Joint Stock Company "Trust-Bank" (formerly Joint Stock Company "Trust-Bank")

Financial statements

For the year ended 31 December 2017
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Board of Directors of
"Islamic bank "Trust-Bank" Joint Stock Company

Opinion

We have audited the financial statements of "Islamic bank "Trust-Bank " Joint Stock Company (hereinafter – the "Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – the "IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter – the "ISA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (hereinafter – the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

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Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Ernst & Young LLP

Bakhtiyor Eshonkulov Auditor / Audit partner Ernst & Young LLP	Gulmira Turmagambetova General director Ernst & Young LLP
Auditor qualification certificate No. МФ-0000099 dated 27 August 2012	State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003, issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

050060, Kazakhstan, Almaty.
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18 April 2018

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(In thousands of tenge)

	Notes	*2017*	*2016*
Assets			
Cash and cash equivalents	6	**1,190,826**	1,705,490
Receivables from Islamic finance activities	7	**9,974,418**	–
Loans to customers	8	**877,647**	11,730,901
Finance lease receivables	9	**40,901**	41,319
Receivables on re-assigned loans	10	**–**	580,699
Bank participation in investments pool	11	**1,062,300**	–
Property and equipment	12	**24,660**	22,229
Intangible assets	13	**10,103**	14,786
Inventory	14	**216,766**	190,565
Current corporate income tax assets	15	**4,981**	–
Deferred corporate income tax assets	15	**24,288**	36,401
Other assets	16	**112,278**	21,711
Total assets		**13,539,168**	14,344,101
Liabilities			
Amounts due to credit institutions	17	**595,766**	52,969
Amounts due to customers	18	**547,662**	2,448,795
Provisions for commitments and contingencies	19	**49,564**	173,062
Other liabilities	16	**34,492**	52,064
Total liabilities		**1,227,484**	2,726,890
Equity	20		
Share capital		**10,050,000**	10,050,000
Additional paid-in capital		**122,037**	122,037
Retained earnings		**2,139,647**	1,445,174
Total equity		**12,311,684**	11,617,211
Total liabilities and equity		**13,539,168**	14,344,101

Signed and authorised for issue on behalf of the Management Board of the Bank

Chairwoman of the Management Board

Chief Accountant

18 April 2018

The accompanying notes on page 5 to 38 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(In thousands of tenge)

	Notes	2017	2016
Revenue from Islamic finance activities			
Revenue from Commodity Murabaha agreements		330,688	–
Interest income			
Loans to customers		907,165	1,505,833
Finance lease receivables		64	5,228
Amounts due from credit institutions		70	254
		1,237,987	1,511,315
Interest expense			
Amounts due to customers		(1)	(16,917)
		(1)	(16,917)
Effect from initial recognition on receivables on re-assigned loans	10	–	(181,870)
Net interest income		1,237,986	1,312,528
Allowance for loan impairment	7	(229,498)	(490,324)
Net interest income after allowance for impairment		1,008,488	822,204
Net fee and commission income	22	51,297	149,781
Net (losses)/gains from transactions in foreign currencies	23	(15,345)	49,966
Reversal of provision for contingent liabilities	19	123,498	9,208
Other income		148,565	68,644
Non-interest income		308,015	277,599
Personnel expenses	24	(202,952)	(216,380)
Other operating expenses	24	(243,755)	(204,527)
Non-interest expense		(446,707)	(420,907)
Profit before corporate income tax expense		869,796	678,896
Corporate income tax expense	15	(175,323)	(142,365)
Profit for the year		694,473	536,531
Other comprehensive income		–	–
Total comprehensive income for the year		694,473	536,531

The accompanying notes on page 5 to 38 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(In thousands of tenge)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total equity*
As at 31 December 2015	10,050,000	122,037	1,534,487	11,706,524
Comprehensive income for the year	–	–	536,531	536,531
Dividends to the Bank shareholders declared *(Note 20)*	–	–	(625,844)	(625,844)
As at 31 December 2016	10,050,000	122,037	1,445,174	11,617,211
Comprehensive income for the year	–	–	694,473	694,473
As at 31 December 2017	10,050,000	122,037	2,139,647	12,311,684

The accompanying notes on page 5 to 38 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(In thousands of tenge)

