
Travelling expenses	(187,414)	(110,389)
Insurance	(358,826)	(81,577)
Security	(118,778)	(79,686)

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Transportation expenses	(105,462)	(79,523)
Utility and cleaning expenses	-	(79,461)
Repair and technical maintenance	(78,376)	(50,891)
Collection services	(63,067)	(39,056)
Representation expenses	(14,776)	(10,477)
Trainings	-	(6,474)
Other	(734,722)	(408,126)
	(8,949,126)	(4,279,396)

12 Expense on income tax

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Expense on current income tax	-	(392,169)
Expense/(saving) on deferred income tax	(99,689)	(82,206)
	(99,689)	(474,375)

Reconciliation between accounting and tax profits for twelve months ended on 31 December 2017 and 31 December 2016 is given below:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Income before taxes	1,414,941	1,339,390
Fixed rate	20%	20%
Estimated amount of tax at fixed rate	(282,988)	(267,878)
Non-deductible expenses/(tax expenses not taken into account in the accounting records)	183,299	(206,497)
Total tax	(99,689)	(474,375)

The temporary differences arising between book value of assets and liabilities booked in the financial statements and amounts used to calculate taxable base result in appearance of net deferred tax liabilities as at 31 December 2017 and 31 December 2016. Deferred tax assets are booked in these financial statements. The future tax benefits may only be received, if the Bank earns profit against which unused tax loss may be set off and unless the legislation of the Republic of Kazakhstan will be changed with adverse influence on ability of the Bank to use the mentioned benefits in the future periods.

Change of amount of the temporary differences during the years ended on 31 December 2017 and 31 December 2016 may be presented as follows.

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Fixed and intangible assets	(1,944,346)	(318,751)
Accounts and deposits of banks and other financial institutions	52,297	80,100
Other	138,202	116,908
Tax loss carried forward to the future periods	306,714	-
	(1,447,133)	(121,743)

Movements in deferred tax assets and liabilities for twelve months ended on 31 December 2017 and 31 December 2016 are presented below:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
At the beginning of the period	(121,743)	(39,537)
Recognized in comprehensive income	(99,689)	(82,206)
Recognized in capital	(1,233,160)	-
At the end of the period	(1,447,133)	(121,743)

13 Cash and cash equivalents

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Cash on hand	7,810,079	4,420,104
Cash equivalents		
Nostro accounts with RK NB	12,356,847	100,479,649
Nostro accounts with other banks		
- having credit rating from A- to A+	-	-
- having credit rating from BB- to BB+	9,164,234	1,697,844
- having credit rating from B- to B+	3,424,012	30,527
- having credit rating below B-	-	1,896,885
- without credit rating	457,182	768,750
Total Nostro accounts with other banks	13,045,428	4,394,006
Term deposits with RK NB	12,000,000	23,007,028
Term deposits with other banks		
- having credit rating from A- to A+	1,198,188	-
- having credit rating from B- to B+	-	2,084,833
Total term deposits with other banks	1,198,188	2,084,833
Reverse REPO transactions		
- without credit rating	19,222,366	4,695,032
Total cash equivalents	57,822,829	134,660,548
Total cash and cash equivalents	65,632,908	139,080,652

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

None of items of cash and cash equivalents is impaired or overdue.

As at 31 December 2017, the Bank has had one bank the interest of which exceeds 10% of capital (31 December 2016: 1 bank). As at 31 December 2017, the balance amounted to 5,400,814 thousand tenge (31 December 2016: balance was equal to 123,486,677 thousand tenge).

For the period from 22 August to 31 December 2017 the Bank concluded reverse REPO contracts with “Kazakhstan Stock Exchange” JSC to the amount of 19,101,662 thousand tenge. The return accrued on those transactions amounted to 120,704 thousand tenge.

a) Accepted collateral

As at 31 December 2017, the fair value of securities representing collateral on reverse REPO transactions was equal to: corporate bonds and bonds of the second tier banks to the amount of 5,266,799 thousand tenge, shares of legal entities to the amount of 13,955,567 thousand tenge.

As at 31 December 2016, the fair value of securities representing collateral on reverse REPO transactions was equal to: bonds of the Ministry of Finance of the Republic of Kazakhstan to the amount of 296,467 thousand tenge, corporate bonds to the amount of 50,533 thousand tenge, as well as shares of legal entities and second tier banks to the amount of 4,369,614 thousand tenge.

Requirements for minimal provisions

Minimal provisions are calculated in accordance with the regulatory acts issued by the RK NB and must be maintained equal to the average amount of cash on hand and balance on current account with the RK NB for four weeks to be calculated as a fixed minimal level of deposits and balances on current accounts of customers being residents and non-residents of the Republic of Kazakhstan, as well as the other liabilities of the Bank. As at 31 December 2017, the minimal provision amounted to 4,260,281 thousand tenge (31 December 2016: 4,982,951 thousand tenge).

“Bank of Astana” JSC

Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

14 Financial instruments measured at fair value the changes in which are booked as parts of profit or loss

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Debt and other financial instruments with fixed return		
- Bonds of the Ministry of Finance of the Republic of Kazakhstan	518,348	-
Equity instruments		
- Shares in “Standard” Insurance Company” JSC	4,083,935	-
- Shares in “Kcell” JSC	3,343,001	-
Total financial instruments measured at fair value the changes in which are booked as parts of profit or loss	7,945,284	-

15 Financial assets available for sale

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Debt and other financial instruments with fixed return		
- Bonds of the Ministry of Finance of the Republic of Kazakhstan	203,315	474,010
- Bonds of “Halyk Bank of Kazakhstan” JSC	-	1,254,309
- Bonds of “Freedom Finance” JSC	-	979,175
- Bonds of “SAT&Company” JSC	273,475	-
Equity instruments		
- Shares in “Qazaq Banki” JSC	150,000	167,250
Total financial assets available for sale	626,790	2,874,744

None financial assets available for sale are impaired or overdue.

16 Credits and advances granted/paid to banks and other financial institutions

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Deposits with banks		
- having credit rating from B- to B+	251,563	6,267,808
Credits granted to other financial institutions		
- without credit rating	277,842	344,006
Total credits granted to other financial institutions	277,842	344,006
Provision for impairment	(1,667)	(69)
Credits granted to other financial institutions less provision for impairment	276,175	343,937
	527,738	6,611,745

The following table contains analysis of change of the provision for impairment on credits and advances granted/paid to banks and other financial institutions for twelve months ended on 31 December 2016 and 2017:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Amount of provision for impairment at the beginning of the year	69	9,079
Net recovery of provision for impairment	1,610	(4,421)
Use	(12)	(4,589)
Amount of provision for impairment at the end of the year	1,667	69

17 Credits granted to customers

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Credits granted to corporate customers		
Credits granted to major corporate customers	18,415,031	31,170,157
Credits granted to small and medium business entities	136,441,908	112,507,269
Total credits granted to corporate customers	154,856,939	143,677,426
Credits granted to retail customers		
Mortgage credits	10,445,161	9,776,487
Consumer credits	13,585,564	32,074,115
Credits to purchase cars	3,134	2,921
Other	1,803,714	2,738,222
Total credits granted to retail customers	25,837,573	44,591,745
Credits granted to customers before provision for impairment	180,694,512	188,269,171
Provision for impairment	(10,805,187)	(6,600,521)
Credits granted to customers less provision for impairment	169,889,325	181,668,650

The table below contains analysis of change of the provision for impairment broken down by types of credits granted to customers for twelve months ended on 31 December 2017:

	Credits granted to corporate customers thousand tenge	Credits granted to retail customers thousand tenge	Total thousand tenge
Amount of provision for impairment at the beginning of the year	5,687,898	912,623	6,600,521
Net (recovery) formation of provision for impairment	2,718,174	2,329,083	5,047,257
Write-off	(897,136)	12,961	(884,175)
Effect of foreign exchange rates	84,251	(42,667)	41,584
Amount of provision for impairment at the end of the year	7,593,187	3,212,000	10,805,187

The table below contains analysis of change of the provision for impairment broken down by types of credits granted to customers for the year ended on 31 December 2016:

	Credits granted to corporate customers thousand tenge	Credits granted to retail customers thousand tenge	Total thousand tenge
Amount of provision for impairment at the beginning of the year	7,756,617	291,319	8,047,936
Net (recovery) formation of provision for impairment	(705,785)	823,843	118,058
Write-off	(1,323,552)	(149,544)	(1,473,096)
Effect of foreign exchange rates	(39,382)	(52,995)	(92,377)
Amount of provision for impairment at the end of the year	5,687,898	912,623	6,600,521

(a) Quality of credits granted to customers

The table below presents the information about quality of credits granted to customers as at 31 December 2017:

	Credits before provision for impairment thousand tenge	Provision for impairment thousand tenge	Credits less provision for impairment thousand tenge	Provision for impairment against amount of credits before provision for impairment %
Credits granted to corporate customers				
Credits granted to major corporate customers				
Credits without individual evidences of impairment	1,659,812	(9,959)	1,649,853	0.60
Impaired credits:				
- undue	10,633,916	(1,797,268)	8,836,648	16.90
- due for less than 30 days	1,569,338	(314)	1,569,024	0.02
- due for 30-89 days	4,429,048	(294,194)	4,134,854	6.64
- due for more than 360 days	122,917	(22,764)	100,153	18.52
Total impaired credits	16,755,219	(2,114,540)	14,640,679	12.62
Total credits granted to major corporate customers	18,415,031	(2,124,499)	16,290,532	11.54
Credits granted to small and medium business entities				
Credits without individual evidences of impairment	64,907,825	(385,504)	64,522,321	0.59
Impaired credits:				
- undue	51,437,643	(3,415,169)	48,022,474	6.64
- due for less than 30 days	8,632,194	(31,771)	8,600,423	0.37
- due for 30-89 days	5,964,566	(714,026)	5,250,540	11.97
- due for 90-179 days	1,481,962	(370,372)	1,111,590	24.99
- due for 180-360 days	932,745	(104,965)	827,780	11.25
- due for more than 360 days	3,084,973	(446,880)	2,638,093	14.49
Total impaired credits	71,534,083	(5,083,183)	66,450,900	7.11
Total credits granted to small and medium business entities	136,441,908	(5,468,687)	130,973,221	4.01
Total credits granted to corporate customers	154,856,939	(7,593,186)	147,263,753	4.90