	Notes	2017	2016
Cash flows from operating activities			
Revenue received from Islamic finance activities		112,427	–
Interest received		976,010	1,159,625
Interest paid		(495)	(19,668)
Fees and commissions received		56,360	150,156
Fees and commissions paid		(26,886)	(4,493)
Realised gains less losses from dealing in foreign currencies		20,672	5,380
Other income received		148,565	26,789
Personnel expenses paid		(210,663)	(246,149)
Other operating expenses paid		(221,181)	(177,833)
Cash flows from operating activities before changes in operating assets and liabilities		854,809	893,807
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(17)	4
Receivables from Islamic finance activities		(11,134,615)	–
Loans to customers		12,451,943	(439,098)
Finance lease receivables		476	5,706
Bank participation in investments pool		(1,062,300)	–
Other assets		(68,744)	(11,466)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		542,797	52,969
Amounts due to customers		(1,900,639)	(473,513)
Other liabilities		(8,659)	(18,526)
Net cash flows (used in)/received from operating activities before corporate income tax		(324,949)	9,883
Corporate income tax paid		(168,191)	(178,004)
Net cash flows used in operating activities		(493,140)	(168,121)
Cash flows from investing activities			
Purchase of property and equipment	12	(18,223)	(9,836)
Purchase of intangible assets	13	(3,301)	(1,382)
Net cash flows used in investing activities		(21,524)	(11,218)
Cash flows from financing activities			
Dividends paid to shareholders of the Bank	20	–	(625,844)
Net cash flows used in financing activities		–	(625,844)
Net decrease in cash and cash equivalents		(514,664)	(805,183)
Cash and cash equivalents, as at 1 January		1,705,490	2,510,673
Cash and cash equivalents, as at 31 December	6	1,190,826	1,705,490

The accompanying notes on page 5 to 38 are an integral part of these financial statements.

(In thousands of tenge, unless otherwise indicated)

1. Principal activities

Joint Stock Company "Islamic bank "Zaman-Bank" (hereinafter – "the Bank") operates in the Republic of Kazakhstan since 1991 as Joint Stock Company "Zaman-Bank" in accordance with the legislation of the Republic of Kazakhstan. In 2017, the Bank converted into Islamic bank, renamed and officially registered as Joint Stock Company "Islamic bank "Zaman-Bank".

The Bank operates under a general banking license No. 1.3.51 issued by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK") on 17 August 2017, which replaces previous licenses.

The Bank is involved in Islamic banking activities and carries out its operations through its head office in Ekibastuz and branch in Almaty. The Bank accepts deposits from the public and conducts finance transactions based on Sharia principles and rules, transfers payments within the Kazakhstan and abroad, exchanges currencies and provides other banking services to its legal entities and individuals. The Bank's activity is regulated by the NBRK.

Registered address of the Bank's head office: is Republic of Kazakhstan, 141206, Ekibastuz, 111A Mashhur Zhusup Str.

As at 31 December 2017 and 2016 the following individuals and legal entities were shareholders of the Bank:

Shareholder	*2017 (%)*	*2016 (%)*
Abguzhinov A.T.	61.9	61.9
Yermembetov A.Sh.	8.4	–
Beisembayeva S.E.	8.3	–
Svarov Sh.D.	8.3	–
Islamic Corporation for the Development of the Private Sector	5.0	5.0
Abguzhinov T.S.	4.0	29.0
Other shareholders, individually holding less than 3%	4.1	4.1
Total	100.0	100.0

As at 31 December 2017, members of the Board of Directors and the Management Board controlled 6,684,708 shares or 67% of the Bank (in 2016: 2,991,021 shares or 30%).

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter – the "IFRS").

The financial statements have been prepared under the historical cost convention except as disclosed in the paragraph "Summary of significant accounting policies". These financial statements are presented in thousands of tenge ("tenge" or "KZT"), except per share amounts and unless otherwise indicated.

3. Definition of significant terms

Sharia

Sharia – is the Body of Islamic law and is derived from the Holy Quran and the Sunna'h of Holy Prophet (PBUH). The Bank being an Islamic Financial Institution incorporates the principles and rules of Sharia in its activities, as interpreted by its Islamic Financial Principles Board.

Commodity Murabaha

A method where the Bank purchases a commodity from a Broker and takes ownership and constructive possession of that commodity and then sells it to a customer on a deferred payment basis. The customer then sells the same asset to a third party for immediate delivery and payment, the end result being that the customer receives a cash amount and has a deferred payment obligation for the marked-up price to the Bank. The asset is typically a freely tradable commodity such as platinum or palladium. Gold and silver are treated by Sharia as currency and cannot be used.

(In thousands of tenge, unless otherwise indicated)

3. Definition of significant terms (continued)

Ijara

Leasing of an identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek) – is an agreement whereby the Bank buys an asset according to the customer's intention, presented in an intent notice and then leases it, in its capacity as a lessor, to the customer as lessee for the specified rental over a specific period. The duration of the lease term, as well as the basis for rental, are set and agreed in the lease agreement. The Bank possesses ownership of the asset throughout the lease term. The arrangement could end by transferring the ownership of the asset to the lessee upon completion by the lessee of it obligation during or at the end of the lease term.