	Credits before provision for impairment	Provision for impairment	Credits less provision for impairment	Provision for impairment against amount of credits before provision for impairment
	thousand tenge	thousand tenge	thousand tenge	%
Credits granted to retail customers				
Mortgage credits				
- undue	7,691,520	(51,180)	7,640,340	0.67
- due for less than 30 days	730,294	(14,036)	716,258	1.92
- due for 30-89 days	495,138	(55,886)	439,252	11.29
- due for 90-179 days	351,549	(130,246)	221,303	37.05
- due for 180-360 days	726,032	(328,711)	397,321	45.28
- due for more than 360 days	450,628	(49,403)	401,225	10.96
Total mortgage credits	10,445,161	(629,462)	9,815,699	6.03
Consumer credits				
- undue	9,876,989	(1,753,299)	8,123,690	17.75
- due for less than 30 days	1,510,190	(40,622)	1,469,568	2.69
- due for 30-89 days	371,533	(74,366)	297,167	20.02
- due for 90-179 days	240,423	(102,981)	137,442	42.83
- due for 180-360 days	547,164	(170,319)	376,845	31.13
- due for more than 360 days	1,039,265	(307,208)	732,057	29.56
Total consumer credits	13,585,564	(2,448,795)	11,136,769	18.02
Credits to purchase cars				
- undue	3,134	-	3,134	0.00
Total credits to purchaser cars	3,134	-	3,134	0.00
Other credits granted to retail customers				
- undue	929,869	(128,409)	801,460	13.81
- due for less than 30 days	670,234	(291)	669,943	0.04
- due for 30-89 days	3,982	-	3,982	-
- due for 90-179 days	4,813	(400)	4,413	8.32
- due for 180-360 days	176,019	(4,644)	171,375	2.64
- due for more than 360 days	18,797	-	18,797	0.00
Total other credits granted to retail customers	1,803,714	(133,744)	1,669,970	7.41
Total credits granted to retail customers	25,837,573	(3,212,001)	22,625,572	12.43
Total credits granted to customers	180,694,512	(10,805,187)	169 889 325	5.98

The table below presents the information about quality of credits granted to customers as at 31 December 2016:

	Credits before provision for impairment thousand tenge	Provision for impairment thousand tenge	Credits less provision for impairment thousand tenge	Provision for impairment against amount of credits before provision for impairment %
Credits granted to corporate customers				
Credits granted to major corporate customers				
Credits without individual evidences of impairment	12,481,360	(74,888)	12,406,472	0.60
Impaired credits:				
- undue	15,114,666	(257,864)	14,856,802	1.71
- due for less than 30 days	1,441,091	(288)	1,440,803	0.02
- due for 180-360 days	274,367	(55)	274,312	0.02
- due for more than 360 days	1,858,673	(591,600)	1,267,073	31.83
Total impaired credits	18,688,797	(849,807)	17,838,990	4.55
Total credits granted to major corporate customers	31,170,157	(924,695)	30,245,462	2.97
Credits granted to small and medium business entities				
Credits without individual evidences of impairment	78,217,771	(722,429)	77,495,342	0.92
Impaired credits:				
- undue	21,390,015	(2,155,307)	19,234,708	10.08
- due for less than 30 days	5,065,563	(439,547)	4,626,016	8.68
- due for 30-89 days	4,259,608	(576,785)	3,682,823	13.54
- due for 90-179 days	276,440	(93,892)	182,548	33.96
- due for 180-360 days	3,241,949	(775,232)	2,466,717	23.91
- due for more than 360 days	55,923	(11)	55,912	0.02
Total impaired credits	34,289,498	(4,040,774)	30,248,724	11.78
Total credits granted to small and medium business entities	112,507,269	(4,763,203)	107,744,066	4.23
Total credits granted to corporate customers	143,677,426	(5,687,898)	137,989,528	3.96

	Credits before provision for impairment thousand tenge	Provision for impairment thousand tenge	Credits less provision for impairment thousand tenge	Provision for impairment against amount of credits before provision for impairment %
Credits granted to retail customers				
Mortgage credits				
- undue	7,622,901	(2,135)	7,620,766	0.03
- due for less than 30 days	683,623	(9,979)	673,644	1.46
- due for 30-89 days	436,947	(8,160)	428,787	1.87
- due for 90-179 days	474,921	(29,736)	445,185	6.26
- due for 180-360 days	427,948	(37,593)	390,355	8.78
- due for more than 360 days	130,147	(10,532)	119,615	8.09
Total mortgage credits	9,776,487	(98,135)	9,678,352	1.00
Consumer credits				
- undue	24,933,095	(256,024)	24,677,071	1.03
- due for less than 30 days	5,006,765	(36,709)	4,970,056	0.73
- due for 30-89 days	605,723	(106,422)	499,301	17.57
- due for 90-179 days	383,042	(100,082)	282,960	26.13
- due for 180-360 days	571,991	(164,768)	407,223	28.81
- due for more than 360 days	573,499	(136,175)	437,324	23.74
Total consumer credits	32,074,115	(800,180)	31,273,935	2.49
Credits to purchase cars				
- undue	2,921	-	2,921	0.00
Total credits to purchase cars	2,921	-	2,921	0.00
Other credits granted to retail customers				
- undue	2,484,189	(5,501)	2,478,688	0.22
- due for less than 30 days	194,695	(1,542)	193,153	0.79
- due for 30-89 days	17,694	(3,687)	14,007	20.84
- due for 180-360 days	22,796	(1,760)	21,036	7.72
- due for more than 360 days	18,848	(1,818)	17,030	9.65
Total other credits granted to retail customers	2,738,222	(14,308)	2,723,914	0.52
Total credits granted to retail customers	44,591,745	(912,623)	43,679,122	2.05
Total credits granted to customers	188,269,171	(6,600,521)	181,668,650	3.51

During 12 months of the years 2017 and 2016 the Bank granted the consumer credits to natural persons secured with cash in the form of deposits. As at 31 December 2017, those credits amounted to 1,011,079 thousand tenge (31 December 2016: 16 665 305 thousand tenge). Those credits are short-term credits maturing within 12 months.

As at 31 December 2017 and 31 December 2016, the credit portfolio included the credits granted to corporate and retail customers the terms and conditions of which were changed, subject to relations with the customers and maximization of an amount of debt repayable. The credits the terms of which have been changed are included in the tables above into the category of assets without individual evidences of impairment with the exception of cases, where a borrower fails to comply with the new conditions of contracts.

As at 31 December 2017, about 23% (31 December 2016: about 29%) of the Bank's corporate credits were designated to finance companies being at the initial stage or for such projects as construction of assets, which are not put into operation yet. Before granting those credits, the Bank evaluates viability of the projects and requires providing a pledge. The Bank also controls the progress of implementation of such projects in accordance with initial budgets thereof and it believes that it has reasonably evaluated the future cash flows, which will result from those credits as at 31

December 2017 and 31 December 2016. As at 31 December 2017, 11% of all credits granted to the above-mentioned companies are repaid.

As at 31 December 2017, 49% of all projects being at initial stage of construction are put into operation as at 31 December 2016 or are at the stage of construction completion.

As at 31 December 2017, the management found out evidences of impairment in about 56.91% of the portfolio of corporate credits of the Bank (31 December 2016: 35%). Such indicators arise mainly due to delays of the borrowers in their fulfilment of contractual obligations to the Bank or due to worsening of the financial status of the borrowers. The most of those impaired credits were secured with pledges, including cash deposits, property, land or other less liquid assets. Potential future revenue from disposal of such security was measured by the Bank with the participation of the independent appraising companies and this was the key assumption, which affects measurement of impaired credits.

(b) Key assumptions and judgements when evaluating impairment of credits

Credits granted to corporate customers

The Bank evaluates the provision for impairment of loans granted to the corporate customers on the basis of the analysis of calculated future cash flows on loans with individual evidences of impairment. When assessing an amount of the provision for impairment on loans without individual evidences of impairment, the management based on the level of losses actually incurred in the past.

When assessing an amount of the provision for impairment of credits granted to the corporate customers, the management made the following assumptions:

- the annual level of incurred losses was equal to 0.59% - 0.60% (31 December 2016: 0.60 % - 0.92 %);
- delay in earning revenue from disposal of a security - 6-18 months.

Changes in the above evaluations may influence on amount of the provision for impairment of the credits. For example, in case of change of an amount of net present value of expected cash flows by plus/minus one percent the amount of the provision for impairment of the credits granted to the corporate customers as at 31.12.2017 would be 1,479,638 thousand tenge more/less (31 December 2016: 1, 379,895 thousand tenge less/more).

Credits granted to retail customers

The Bank evaluates the provision for impairment of loans granted to retail customers on the basis of the past experience of incurred actual losses on those types of the credits and measurement of expected amount of compensation from disposal of a collateral.

Material assumptions used by the management when assessing an amount of the provision for impairment of the credits granted to retail customers include the following:

- level of migration of losses is fixed and it may be determined on the basis of the model of migration of incurred actual losses for the previous 12 months;
- with respect to mortgage and consumer credits delay in earning revenue from disposal of security with respect to mortgage and consumer credits is 18 months (property).

Changes in the above evaluations may influence on amount of the provision for impairment of the credits. For example, in case of change of amount of the net present value of expected cash flows by plus/minus one percent the amount of the provision for impairment of the credits granted to corporate customers as at 31.12.2017 would be 226,256 thousand tenge more/less (31 December 2016: 436,791 thousand tenge less/more).

(c) Analysis of security

(i) Credits granted to corporate customers

The credits granted to corporate customers shall be evaluated on individual basis and tested for impairment. The overall creditworthiness of a corporate customer usually is the most important indicator of quality of a credit granted to it. Nevertheless, security represents additional guarantees and, as a rule, the Bank requests the corporate borrowers to provide the same.

The following table contains analysis of security of the credits granted to corporate customers less provision for impairment, broken down by types of security as at 31 December 2017 and 31 December 2016:

	31 December 2017	% of credit portfolio	31 December 2016	% of credit portfolio
	thousand tenge		thousand tenge	
Mixed type	70,569,638	47.92	53,651,669	38.88
Immovable property	30,840,804	20.94	32,511,410	23.56
Cash deposits	11,206,981	7.61	9,444,796	6.84
Land plots and rights to temporary use	12,575,243	8.54	-	-
Equipment	2,313,501	1.57	5,127,870	3.72
Cash received in the future	5,797,736	3.94	13,925,583	10.09
Construction in process	5,678,730	3.86	6,971,451	5.05
Rights of claim against third persons	3,189,446	2.17	1,739,857	1.26
Guarantee	12,609	0.58	5,413,293	3.92
Grain	1,011,139	0.69	2,924,265	2.12
Securities	1,785,360	1.21	1,118,277	0.81
Goods for sale	647,211	0.44	545,893	0.40
Other types of security	854,830	0.58	2,943,632	2.13
No collateral	780,524	0.53	1,671,532	1.22
	147,263,752	100.00	137,989,528	100.00

The amounts stated in the table above represent book value of the credits and optionally present the fair value of collateral. Mixed security includes items of immovable property, property complexes, equipment, transport vehicles, land plots, grain, guarantees, cash deposits, and other.

The credits granted to corporate customers, which are past due or impaired.

Impaired or past due credits granted to corporate customers have security with the fair value of 207,621,702 (31 December 2016: 48,087,714 thousand tenge).

Credits granted to corporate customers without individual evidences of impairment

As at 31 December 2017, the fair value of cash balances, which are security of loans granted to corporate customers, amounted to 6,579,531 thousand tenge (31 December 2016: 9,444,796 thousand tenge).

With respect to the other credits granted to customers with the net book value of 66,172,174 thousand tenge (31 December 2016: 80,457,018 thousand tenge), which are not past due or impaired, the fair value of security was measured at the moment of issue of the credits and was not adjusted for subsequent changes as at the reporting date. An opportunity to recover those credits depends to a greater extent on creditworthiness of the borrowers rather than value of security, and the current value of security does not influence on evaluation of impairment.

As at 31 December 2017, with respect to the credits granted to corporate customers with the book value of 79,579,060 thousand tenge (31 December 2016: 42,134,573 thousand tenge), the management thinks that the fair value of security is at least equal to their book value.

Received security

During twelve months ended on 31 December 2017 the Bank purchased a number of assets through acquisition of control of security of the credits granted to customers with the net book value of 28,619,169 thousand tenge (31 December 2016: 5,822,820 thousand tenge).

(ii) Credits granted to retail customers

Mortgage credits

The mortgage credits are secured with pledge of respective real estate.

The mortgage credits include the credits with the net book value of 1,603,889 thousand tenge (31 December 2016: 909,531 thousand tenge), which are secured with pledge the fair value of which is less than net book value of separate credits. Fair value of security on the mentioned credits amounted to 155,911 thousand tenge (31 December 2016: 905,671 thousand tenge).

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With respect to the mortgage credits with the net book value of 8,211,810 thousand tenge (31 December 2016: 8,768,821 thousand tenge) the management believes that the fair value of security at least is equal to book value of separate credits as at the reporting date.

The Bank updates assessed value of security obtained at the moment of issue of a credit to the current value taking into consideration approximate changes in value of items of immovable property. The Bank makes special separate evaluation of security as at each reporting date, in case there are evidences of impairment.

During twelve months ended on 31 December 2017, the Bank purchased three portfolio of mortgage credits from “Astana Ipoteka” JSC (previous name - “Investment Astana Group” JSC) with the book value of 2,005,3 67 thousand tenge. The Bank also bought back two portfolios of mortgage credits from “Kazakhstan Mortgage Company” IO” JSC with the book value of 227,570 thousand tenge.

Consumer credits

The consumer credits are secured with pledge of respective residential immovable property. According to the policy of the Bank, the consumer credits are granted at maximal loan-to-value ratios (ratio of market value of a pledge to a loan value) as at a date of issue of a credit equal to 143% for the borrowers with confirmed sources of income and 200% - on credits of the borrowers with non-confirmed sources of income. Thus, such consumer credits are secured with pledge of immovable property like the mortgage loans.

The portfolio of consumer credits includes the credits with the net book value of 5,804,810 thousand tenge (31 December 2016: 15,517,665 thousand tenge), which were secured with the pledge the fair value of which was less than net book value of separate credits. The fair value of security on the mentioned credits amounted to 2,189,365 thousand tenge (31 December 2016: 7,458,645 thousand tenge).

With respect to the consumer credits with the net book value of 5,091,622 thousand tenge (31 December 2016: 15,756,270 thousand tenge) the management believes that the fair value of security at least is equal to book value of separate credits as at the reporting date.

The Bank updates assessed value of security obtained at the moment of issue of a credit to the current value taking into consideration approximate changes in value of items of immovable property. The Bank makes special separate evaluation of security as at each reporting date, in case there are evidences of impairment.

Other credits

The portfolio of consumer credits included the credits with the net book value of 716,150 thousand tenge (31 December 2016: 2,078,170 thousand tenge), which were secured with the pledge the fair value of which is less than net book value of separate credits. The fair value of security on the mentioned credits amounted to 624,532 thousand tenge (31 December 2016: 773,983 thousand tenge).

With respect to the other credits with the net book value of 956,955 thousand tenge (31 December 2016: 645,744 thousand tenge) the management believes that the fair value of security at least is equal to book value of separate credits as at the reporting date.

The Bank updates assessed value of security obtained at the moment of issue of a credit to the current value taking into consideration approximate changes in value of items of immovable property. The Bank makes special separate evaluation of security as at each reporting date, in case there are evidences of impairment.

17 Credits granted to customers, continued

(d) Analysis of the credit portfolio broken down by branches of economy and geographic regions

The credits were granted mainly to the customers carrying out activity in the Republic of Kazakhstan in the following branches of economy:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Credits granted to retail customers	25,837,573	44,591,745
Trade	41,098,989	35,009,651
Agriculture, timber and wood-working industry	20,769,474	23,256,860
Production	26,866,971	20,628,612
Lease	8,374,752	17,686,980
Financial services	5,240,808	14,635,588
Services relating to construction and installation works	9,941,872	10,032,430
Construction	9,817,554	5,562,171
Legal services	-	4,990,339
Mining industry / metallurgical industry	5,748,431	4,190,702
Logistic complexes and transportation services	2,497,506	2,863,933
Mass media	1,620,368	1,468,932
Real estate	730,209	964,775
Factoring companies	-	604,459
Tourism	75,585	473,364
Micro-credit organizations	544,126	20,170
Research and technical activity	8,824,051	-
Other services	11,870,842	1,288,460
Individual services	242,861	-
Activity (various)	592,540	-
	180,694,512	188,269,171
Provision for impairment	(10,805,187)	(6,600,521)
	169,889,325	181,668,650

(e) Concentration of credits granted to customers

As at 31 December 2017, the Bank had nine borrowers (31 December 2016: sixteen borrowers) with the total balances on credits exceeding 10% of capital. As at 31 December 2017 the total balances on the mentioned credits amounted to 61,880,923 thousand tenge (31 December 2016: 77,661,670 thousand tenge).

(f) Credit repayment periods

The repayment periods of the credits composing the credit portfolio as at the reporting date are presented in Note 27(d) and represent the periods of time from the reporting date to the repayment dates under credit agreements. Considering short term of the credits granted by the Bank, it is probable that many of the mentioned credits will be prolonged. Accordingly, real dates of repayment of the credits may substantially differ from dates of repayment provided for by the credit agreements.

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18 Fixed and intangible assets

	Land and buildings	Furniture and equipment	Transport vehicles	Computer equipment	Construction in process	Improving leased property	Intangible assets	Total
thousand tenge								
Revalued amount/actual costs								
Balance as at 1 January 2017	1,062,397	1,132,343	240,225	475,863	90,365	940,112	1,648,968	5,590,273
Revenue	15,746,660	662,181	47,267	386,968	409,641	73,609	678,507	18,004,833
Revaluation	6,165,799	-	-	-	-	-	-	6,165,799
Deterioration write-off at revaluation	-	-	-	-	-	-	-	-
Retirement	(81,244)	(128,186)	(47,099)	(44,522)	(13,720)	(1,499)	(7,989)	(324,259)
Transfers	(3,345)	51,420	-	162,784	(200,171)	(10,688)	-	-
Balance as at 31 December 2017	22,890,267	1,717,758	240,393	981,093	286,115	1,001,534	2,319,486	29,436,646
Deterioration and depreciation								
Balance as at 1 January 2017	(30,131)	(310,617)	(81,017)	(210,438)	-	(115,652)	(494,518)	(1,242,373)
Deterioration and depreciation for the period	(149,022)	(211,225)	(24,712)	(94,192)	-	(213,455)	(208,576)	(901,182)
Deterioration write-off at revaluation	26,714	-	-	-	-	-	-	26,714
Retirement	12,675	36,908	17,674	76,368	-	176	7,989	151,790
Adjustment of prior years	-	-	-	-	-	-	-	-
Balance as at 31 December 2017	(139,764)	(484,934)	(88,055)	(228,262)	-	(328,931)	(695,105)	(1,965,051)
Book value								
As at 31 December 2017	22,750,503	1,232,824	152,338	752,831	286,115	672,603	1,624,381	27,471,595
thousand tenge								
Revalued amount/actual costs								
Balance as at 1 January 2016	1,027,544	414,201	212,719	292,964	66,047	316,672	640,309	2,970,456
Revenue	34,853	689,610	27,506	196,923	54,931	622,302	1,008,905	2,635,030
Retirement	-	(7,377)	-	(7,590)	-	-	(246)	(15,213)
Transfers	-	35,909	-	(6,434)	(30,613)	1,138	-	-
Balance as at 31 December 2016	1,062,397	1,132,343	240,225	475,863	90,365	940,112	1,648,968	5,590,273
Deterioration and depreciation								
Balance as at 1 January 2016	(16,020)	(173,340)	(48,911)	(148,183)	-	(3,012)	(304,877)	(694,343)
Deterioration and depreciation for the year	(14,111)	(144,365)	(32,106)	(69,845)	-	(112,640)	(189,887)	(562,954)
Retirement	-	7,088	-	7,590	-	-	246	14,924
Balance as at 31 December 2016	(30,131)	(310,617)	(81,017)	(210,438)	-	(115,652)	(494,518)	(1,242,373)
Book value								
As at 31 December 2016	1,032,266	821,726	159,208	265,425	90,365	824,460	1,154,450	4,347,900

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Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

18 Fixed and intangible assets, continued

During 2017, the fixed assets were revalued. The independent appraiser - “American Appraisal” LLP - was involved in appraisal of the land plot and building located at the address: bldg. 97, Zholdasbekov St., microdistrict Samal-2, Almaty City. The independent appraiser - “Independent Appraisal” LLP - was involved in appraisal of non-residential premises located at the addresses: bldg. 30, Mangilik yel Ave., Astana City, and 80, Shevchenko St., Almaty City. The table below disclosing the book value of revalued objects subject to and without regard to revaluation, as well as positive difference existing as the result of revaluation is stated below.

Object description	Book value without revaluation	Book value subject to revaluation	Difference
Land plot at 97, Zholdasbekov St., microdistrict Samal-2, Almaty City	880,271	990,986	110,715
Building at 97, Zholdasbekov St., microdistrict Samal-2, Almaty City	10,506,021	15,363,109	4,857,088
Non-residential premise at bldg. 30, Mangilik yel Ave., Astana City	3,792,258	4,853,777	1,061,519
Non-residential premise at 80, Shevchenko St., Almaty City	951,898	1,088,375	136,477
Total	16,130,448	22,296,247	6,165,799

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Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

19 Other assets

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Accounts receivable on sold loans	15,673,222	7,323,439
Other accounts receivable	1,606,613	1,414,007
Accrued fee incomes	291,014	12,889
Total other financial assets	17,570,849	8,750,335
Disposed assets	33,371,780	7,506,152
Accounts receivable on guarantees	13,620,254	5,668,442
Capital expenditures	1,579,366	3,732,699
Prepayments	993,221	618,300
Prepaid taxes, besides income tax	863,688	289,530
Materials and settlement of payments with suppliers/providers	210,324	169,840
Overpaid tax on profit	-	99,135
Advances paid to employees	188,412	97,985
Settlement of payment son Reverse REPO transactions with “Freedom Finance” JSC	-	-
Other	1,712,177	187,447
Provision for impairment	(2,521,578)	(698,919)
Total other non-financial assets	50,017,644	17,670,611
Total other assets	67,588,493	26,420,946

During the year ended on 31 December 2017, the Bank sold a number of granted credits to two companies - “SFK Recovery” LLP (to the amount of 9,568,185 thousand tenge) and “First collection” Collection Agency” LLP (to the amount of 3,544,719 thousand tenge). The above-mentioned loans were sold under the market conditions with considering by the management as transactions between independent parties. During the period from December 2017 to March 2018 the liabilities to the bank were repaid to the amount exceeding 12 billion tenge by transfer of assets in the form of immovable property in favour of the Bank.

During the year ended on 31 December 2016 the Bank sold a number of granted credits to two companies - “Nexum” Legal Company” LLP and “Ispolnenie” LLP. The above-mentioned loans were sold under the market conditions with considering by the management as transactions between independent parties. The companies provided sufficient evidences of ability to repay the accounts receivable and they provided collateral. The accounts receivable is repaid in accordance with the prescribed schedules that is a conclusive evidence of ability of “Nexum” Legal Firm” LLP and “Ispolnenie” LLP to repay outstanding accounts receivable to the Bank until the end of 2018.

As at 31 December 2017, 478 items are recorded in the balance sheet as parts of items “Disposed assets”. The management prepares a plan for disposing of the mentioned property for the year 2018.

(a) Analysis of change of the provision for impairment

The table below contains analysis of change of the provision for impairment for twelve months ended on 31 December 2017 and 2016:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Amount of provision for impairment at the beginning of the year	698,919	349,617
Net creation (recovery) of provision for impairment Use	1,823,754 (1,095)	361,290 (11,988)
Amount of provision for impairment at the end of the year	2,521,578	698,919

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Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

20 Accounts and deposits of banks and other financial institutions

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Credits	17,167,554	25,088,365
Term deposits	2,930,295	6,011,565
LORO accounts	-	-
	20,097,849	31,099,930

The above-mentioned credits include amounts received from “Damu” Business Development Fund” JSC under the Program of conventional placement of funds with the second tier banks for the purpose of subsequent credit granting to the small and medium business entities to the total amount of 3,151,924 thousand tenge (31 December 2016: 3,328,806 thousand tenge); from “KazAgro” National Management Holding” JSC under the agro-industrial financing program to the total amount of 5,882,309 thousand tenge (31 December 2016: 6,754,465 thousand tenge); from “Agrarian Credit Corporation” JSC to the total amount of 8,133,322 thousand tenge (31 December 2016: 9,443,232 thousand tenge).

The term deposits include the deposits from “Zhilstroisberbank” JSC to the amount of 2,930,294 thousand tenge (31 December 2016: 4,218,029 thousand tenge), SB “Bank Home Credit” JSC to the amount of 0 thousand tenge (31 December 2016: 1,000,939 thousand tenge).

21 Current accounts and deposits of customers

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Current accounts and deposits on demand		
- Retail customers	31,367,845	11,294,929
- Corporate customers	125,471,296	130,142,781
Term deposits		
- Retail customers	39,760,641	32,718,441
- Corporate customers	68,211,063	121,426,306
	264,810,845	295,582,457

As at 31 December 2017, the Bank has had eight customers (31 December 2016: fourteen customers) the accounts and deposits of which have exceeded 10% of capital. As at 30 December 2017 the total balances on the accounts and deposits of the mentioned customers amount to 146,096,242 thousand tenge (31 December 2016: 191,058,457 thousand tenge). The current accounts and deposits on demand of the corporate customers include deposit from one counterparty to the amount of 88,658,705 thousand tenge, which may be withdrawn on demand.

As at 31 December 2017, the deposits of the Bank’s customers to the total amount of 6,194,724 thousand tenge (31 December 2016: 26,165,197 thousand tenge) were the security of discharge of liabilities on credits and off-balance credit instruments issued by the Bank.

22 Accounts payable on REPO transactions

On 31 December 2017 the Bank concluded REPO transactions with “Kazakhstan Stock Exchange” JSC to the amount of 641,658 thousand tenge.

23 Other liabilities

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Letters of credit and financial guarantees	7,400	1,409,651
Accounts payable to employees	-	3,137
Charged operating expenses	34,258	306,232
Other creditors on banking activity	381,771	265,676
Total other financial liabilities	423,429	1,984,696
Prepayments on banking operations	177,872	177,094
Provision for leaves	116,009	88,943
Accounts payable on other taxes	342,290	144,377
Other non-financial liabilities	3,208,595	79,392
Total other non-financial liabilities	3,844,766	489,806
Total other liabilities	4,268,195	2,474,502

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24 Share capital

(a) Issued capital

As at 31 December 2017, the stated share capital consisted of 100,000,000 shares (31 December 2016: 32,000,000 shares), the issued and fully paid share capital consisted of 36,081,627 shares (31 December 2016: 26,882,601 shares). The shares have no par value. For 12 months of the year 2017 the Bank purchased 30,636 own ordinary shares. As at 31 December 2017, there were no shares purchased by the Bank (31 December 2016: 2,851,199 shares). The owners of ordinary shares are entitled to obtain dividends as far as they are declared, as well as they have the right to one vote per a share at the annual and general meetings of shareholders of the Bank.

(b) Provision for revaluation of financial assets available for sale

Provision for revaluation of financial assets available for sale includes accumulated net change of fair value until derecognition of assets or impairment thereof.

(c) Dividends

In accordance with the legislation of the Republic of Kazakhstan, amount of provisions of the Bank available for distribution is limited to amount of retained profit booked in the financial statements of the Bank prepared in accordance with the IFRS or the amount of net profit for the current year, in case of accumulated loss carried forward to the next period. Distribution is not allowed, in case the amount of equity capital becomes negative or distribution of net income results in insolvency or bankruptcy of the Bank.

During twelve months ended on 31 December 2017 the dividends were not declared.

Trades in shares of the Bank on Moscow Stock Exchange began on 14 December 2017. Thus, the Bank became the first Kazakhstan bank the shares of which were admitted to trades on Moscow Stock Exchange and entered into the third level quotation list on 4 December 2017. The Bank entered with the secondary public offer of shares (SPO) on the MOEX in order to raise foreign capital. As a result, during the period from 5 to 12 December 2017 more than 750 proposals were made by natural persons and legal entities to the amount exceeding 650 million roubles. 2 881 835 shares of the new Bank's issue were offered, the offering price was fixed at the level of 215 roubles for a share.

25 Earnings per share

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Earnings per share		
Basic earnings per share (tenge)	43.6	43.2
Basic earnings per share		
Indicator of the basic earnings per share as at 31 December 2017 is based on revenue due to owners of ordinary shares in the amount of 1,315,252 thousand tenge (31 December 2016: 865,015 thousand tenge) and the average weighted number of 30,179,144 outstanding ordinary shares (31 December 2016: 20,026,199 shares), and it is determined as follows:		
	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Net revenue	1,315,252	865,015
Net revenue due to owners of ordinary shares	1,315,252	865,015
Issued ordinary shares at the beginning of the year	26,882,601	15,000,466
Effect of share issue during 12 months	3,293,990	5,283,334
Effect of purchased own shares	2,553	(257,601)
Average weighted number of ordinary shares for the period ended on	30,179,144	20,026,199

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Calculation of book value of the Bank's shares as at 31 December 2017 and 31 December 2016 is given below:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Net assets	46,792,071	30,571,555
Quantity of outstanding shares	36,081,627	26,882,601
Book value of one share (tenge)	1,297	1,137

26 Analysis by segments

The Bank has one reporting segment.

The most of revenue from transactions with foreign customers is accounted for by transactions with residents of the Republic of Kazakhstan. The most of non-current assets is concentrated in the Republic of Kazakhstan.

Information about major customers

For the period ended on 31 December 2017 and for the year ended on 31 December 2016, the Bank has had not customers the revenue on transactions with which exceeded 10% of the total revenue of the Bank.

27 Risk management

Risk management is fundamental for the banking activity and is an essential element of operating activity of the Bank. The market risk, credit risk and liquidity risk are the basic risks with which the Bank faces in the course of its activities.

(a) Risk management policy and procedure

The Bank's risk management policy is aimed at detection, analysis and management of risks, which the Bank is exposed to, fixing limits of risks and respective control, as well as continuous assessment of risk levels and conformance thereof to the fixed limits. The risk management policy and procedures are reviewed on a regular basis for the purpose of representation of changes in the market situation, offered banking products and services and the best practice, which appears.

The board of directors is liable for proper functioning of the system of risk management control, management of key risks and approval of the policy of and procedures for risk management, as well as approval of major transactions.

The management board is liable for monitoring and implementation of the measures for reducing risks, as well as it watches that the Bank carries out activity within fixed limits of risks. The obligations of the head of the Risk Department include general risk management and control of compliance with the requirements of the effective legislation, as well as control of application of the general principles and methods for detecting, assessing, managing and preparing reports both on financial and non-financial risks. It is accountable directly to the Chairman of the Management Board and directly to the Board of Directors.

The credit and market risks and liquidity risk are managed and controlled by the system of the Credit Committees and the Committee for Asset and Liability Management (CALM) both at the level of portfolio in general and at the level of separate transactions. In order to enhance efficiency of the decision making process the Bank created the hierarchic structure of the credit committees depending on type and extent of risk exposure.

Both external and internal risk factors are detected and managed inside the organization. Special attention is paid to detection of the whole list of the risk factors and determination of the level of adequacy of current procedures for risk minimization. Besides the standard analysis of the credit and market risks, the Risk Department monitors financial and non-financial risks through regular meetings with the operational subdivisions in order to get expert evaluation in particular directions.

The market risk is a risk of change of a fair value or future cash flows on a financial instrument due to change of the market prices. The market risk consists of foreign exchange risk, interest rate risk, as well as the other price risks. The Bank is exposed to the market risk as the result of open market position on interest, foreign exchange, debt and equity financial instruments, which

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depend on overall and specific fluctuations of the market conditions and change of the level of volatility of the market prices.

The task of the market risk management is to manage and control that exposure to the market risk does not go beyond the limits of admissible parameters with ensuring optimization of return earned for assumed risk.

27 Risk management, continued

(b) Market risk

The CALM headed by the Chairman of the Management Board is liable for management of market risk. The CALM approves the limits of market risk based on recommendations of the Risk Department.

The Bank manages the market risk by fixing the limits for open position with respect to amount of the portfolio for separate financial instruments, periods for changing interest rates, foreign exchange position, limits of losses and regular monitoring of compliance therewith the results of which are considered and approved by the Management Board.

(i) Interest rate risk

The interest rate risk is a risk of change of the fair value or future cash flows on a financial instrument due to change of the market interest rates. The Bank is exposed to influence of fluctuations of prevailing market interest rates on its financial position and cash flows. Such fluctuations may increase the level of interest margin, however it may also reduce the same or, in case of unexpected change of interest rates, result in losses. The interest rate risk is primarily managed through monitoring of change of the interest rates.

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27 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Analysis of dates of interest rates revision

Risk of change of the interest rates is primarily managed through monitoring of change of the interest rates. The short information with respect to the dates of interest rates revision on basic financial assets and liabilities may be presented as follows:

thousand tenge	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Interest-free	Book value
31 December 2017							
ASSETS							
Cash and cash equivalents	31,224,166	-	-	-	-	34,408,742	65,632,908
Financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period	20,540	-	-	497,802	-	7,426,942	7,945,284
Financial assets available for sale	-	152,646	14,084	310,060	-	150,000	626,790
Credits and advances granted/paid to banks and other financial institutions	251,563	-	-	276,175	-	-	527,738
Credits granted to customers	52,880,228	11,151,172	26,577,091	70,108,142	9,172,692	-	169,889,325
	84,376,497	11,303,818	26,591,175	71,192,179	9,172,692	41,985,684	244,622,045
LIABILITIES							
Accounts and deposits of banks and other financial institutions	3,491,900	429,393	1,368,316	13,127,133	1,681,107	-	20,097,849
Current accounts and deposits of customers	22,912,302	19,484,946	145,071,983	25,445,222	10,362,057	41,534,335	264,810,845
REPO transactions	641,658	-	-	-	-	-	641,658
	27,045,860	19,914,339	146,440,299	38,572,355	12,043,164	41,534,335	285,550,352
	57,330,637	(8,610,521)	(119,849,124)	32,619,824	(2,870,472)	451,349	(40,928,307)
31 December 2016							
ASSETS							
Cash and cash equivalents	130,266,542	-	-	-	-	8,814,110	139,080,652
Financial assets available for sale	243,821	1,345,438	-	1,118,235	-	167,250	2,874,744
Credits and advances granted/paid to banks and other financial institutions	70,285	4,037,697	2,230,111	273,652	-	-	6,611,745
Credits granted to customers	44,223,556	19,568,670	31,802,046	69,739,613	16,334,765	-	181,668,650
	174,804,204	24,951,805	34,032,157	71,131,500	16,334,765	8,981,360	330,235,791
LIABILITIES							
Accounts and deposits of banks and other financial institutions	2,895,609	10,129,982	2,521,764	10,593,827	4,958,748	-	31,099,930
Current accounts and deposits of customers	21,556,426	25,532,649	168,095,275	31,233,156	3,745,351	45,419,600	295,582,457
	24,452,035	35,662,631	170,617,039	41,826,983	8,704,099	45,419,600	326,682,387
	150,352,169	(10,710,826)	(136,584,882)	29,304,517	7,630,666	(36,438,240)	3,553,404

27 Risk management, continued

(b) Market risk, continued

(ii) Average interest rates

The table below represents the average interest rates on interest assets and liabilities as at 31 December 2017 and 31 December 2016. These interest rates represent approximate yield to maturity of respective assets and liabilities.

	31 December 2017		31 December 2016	
	Average interest rate, %		Average interest rate, %	
	Tenge	US dollar	Tenge	US dollar
Interest assets				
Cash and cash equivalents	9.25	-	11.38	0.42
Financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period	9.7	-	-	-
Financial assets available for sale	8.3	-	9.32	7.25
Credits and advances granted/paid to banks and other financial institutions				
- Credits	12.00	-	12.00	-
- Term deposits	9.00	-	19.0	4.00
- Reverse REPO transactions	12.93	-	-	-
Credits granted to customers	14.94	11.66	15.87	12.57
Interest liabilities				
Accounts and deposits of banks and other financial institutions				
- Credits	8.19	-	8.82	-
- term deposits	3	1.5	3.31	2.69
Current accounts and deposits of customers				
- Current accounts	2	4.7	-	-
- Term deposits	9.75	2.47	11.37	4.23

(iii) Analysis of sensitivity to change of interest rates

Management of interest rate risk based on analysis of the dates of interest rate revision is supplemented with monitoring of sensitivity of the financial assets and liabilities.

Analysis of sensitivity of profit or loss and capital (less taxes) to change of interest rates (risk of interest rates revision) prepared on the basis of simplified scenario of 100 basis points parallel shift in the yield curve toward increase or decrease in interest rates and revised positions on interest assets and liabilities prevailing as at 31 December 2017 and 31 December 2016 may be presented as follows:

	31 December 2017	31 December 2016
	thousand tenge	thousand tenge
100 basis point symmetrical fall of interest rates	124,988	(725,965)
100 basis point symmetrical rise of interest rates	(124,988)	725,965

Analysis of sensitivity of profit or loss and capital to changes in the fair value of financial assets available for sale due to changes in interest rates (prepared on the basis of positions prevailing as at 31 December 2017 and 31 December 2016 and simplified scenario of 100 basis point parallel shift in the yield curves towards increase or decrease in interest rates) may be presented as follows:

	31 December 2017		31 December 2016	
	Profit or loss	Capital	Profit or loss	Capital
	thousand tenge	thousand tenge	thousand tenge	thousand tenge
100 basis point symmetrical fall of rates	-	27,633	-	24,9511
100 basis point symmetrical rise of rates	-	(23,838)	-	(24,445)

27 Risk management, continued

(b) Market risk, continued

(iv) Foreign exchange risk

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

Foreign exchange risk is a risk of change of fair value or future cash flows on a financial instrument due to change of foreign exchange rates. The Bank does not hedge its exposure to foreign exchange risk.

As at 31 December 2017, the structure of the financial assets and liabilities broken down by currencies may be presented as follows:

	US dollar thousand tenge	Euro thousand tenge	Other currencies thousand tenge	TOTAL thousand tenge
ASSETS				
Cash and cash equivalents	12,555,140	7,286,537	789,635	20,631,311
Financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period	3,343,002	-	-	3,343,002
Financial assets available for sale	-	-	-	-
Credits and advances granted/paid to banks and other financial institutions	-	-	-	-
Credits granted to customers	55,061,220	41,880	1,259,345	56,362,445
Other financial assets	3,224,470	628,173	-	3,852,643
Other assets	1,310,754	165,944	207,589	1,684,287
Total assets	75,494,586	8,122,533	2,256,569	85,873,688
LIABILITIES				
Accounts and deposits of banks and other financial institutions	-	-	-	-
Current accounts and deposits of customers	148,575,599	8,214,039	682,709	157,472,347
REPO transactions	-	-	-	-
Other financial liabilities	14,302	634,805	1,542	650,649
Other liabilities	254,939	142,257	22,560	419,756
Total liabilities	148,844,840	8,991,101	706,811	158,542,752
Net item	(73,350,254)	(868,568)	1,549,758	(72,669,064)
Effect of derivative instruments	73,943,425	-	-	73,943,425
Net item subject to effect of derivative instruments	593,171	(868,568)	1,549,758	1,274,361

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Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

27 Risk management, continued

(b) Market risk, continued

(iv) Foreign exchange risk

As at 31 December 2016, the structure of the financial assets and liabilities broken down by currencies may be presented as follows:

	US dollar thousand tenge	Euro thousand tenge	Other currencies thousand tenge	Total thousand tenge
ASSETS				
Cash and cash equivalents	103,070,299	776,644	174,512	104,021,455
Financial assets available for sale	1,254,309	-	-	1,254,309
Credits and advances granted/paid to banks and other financial institutions	4,037,697	-	-	4,037,697
Credits granted to customers	53,472,067	661,439	1,008,138	55,141,644
Other financial assets	462,834	3,611	-	466,445
Total assets	162,297,206	1,441,694	1,182,650	164,921,550
LIABILITIES				
Accounts and deposits of banks and other financial institutions	1,341,612	-	977,400	2,319,012
Current accounts and deposits of customers	160,404,281	1,775,062	187,877	162,367,220
Other financial liabilities	16,229	26,502	-	42,731
Total liabilities	161,762,122	1,801,564	1,165,277	164,728,963
Net item	535,084	(359,870)	17,373	192,587

Analysis of sensitivity of profit or loss and capital to change of foreign exchange rates based on positions prevailing as at 31 December 2017 and 31 December 2016 and simplified scenario of 10% change of foreign exchange rates of US dollar and Euro to tenge may be presented as follows:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
20% increase in US dollar to tenge rate	94,907	85,613
5% decrease in US dollar to tenge rate	(23,727)	(21,403)
20% increase in Euro to tenge rate	(138,971)	(57,579)
5% decrease in Euro to tenge rate	34,743	14,395

(v) Other price risks

Other price risks are risks of fluctuations in fair value or future cash flows on a financial instrument as the result of changes in market prices (except changes resulted from effect of interest rate risk or foreign exchange risk) irrespective of whether such changes are caused by the factors inherent in that particular instrument or issuer thereof or the factors affecting all similar publicly traded financial instruments. The other price risks arise, when the Bank has a long or short position on a financial instrument.

(c) Credit risk

Credit risk is a risk of financial losses resulted from default in obligations of a borrower or counterparty of the Bank. The Bank manages credit risk (on recognized financial assets and unrecognized contractual liabilities) through applying approved policies and procedures including the requirements for fixing and complying with the limits of concentration of the credit risk, as well as through formation of the Credit Committee the functions of which include active monitoring of the credit risk. The credit policy is considered and approved by the Board of Directors.

The credit policy determines:

- the procedures for consideration and approval of credit applications;
- (corporate and retail) borrower creditworthiness evaluation methods;
- Proposed security evaluation methods;
- requirements for credit documentation;
- procedures for continuous monitoring of credits and other credit risk bearing products.

27 Risk management, continued

(c) Credit risk, continued

Application form corporate customers to obtain credits shall be made up by respective customer managers and then delivered for consideration to the Credit Product Department, which shall be liable for portfolio of credits granted to legal entities. Reports of analysts of that department are based on structural analysis of business and financial position of a borrower. Then the applications and expert conclusions shall be subject to independent examination in the Security Department, Legal Department, Pledge Expertise and Monitoring Office, Risk Department, which shall present their conclusions; moreover, proper compliance with the requirements of the effective legislation and internal regulatory documents of the Bank shall be checked. The Credit Committee shall consider an application for a credit on the basis of analysis of conclusions presented by the Security Department, Legal Department, and Risk Department. After consideration the Credit Committee shall make a decision to grant or not to grant a credit. Before the Credit Committee approves particular transactions they shall be checked by the Legal Department, Tax Department and Accounting Department depending on risk specific nature.

The Bank continuously monitors status of particular credits and regularly reevaluate solvency of its borrowers. Revaluation procedures are based on analysis of the financial statements of a borrower as at the last reporting date or the other information submitted by a borrower itself or obtained by the Bank in another way. The current market value of a security is also regularly assessed by the independent firms of professional appraisers or in-house specialists. In case the market value of security decreases, a borrower is usually required to provide collateral.

Besides analysis of individual borrowers, the Risk Department evaluates credit portfolio in general with respect to concentration of credits and market risks.

As a rule, the maximal level of the credit risk is presented in book value of financial assets in the statement of financial position and in amount of unrecognized contractual liabilities. A possibility to set off assets and liabilities is not substantially significant for reduction of potential credit risk.

The maximal level of the credit risk with respect to the financial assets as at the reporting date may be presented as follows:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
ASSETS		
Cash equivalents	57,822,829	134,660,548
Financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period	518,342	-
Financial assets available for sale	476,790	2,707,494
Credits and advances granted/paid to banks and other financial institutions	527,738	6,611,745
Credits granted to customers	169,889,325	181,668,650
Other financial assets	28,857,937	8,750,335
Total maximal risk level	258,092,961	334,398,772

A collateral usually is not provided with respect to the right of claim on the credits and advances granted/paid to banks, with the exception of cases, where securities are obtained under reverse REPO transactions and transactions relating to securities borrowing.

Analysis of collateral held on credits granted to customers and concentration of the credit risk on credits granted to customers is given in Note 17.

Offset of financial assets and financial liabilities

Disclosures of information presented in the tables below include the information about financial assets and financial liabilities, which:

- are set off in the statement of financial position of the Bank or
- are the subject of legally valid master netting agreement or similar agreements, which extend to similar financial instruments, irrespective of whether they are set off in the statement of financial position.

27 Risk management, continued

(c) Credit risk, continued

Offset of financial assets and financial liabilities, continued

The Bank receives and accepts collateral in the form of cash and securities traded in the market with respect to the following transactions:

- REPO transactions, reverse REPO transactions; and
- credits granted to customers, securities borrowing and lending agreements.

The securities received as collateral/delivered as pledge on REPO and reverse REPO transactions may be delivered as pledge during the period of a transaction, but they must be returned until maturity date of a transaction. The securities delivered as pledge under securities borrowing and lending agreements may not be delivered as pledge or sold during a period of a transaction and must be returned until maturity date of a transaction. Conditions of a transaction also entitle every counterparty to terminate respective transactions as the result of counterparty's inability to provide collateral.

The table below presents the financial assets, which are subject to legally valid master netting agreements and similar agreements as at 31 December 2017.

Types of financial assets/ financial liabilities	Full amounts of recognized financial assets/ financial liabilities	Full amounts of recognized financial liabilities, which were set off in the statement of financial position	Net amount of financial assets in the statement of financial position	Amounts, which were not set off in the statement of financial position		Net amount
				Financial instruments	Received cash security	
Reverse REPO transactions	19,222,366	-	19,222,366	(19,222,366)	-	-
Credits granted to customers	169,189,325	-	169,189,325	-	(5,642,183)	164,547,142
Total financial assets	188,411,691	-	188,411,691	(19,222,366)	(5,642,183)	164,547,142
Current accounts and deposits of customers	(5,642,183)	-	(5,642,183)	-	5,642,183	-
Total financial liabilities	(5,642,183)	-	(5,642,183)	-	5,642,183	-

27 Risk management, continued

(c) Credit risk, continued

Offset of financial assets and financial liabilities, continued

The table below presents the financial assets, which are subject of legally valid master netting agreements and similar agreements as at 31 December 2016.

Types of financial assets/ financial liabilities	Full amounts of recognized financial assets/ financial liabilities	Full amounts of recognized financial liabilities, which were set off in the statement of financial position	Net amount of financial assets in the statement of financial position	Amounts, which were not set off in the statement of financial position		Net amount
				Financial instruments	Received cash security	
Reverse REPO transactions	4,695,032	-	4,695,032	(4,695,032)	-	-
Credits granted to customers	181,668,650	-	181,668,650	-	(26,165,197)	155,503,453
Total financial assets	186,363,682	-	186,363,682	(4,695,032)	(26,165,197)	155,503,453
Current accounts and deposits of customers	(26,165,197)	-	(26,165,197)	-	26,165,197	-
Total financial liabilities	(26,165,197)	-	(26,165,197)	-	26,165,197	-

(d) Liquidity risk

Liquidity risk is a risk that the Bank may face difficulties in raising funds to fulfil its obligations. The liquidity risk arises in case of assets and liabilities maturity mismatching. Assets and liabilities maturity and interest rate matching and/or controlled mismatching is a fundamental moment in liquidity risk management. Due to variety of transactions settled and related uncertainty, full assets and liabilities maturity matching is not usual practice for the financial institutions that enables to increase cost effectiveness of transactions, but increases the risk of losses.

The Bank keeps necessary level of liquidity in order to ensure continuous availability of funds required to discharge all liabilities as far as their maturity dates fall. The liquidity management policy is considered and approved by the Board of Directors.

The Bank tries to actively maintain diversified and stable structure of financing sources consisting of long-term and short-term credits of other banks, deposits of principal corporate customers and natural persons, as well as diversified portfolio of highly liquid assets in order to enable the Bank to promptly respond unforeseen requirements with respect to liquidity without any sharp fluctuations.

The liquidity management policy consists of:

- cash flow forecasting broken down by basic currencies and calculation of necessary level of liquid assets related with those cash flows;
- maintenance of diversified structure of financing sources;
- management of concentration and structure of borrowed funds;
- development of the plans for raising funds at the expense of borrowed funds;
- maintenance of the portfolio of highly liquid assets, which may be freely disposed of as a protective measure in case of cash liquidity gap;
- development of reserve plans for keeping liquidity and pre-set financing level;
- control of conformance of the liquidity ratios to statutorily prescribed rates.

27 Risk management, continued

(d) Liquidity risk, continued

The Treasury Department obtains from the subdivisions the information about the structure of liquidity of their financial assets and liabilities and forecasting of cash flows expected from business planned in the future. Then the Treasury Department forms respective portfolio of short-term liquid assets consisting substantially of short-term liquid securities held for trade, credits and advances granted/paid to banks, and other interbank products in order to ensure required level of liquidity for the Bank in general.

The Treasury Department daily monitors liquidity positions and regularly carries out stress tests subject to various scenarios of the market condition both under normal and unfavourable conditions. Under normal market conditions the reports on liquidity status are submitted to the top management on a weekly basis. Decisions regarding the liquidity management policy shall be made by the CALM and executed by the Treasury Department.

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27 Risk management, continued

(d) Liquidity risk, continued

The tables below contain information about undiscounted cash flows on non-derivative financial liabilities, including granted and unrecognized credit liabilities relating to the earliest maturity date possible in accordance with conditions of a contract.

As at 31 December 2017, the maturity analysis for financial liabilities may be presented as follows:

thousand tenge	On demand and less than 1 month	1-3 months	3-6 months	6-12 months	More than 1 year	Total retirement of cash flows	Book value
Non-derivative liabilities							
Accounts and deposits of banks and other financial institutions	301,489	3,051,694	790,669	2,141,484	17,872,353	24,157,689	20,097,849
Current accounts and deposits of customers	59,024,155	4,567,564	20,008,508	151,225,546	42,215,747	277,041,521	264,810,845
REPO transactions	642,733	-	-	-	-	642,733	641,658
Other liabilities	1,025,387	26,253	190,595	8,333	1,040,212	2,290,781	2,290,780
Total liabilities	60,993,764	7,645,511	20,989,772	153,375,363	61,128,313	304,132,723	287,841,132
Contingent credit liabilities	3,115,449	-	-	-	-	3,115,449	3,115,449

As at 31 December 2016, the maturity analysis for financial liabilities may be presented as follows:

thousand tenge	On demand and less than 1 month	1-3 months	3-6 months	6-12 months	More than 1 year	Total retirement of cash flows	Book value
Non-derivative liabilities							
Accounts and deposits of banks and other financial institutions	2,542,880	413,730	10,804,841	3,322,194	19,302,905	36,386,550	31,099,930
Current accounts and deposits of customers	58,547,912	8,718,462	26,304,134	178,126,904	42,403,241	314,100,653	295,582,457
Other liabilities	577,062	20,119	51,545	245,616	1,090,354	1,984,696	1,984,698
Total liabilities	61,667,854	9,152,311	37,160,520	181,694,714	62,796,500	352,471,899	328,667,085
Contingent credit liabilities	1,948,921	-	-	-	-	1,948,921	1,948,921

In accordance with the legislation of the Republic of Kazakhstan the depositors have the right to withdraw their term deposits from the Bank at any moment, and in most cases they cease to be entitled to receive accrued interest income. Deposits and current accounts of customers are classified in accordance with the mentioned maturity dates. The amounts of each such deposit and current account of customers are presented below broken down by time intervals:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
On demand and less than 1 month	84,757,594	58,372,821
1-3 months	4,198,193	7,969,550
3-12 months	150,005,318	176,367,509
1-5 years	25,833,800	29,013,398
More than 5 years	15,943	3,730,205
	264,810,848	275,453,483

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Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

27 Risk management, continued

(d) Liquidity risk, continued

The management expects that movements in cash flows with respect to particular financial assets and liabilities may differ from those specified in contracts because either the management is authorized to manage cash flows or the past experience evidences that the periods of cash flows on those financial assets and liabilities may differ from the terms fixed in contracts. The financial assets and liabilities specified below are presented in the following tables in discounted amounts broken down by the periods during which cash flows with respect to those financial assets and liabilities is expected.

The table below presents the analysis of amounts (broken down by expected maturity dates) recorded in the statement of financial position as at 31 December 2017:

thousand tenge	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Without maturity date	Past due	Total
Non-derivative assets								
Cash and cash equivalents	60,764,089	4,868,819	-	-	-	-	-	65,632,908
Financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period	-	-	7,945,284	-	-	-	-	7,945,284
Financial assets available for sale	150,000	-	166,730	310,060	-	-	-	626,790
Credits and advances granted/paid to banks and other financial institutions	251,563	-	-	276,175	-	-	-	527,738
Credits granted to customers	22,784,111	11,561,510	37,728,263	69,831,966	9,172,692	-	18,810,783	169,889,325
Fixed and intangible assets	-	-	-	-	-	27,471,595	-	27,471,595
Other assets	4,883,710	14,672,354	46,229,274	1,706,462	-	-	26,693	67,518,493
Total assets	89,949,763	31,102,683	92,069,551	72,124,663	9,172,692	27,471,595	18,837,476	339,612,133

thousand tenge	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Without maturity date	Past due	Total
Non-derivative assets								
Accounts and deposits of banks and other financial institutions	301,489	3,190,411	1,797,709	13,127,133	1,681,107	-	-	20,097,849
Current accounts and deposits of customers	59,018,824	4,507,449	164,986,715	25,935,801	10,362,057	-	-	264,810,845
Accounts payable on REPO transactions	641,658	-	-	-	-	-	-	641,658
Deferred tax liability	-	-	-	1,447,133	-	-	-	1,447,133
Other liabilities	2,537,102	26,253	664,627	540,383	499,829	-	-	4,268,195
Total liabilities	62,499,073	7,724,113	167,449,051	41,050,450	12,542,993	-	-	291,265,680
Net item	27,450,690	23,378,570	(73,379,500)	31,074,213	(3,370,301)	27,471,595	18,837,476	48,436,453

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Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

27 Risk management, continued

(d) Liquidity risk, continued

The table below presents the analysis of amounts (broken down by expected maturity dates) recorded in the statement of financial position as at 31 December 2016:

thousand tenge	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Without maturity date	Past due	Total
Non-derivative assets								
Cash and cash equivalents	139,080,652	-	-	-	-	-	-	139,080,652
Financial assets available for sale	44,605	199,216	1,345,438	1,118,235	-	167,250	-	2,874,744
Credits and advances granted/paid to banks and other financial institutions	-	70,285	6,267,808	273,652	-	-	-	6,611,745
Credits granted to customers	19,260,585	13,121,640	51,321,687	69,758,075	16,504,803	-	11,701,860	181,668,650
Fixed and intangible assets	-	-	-	-	-	4,347,900	-	4,347,900
Other assets	1,720,562	5,979,354	18,716,920	-	-	-	4,110	26,420,946
Total assets	160,106,404	19,370,495	77,651,853	71,149,962	16,504,803	4,515,150	11,705,970	361,004,637

thousand tenge	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Without maturity date	Past due	Total
Non-derivative liabilities								
Accounts and deposits of banks and other financial institutions	2,542,880	352,729	12,651,746	10,593,827	4,958,748	-	-	31,099,930
Current accounts and deposits of customers	58,372,821	8,603,205	193,627,924	31,233,156	3,745,351	-	-	295,582,457
Deferred tax liability	-	-	-	121,743	-	-	-	121,743
Other liabilities	553,417	421,075	409,338	817,923	272,431	-	318	2,474,502
Total liabilities	61,469,118	9,377,009	206,689,008	42,766,649	8,976,530	-	318	329,278,632
Net item	98,637,286	9,993,486	(129,037,155)	28,383,313	7,528,273	4,515,150	11,705,652	31,726,005

28 Capital management

The Bank is actively controlling the capital adequacy ratio in order to protect from risks inherent in its activities. The Bank's capital adequacy is controlled using, besides other methods, the ratios fixed by the RK NB when supervising the activity of the Bank.

As at 31 December 2017 and 31 December 2016, the Bank fully complied with all external requirements with respect to capital as prescribed by the legislation. The main purpose of the capital management for the Bank consists in ensuring compliance by the Bank of external requirements with respect to capital and maintenance of high credit rating and capital adequacy ratios required to carry out activity and to maximize shareholder value. The Bank manages the structure of its capital and adjusts the same in terms of changes in economic conditions and characteristics of risk of the types of activity carried out. The RK NB prescribes and controls compliance with the requirements to capital level of the Bank. In accordance with the requirements in force as prescribed by the RK NB, the banks must maintain:

- ratio of equity to assets and contingent liabilities weighted by a degree of credit risk, assets, contingent claims and liabilities calculated subject to market risk and quantitative operating leverage (k1);
- ratio of 1 tier capital less investments to assets and contingent liabilities weighted by a degree of credit risk, assets, contingent claims and liabilities calculated subject to market risk and quantitative operating leverage (k1.2);
- ratio of equity capital to assets and contingent liabilities weighted by a degree of credit risk, assets, contingent claims and liabilities calculated subject to market risk and quantitative operating leverage (k2).

The equity capital is calculated as an amount of the first tier capital and the second tier capital less the following positive differences:

1) between amount of deposits of natural persons and equity capital according to details from the balance sheet multiplied by 5.5;

2) between the provisions calculated in accordance with the Guidelines for forming provisions for impairment of assets of the Bank in the form of loans and accounts receivable and the provisions formed and booked in the accounting records of the Bank in accordance with the IFRS and the requirements of the legislation of the Republic of Kazakhstan concerning business accounting and financial reporting (hereinafter - the positive difference). For the purposes of calculation of the equity capital stated in paragraph 2), the positive difference is calculated by the banks and included in the following amounts:

from 25 September 2017 - 5 (five) percent;

from 1 December 2017 - 16.67 (sixteen point sixty-seven) percent;

from 1 September 2018 - 33.33 (thirty-three point thirty-three) percent;

from 1 September 2019 - 49.99 (forty-nine point ninety-nine) percent;

from 1 September 2020 - 66.67 (sixty-six point sixty-seven) percent;

from 1 September 2021 - 83.33 (eighty-three point thirty-three) percent;

from 1 September 2022 - 0 (zero) percent.

The positive difference adjusted based on the results of inspection by the authorized body shall be included into calculation of equity capital as from the reporting date following a reporting month.

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28 Capital management, continued

The table below contains analysis of capital of the Bank calculated in accordance with the requirements of the RK NB as at 31 December 2017 and 31 December 2016:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
1 tier capital		
Capital stock:		
Share capital	42,085,468	28,027,337
Regulatory additional paid capital	(112,895)	(14,083)
Provisions for covering general banking risk	957,976	957,976
Deferred tax liability attributed to fixed asset revaluation	-	-
Regulatory retained profit - previous year	2,492,436	1,456,742
Regulatory retained profit - reporting period	-	865,015
Provision for revaluation of financial assets available for sale	100,800	99,999
Provision for fixed asset revaluation	5,193,792	294,177
Regulatory adjustments:		
Own purchased ordinary shares	-	-
Regulatory intangible assets	(1,624,382)	(1,154,451)
Total 1 tier capital	46,969,093	30,532,712
2 tier capital		
Subordinated debt	-	-
Total 2 tier capital	-	-
Total capital	46,969,093	30,532,712
 Positive difference between amount of deposits of natural persons and equity capital according to details of the balance sheet multiplied by 5.5 deductible from equity capital	 -	 -
 Positive difference between provisions calculated in accordance with the Guidelines for forming provisions for impairment of assets of the Bank in the form of loans and accounts receivable on previously granted bank loans and provisions formed and booked in the accounting records of the Bank in accordance with the International Financial Reporting Standards and the requirements of the legislation of the Republic of Kazakhstan concerning business accounting and financial reporting	 2,822,267	 -
Risk-weighted assets		
Credit risk weighted assets	310,952,749	246,158,926
Credit risk weighted contingent liabilities	40,108,745	36,779,066
Credit risk weighted derivative financial instruments	401,384	-
Assets and contingent claims and liabilities calculated subject to market risk	17,411,663	1,135,807
Operational risk	3,306,948	3,322,422
Total risk-weighted assets, contingent claims and liabilities, operational risk	372,181,489	287,396,221
 Ratio k1	 0.126	 0.106
Ratio k1-2	0.126	0.106
Ratio k2	0.119	0.106

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29 Contingent credit liabilities

The Bank has contingent liabilities on provision of credit resources. These contingent credit liabilities provide for issue of credit resources in the form of approved credit, limits on credit cards, as well as overdraft. The Bank issues bank guarantees and opens letters of credit for the purposes of provision of fulfilment of obligations of its customers to third persons. The mentioned agreements record the limits of liabilities and, as a rule, are valid for up to five years. When providing financial guarantees, credit contingent liabilities and letters of credit, the Bank applies the same risk management policy and procedures as when granting credits to customers.

Contractual amounts of contingent credit liabilities are presented in the table below broken down by categories. Amounts presented in the table as regards guarantees and letters of credit represent maximal amount of accounting loss, which would be booked as at the reporting date in case the counterparties could not fulfil their obligations in accordance with the terms and conditions of contracts.

	31 December 2017	31 December 2016
	thousand tenge	thousand tenge
Liabilities on granting credits and credit facilities	3,115,449	1,948,921
Guarantees	34,302,542	35,947,325
	37,417,991	37,896,246

Many of the stated contingent credit liabilities may be terminated without partial or full discharge thereof. Due to this, the contingent credit liabilities mentioned above do not represent expected cash outflow.

Guarantees are secured with real estate, cash deposits, guarantees of natural persons and other collateral.

As at 31 December 2017, the Bank had two counterparties (31 December 2016: five) of which the share of guarantees and liabilities on granting credits exceeds 10% of capital. As at 31 December 2017, the total balances on guarantees and liabilities on granting credits of the mentioned customers amounted to 12,466,027 thousand tenge (31 December 2016: 21,332,559 thousand tenge).

When assuming unrecognized contingent liabilities, the Bank uses the same credit control and management policies as when assuming the liabilities on recognized transactions.

30 Operating lease

As at 31 December 2017 and 31 December 2016, the Bank had not significant accounts payable under non-cancellable operating lease contracts.

During twelve months of the year 2017, the expense in the amount of 869,472 thousand tenge was recognized as part of profit or loss with respect to operating lease contracts (31 December 2016: 821,977 thousand tenge).

31 Contingent liabilities

(a) Insurance

The market of insurance services in the Republic of Kazakhstan is at the stage of development, therefore many forms of insurance coverage applicable in other countries are still unavailable in the Republic of Kazakhstan. The Bank did not fully insure the buildings and equipment, temporary suspension of activity or liability of third persons as regards property or environmental damage incurred as the result of use of the Bank's property or in other cases relating to activity of the Bank. Until the Bank sufficiently incurs its activities, there is a risk that incurred losses or forfeiture of particular assets may have material adverse effect on activity and financial position of the Bank.

(b) Pending legal proceedings

In the course of its normal activity in the market the Bank faces different types of legal claims. The management believes that the definitive value of liabilities resulting from legal proceedings will not have material adverse effect on financial position or further activity of the Bank.

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31 Contingent liabilities, continued

On 07 February 2017, the Bank received claims from “Orda Glass LTD” LLP for fulfilment of obligations on the bank guarantees issued to “Shymkentkhimmontazh” LLP. Under decision of the Specialized Inter-district Economic Court of Kyzylorda oblast dated 09.06.2017, the amount of 4,445,648 thousand tenge was recovered from the Bank under the above-mentioned bank guarantees due to improper fulfilment of obligations by “Shymkentkhimmontazh” LLP to “Orda Glass LTD” LLP.

The amounts of 1,244,508 thousand tenge and 933,526 thousand tenge included into the amount of recovery under decisions of the SIDEK dated 09.06.2017 were the amounts guaranteed by the Bank as refundable advance payment. As it appears from the materials available today, the amounts of advance payment of “Shymkentkhimmontazh” LLP were worked off that was confirmed by the results of examination and copies of the reports on works performed. Thus, actually stated bank advance payment refund guarantees as of the day on which “Orda Glass LTD” LLP filed the statement of claim were terminated and not subject to execution.

In accordance with conclusion of examination No.1523 dated 30.03.2017 carried out within the scope of the criminal case of “Shymkentkhimmontazh” LLP for the period from 01.03.2015 to 10.01.2017, the works were performed and services were rendered for “Orda Glass LTD” LLP to the total amount of 3,901,487 thousand tenge. Thus, on the basis of the newly revealed facts it was ascertained that “Shymkentkhimmontazh” LLP actually rendered the services under issued advance payment refund guarantees whereof signed reports on works performed and conclusion of examination No.1523 dated 30.03.2017 evidence. In addition, “Shymkentkhimmontazh” LLP sent for signing to “Orda Glass LTD” LLP the reports on works performed to the amount of 317,562 thousand tenge. It follows from the premises that as per information available as at the current date, “Shymkentkhimmontazh” LLP performed works to the total cost amounting to 4,219,049 thousand tenge.

At the present moment the Bank is preparing a suit for recovery from “Orda Glass LTD” LLP of the unjustified beneficitation in the amount of 2,178,035 thousand tenge under the decision of the SIDEK of Kyzylorda oblast dated 09.06.2017, in proportion to reduction of the fine amounting to 217,803 thousand tenge and the state duty amounting to 71,875 thousand tenge. The total claims made by the Bank will amount to 2,685,517 thousand tenge.

The Bank’s management evaluates affirmative court decision on satisfaction of the suit as very probable. The main argument of the Bank is that the amounts of advances for which the Bank guaranteed refund in case of improper fulfilment of obligations have been worked off and accepted by “Orda Glass Ltd” LLP.

The balance of outstanding amount of 1,760,131 thousand tenge will be repaid by “Shymkentkhimmontazh” LLP in the frame of applied rehabilitation procedure in accordance with the rehabilitation plan to be approved by the Committee of Creditors or, in case the rehabilitation procedure is cancelled, at the expense of pledged property.

Under issued guarantees the Bank accepted collateral from “Shymkentkhimmontazh” LLP to the total amount of 5,127,945 thousand tenge.

As at 31 December 2017, the other assets included the accounts receivable from “Shymkentkhimmontazh” LLP in the amount of 4,577,164 thousand tenge consisting of the amounts of advance payment refund guarantees and the debt on past due fees (Note 19).

(c) Contingent tax liabilities

The tax system of Kazakhstan, which is relatively new, is characterized by frequent changes in the legislative rules, official interpretations and judicial decisions, which are often inexplicit and contradictory that admits ambiguous interpretation thereof by different tax authorities, including opinions regarding procedure for accounting for incomes, expenses, and other items of the financial statements in accordance with the IFRS. The regulatory authorities of different levels entitled to impose large penalties and to charge interests are in charge of audits and investigations with respect to accuracy of tax assessment. Accuracy of tax assessment during the reporting period may be checked during subsequent five calendar years, however under particular circumstances that

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period may be extended. Recent events occurred in the Republic of Kazakhstan evidence that the
tax authorities hold more rigid position when interpreting and applying the tax laws.

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Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

31 Contingent liabilities, continued

(c) Contingent tax liabilities, continued

These circumstances may have the result that the tax risks in Kazakhstan will be much higher than in other countries. Based on its understanding of the applicable tax laws, regulatory requirements and judicial decisions, the Bank’s management believes that the tax liabilities are booked in full. Nevertheless, interpretation of those provisions by respective authorities may differ and, in case they may prove lawfulness of their position that may significantly affect these financial statements.

32 Related party transactions

(a) Control

As at 31 December 2017, the Bank was under control of Mr. O.T. Tokhtarov (31 December 2016: Mr. O.T. Tokhtarov), who solely owns 52.39% shares in the Bank (see Note 1) (31 December 2016: he owned 61.07% shares in the Bank).

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

The total fees included into the item “Costs for personnel” for the periods ended on 31 December 2017, 2016 may be presented as follows:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Members of the Board of Directors and the Management Board of the Bank	201,740	148,926
	201,740	148,926

The mentioned amounts include monetary and non-monetary fees to the members of the Management Board and the Board of Directors.

As at 31 December 2017 and 31 December 2016, the balances on the accounts and average fee rates on transactions with the members of the Management Board and the Board of Directors amounted to:

	31 December 2017 thousand tenge	Average fee rate	31 December 2016 thousand tenge	Average fee rate
Statement of financial position				
Credits granted to customers	42,002	14-23%	48,212	14.20%
Current accounts and deposits of customers	391,726	7,07%	538,166	9.80%

The amounts included as parts of profit or loss on transactions with the members of the Management Board and the members of the Board of Directors as at 31 December 2017 may be presented as follows:

	31 December 2017 thousand tenge	31 December 2016 thousand tenge
Profit or loss		
Interest income	4,117	6,873
Interest expense	17,017	10,366

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Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

32 Related party transactions, continued

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

As at 31 December 2017, the balances on settlement of payments and average fee rates, as well as respective profit or loss on transactions with the other related parties for twelve months ended on 31 December 2017 amounted to:

	Shareholders		Other companies under control of shareholders		Total thousand tenge
	thousand tenge	Average fee rate, %	thousand tenge	Average fee rate, %	
Statement of financial position					
LIABILITIES					
Current accounts and deposits of customers					
- Term deposits					
- tenge	8,293	13.73%	51,446	13.6%	59,739
- US dollar	88	1.75%	26,331	2.33%	26,419
- Euro	29	1.5%	4,813	2%	4,842
- Current accounts and deposits on demand					
- tenge	1,333	-	10,525	-	11,858
- US dollar	24	-	7,598	-	7,622
- Euro	15	-	7	-	22
- Pound	3	-	1	-	4
- Rouble	1	-	1	-	2
Current accounts and deposits of financial institutions					
- tenge	-	-	-	-	-
Profit or loss					
Interest expenses	(935)		(4,238)		(5,173)

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As at 31 December 2016, the balances on settlement of payments and average fee rates, as well as respective profit or loss on transactions with the other related parties for the year ended on 31 December 2016 amounted to:

	Shareholders		Other companies under control of shareholders		Total thousand tenge
	thousand tenge	Average fee rate, %	thousand tenge	Average fee rate, %	
Statement of financial position					
LIABILITIES					
Current accounts and deposits of customers					
- Term deposits					
- tenge	353,322	14.0%	-	-	353,322
- US dollar	400	2.0%	-	-	400
- Euro	24	1.5%	-	-	24
- Current accounts and deposits on demand					
- tenge	14,647	-	3,188	-	17,835
- US dollar	154	-	-	-	154
- Euro	218	-	-	-	218
- Pound	1,001	-	-	-	1,001
- Rouble	1	-	-	-	1
Profit or loss					
Interest expenses	(47,103)		-		(47,103)

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Notes to the financial statements for the period ended on 31 December 2017, thousand tenge

33 Financial assets and liabilities: fair value and accounting classifications

(a) Accounting classifications and fair value

The table below presents book and fair value of financial assets and liabilities as at 31 December 2017:

thousand tenge	Credits and accounts receivable	Available for sale	Other accounted for at amortized cost	Total book value	Fair value
Cash and cash equivalents	65,632,908	-	-	65,632,908	65,632,908
Financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period	-	-	7,945,284	7,945,284	7,945,284
Financial assets available for sale	-	626,790	-	626,790	626,790
Credits and advances granted/paid to banks and other financial institutions	527,738	-	-	527,738	527,738
Credits granted to customers					
Credits granted to corporate customers	147,263,753	-	-	147,263,753	140,059,031
Credits granted to retail customers	22,625,572	-	-	22,625,572	19,098,097
Other financial assets	28,857,937	-	-	28,857,937	28,857,937
	264,907,908	626,790	7,945,284	273,479,982	262,471,611
Accounts and deposits of banks and other financial institutions	-	-	20,097,849	20,097,849	20,097,849
Current accounts and deposits of customers	-	-	264,810,845	264,810,845	267,308,183
REPO transactions	-	-	641,658	641,658	641,658
Other liabilities	-	-	2,290,780	2,290,780	2,290,780
	-	-	289,818,547	289,818,547	290,338,470

The table below presents book and fair value of financial assets and liabilities as at 31 December 2016:

thousand tenge	Credits and accounts receivable	Available for sale	Other accounted for at amortized cost	Total book value	Fair value
Cash and cash equivalents	139,080,652	-	-	139,080,652	139,080,652
Financial assets available for sale	-	2,874,744	-	2,874,744	2,874,744
Credits and advances granted/paid to banks and other financial institutions	6,611,745	-	-	6,611,745	6,611,745
Credits granted to customers					
Credits granted to corporate customers	137,989,528	-	-	137,989,528	129,208,586
Credits granted to retail customers	43,679,122	-	-	43,679,122	40,806,829
Other financial assets	8,750,335	-	-	8,750,335	8,750,335
	336,111,382	2,874,744	-	338,986,126	327,332,891
Accounts and deposits of banks and other financial institutions	-	-	31,099,930	31,099,930	31,066,847
Current accounts and deposits of customers	-	-	295,582,457	295,582,457	291,982,498
Other financial liabilities	-	-	1,984,696	1,984,696	1,984,696
	-	-	328,667,083	328,667,083	325,034,041

33 Financial assets and liabilities: fair value and accounting classifications, continued

(a) Accounting classifications and fair value, continued

Measurement of fair value is aimed at determination of a price, which would result upon sale of an asset or paid upon delivery of a liability under conditions of a transaction settled in organized market between the market participants as at the date of measurement. Nevertheless, considering uncertainty and use of subjective judgements the fair value must not be interpreted as realizable in the context of immediate sale of assets or delivery of liabilities.

Fair value of financial assets and financial liabilities traded in active market is based on market quotations or dealer prices. The Bank assesses fair value of all other financial instruments of the Bank using the other valuation methods.

The purpose of the valuation methods is to achieve a fair value measurement method representing a price at which a transaction made in organized market would be settled to sell an asset or to deliver a liability between the market participants as at a measurement date.

The Bank uses widely recognized valuation models to assess fair value of financial instruments. The valuation methods include the models of valuation of current net present value and cash flows discounting, comparison with similar instruments with respect to which the market quotation are known. The valuation methods are aimed at assessment of fair value representing value of a financial instrument as at the reporting date, which would be assessed by independent market participants.

(b) Fair value measurement hierarchy

The Bank measures fair value using the following fair value measurement hierarchy considering materiality of data used when making the mentioned measurements.

- Level 1: quotations in active market (unadjusted) with respect to identical financial instruments.
- Level 2: data other than quotations relating to Level 1, which is available directly (id est quotations) or indirectly (id est data derivative from quotations). This category includes instruments measured using: market quotations in active markets for similar instruments, market quotations for similar instruments in the markets not considered as active or other valuation methods all used data of which are directly or indirectly based on observable input data.
- Level 3: data, which is not available. This category includes instruments measured using the information not based on observable input data, with the assumption that such non-observable data have material effect on instrument measurement. This category includes instruments measured on the basis of quotations for similar instruments with respect to which it is required to use material non-observable quotations or judgements to book a difference between instruments.

As at 31 December 2017 and 31 December 2016, the Bank measured fair value of assets available for sale and financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period by using the valuation methods based on observable input data (Level 2).

33 Financial assets and liabilities: fair value and accounting classifications, continued

(b) Fair value measurement hierarchy, continued

The table below contains analysis of fair value of financial instruments not measured at fair value as at 31 December 2017, broken down by levels of fair value hierarchy.

thousand tenge	Level 1	Level 2	Level 3	Total fair value	Total book value
Cash and cash equivalents	-	65,632,908	-	65,632,908	65,632,908
Financial instruments measured at fair value the changes in which are booked as parts of profit or loss for the period	7,945,284	-	-	7,945,284	7,945,284
Financial assets available for sale	626,790	-	-	626,790	626,790
Credits and advances granted/paid to banks and other financial institutions	-	527,738	-	527,738	527,738
Credits granted to customers	-	169,889,325	-	159,157,129	169,889,325
Other financial assets	-	28,857,937	-	28,857,937	28,479,982
	<u>8,572,074</u>	<u>264,907,908</u>	<u>-</u>	<u>262,747,786</u>	<u>273,479,982</u>
Accounts and deposits of banks and other financial institutions	-	20,097,849	-	20,097,849	20,097,849
Current accounts and deposits of customers	-	264,810,845	-	267,308,183	264,810,845
REPO transactions	-	641,658	-	641,658	641,658
Other financial liabilities	-	2,290,780	-	2,290,780	2,290,780
	<u>-</u>	<u>287,841,132</u>	<u>-</u>	<u>290,338,470</u>	<u>287,841,132</u>

The table below contains analysis of fair value of financial instruments not measured at fair value as at 31 December 2016, broken down by levels of fair value hierarchy.

thousand tenge	Level 1	Level 2	Level 3	Total fair value	Total book value
Cash and cash equivalents	-	51,996,783	-	51,996,783	51,996,783
Credits and advances granted/paid to banks and other financial institutions	-	13,340,011	-	13,340,011	13,340,011
Credits granted to customers	-	107,539,086	24,083,433	131,622,519	131,824,973
Other financial assets	-	18,050,229	-	18,050,229	18,050,229
	<u>-</u>	<u>190,926,109</u>	<u>24,083,433</u>	<u>215,009,542</u>	<u>215,211,996</u>
Accounts and deposits of banks and other financial institutions	-	44,061,994	-	44,061,994	45,844,884
Current accounts and deposits of customers	-	145,814,378	-	145,814,378	145,182,100
Subordinated bonds	-	7,022,664	-	7,022,664	7,022,664
Other financial liabilities	-	1,284,305	-	1,284,305	1,284,305
	<u>-</u>	<u>198,183,341</u>	<u>-</u>	<u>198,183,341</u>	<u>199,333,953</u>

34 Events after reporting date

In the context of implementation of the standards of IFRS 9 as at 01.02.2018 the provisions for impairment of granted credits have been formed to the amount of about 2 200 000 thousand tenge, as a result the total provisions amounted to about 13 000 000 thousand tenge.

As at 01.03.2018, changes in provisions for January-February 2018 for impairment of granted credits amounted to 1 708 329 thousand tenge, as well as the loans have been written off to the total amount of 1 976 837 thousand tenge; as the result of the mentioned changes the total provisions for impairment of granted credits amounted to about 10 536 679 thousand tenge.