Mudaraba

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between an investment account holder as the provider of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of the investment account holder, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

Wakala

An agreement whereby the Investor provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or percentage of the amount invested). The agent may be granted any excess over and above a certain pre-agreed expected rate of return as a performance incentive. The agent is obliged to return the invested amount in the case of the agent's negligence or violation of the terms and conditions of the Wakala.

Qard Hassan

Qard Hassan short-term receivables are non-profit bearing financing receivables whereby the customer borrows funds for a specific time with an understanding that the same amount will be repaid at the end of the agreed period.

Zakah

Zakah is a right which becomes due in certain types of wealth and disbursable to specific categories of recipients. It is an in rem duty when its conditions are satisfied.

4. Summary of significant accounting policies

Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). As at 31 December 2017 and during 2017, the Bank has no liabilities arising from its financing activities.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary differences related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Bank's financial position and its performance as the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

(In thousands of tenge, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Fair value measurement

The Bank measures financial instruments such as trading and available-for-sale securities, derivative financial instruments at fair value at the reporting date. Information on fair values of financial instruments measured at amortised cost are disclosed in *Note 26*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability;
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IFRS (IAS) 39 are classified as either financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; available-for-sale financial assets. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables – are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest rate. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(In thousands of tenge, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Receivables from Islamic finance activities

Receivables from Islamic finance activities, which include receivables under Commodity Murabaha agreements, – are non-derivative financial assets with fixed payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale but to receive contractual cash flows. Assets are carried at amortised cost using the effective profit rate method. Gains and losses are recognised in the profit or loss when the receivables are derecognised or impaired, as well as through the amortisation process. The Bank's receivables from Islamic finance activities consist of Murabaha receivables. Murabaha receivables are stated at amortised cost less any allowance for impairment.

Islamic finance activities are funded from two sources: 1) the Bank's own funds which are accounted on balance sheet; and 2) funds received under Wakala and Mudaraba agreements. Under the terms of Wakala and Mudaraba agreements the Bank bears no risk and such funds are accounted off balance sheet. In case of early termination or maturity of the Wakala and Mudaraba agreements, which may give potential maturity mismatches in assets, funding shortages arising in the respective pool could be financed by the Bank from its own funds and accounted on balance sheet.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held to maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRK and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the income statement. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to other banks and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate. Gains and losses are recognised in profit or loss when borrowings are derecognised, as well as through the amortisation process.

(In thousands of tenge, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Leases

Finance – Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of an entity or any counteragent.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(In thousands of tenge, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Receivables from Islamic finance activities, amounts due from credit institutions and loans to customers

For receivables from Islamic finance activities carried at amortised cost, including receivables under Commodity Murabaha agreements, amounts due from credit institutions and loans to customers, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit-risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Receivables from Islamic finance activities, loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If receivables from Islamic finance activities and a loan has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit-risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit-risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognized;
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the allowance charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

(In thousands of tenge, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable – a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar allowance) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar allowance) on an asset measured at fair value. The extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in "Other liabilities", being the premium received.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

Current corporate income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred corporate income tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred corporate income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

The Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses in the statement of comprehensive income.

(In thousands of tenge, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

Carrying amount of property and equipment is reviewed for impairment when events or changes in circumstances indicate that carrying amount may not be recoverable.

Depreciation of an asset begins when it is substantially available for use. Depreciation is calculated on a straight-line basis over the following estimated rates:

	Depreciation rates
Computers and office equipment	20-50%
Vehicles	15-20%
Furniture	15-20%

Asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Share capital

Share capital

Common shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

(In thousands of tenge, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Contingent assets and liabilities

Contingent liability is not recognised in the statement of financial position but is disclosed unless the possibility of any outflow in settlement is remote. Contingent asset is not recognised in the statement of financial position but is disclosed when an inflow of economic benefits is almost certain.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Income and expenses on Islamic finance activities

For all financial instruments measured at amortised cost income or expense on Islamic finance activities is recorded at the effective profit rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective profit rate and the change in the carrying amount is recorded as income or expense on Islamic finance activities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, revenue on Islamic finance activities continues to be recognised using the original effective profit rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following three categories:

- *Fee and commission income earned from services that are provided over a certain period of time*

Fee and commission income obtained for rendering the services during a certain period of time are accrued during this period. These items include commission income and fees for the issuance of guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loans.

- *Fee and commission income from providing transaction services*

Fees arising from settlement transactions, transactions with cash and other services are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

- *Fee and commission income*

Fees earned for the provision of services over a period are accrued over that period. These fees include commission income, Mudarib share of profit, Wakil’s incentive and agency fee under Wakala agreements.

Foreign currency translation

The financial statements are presented in tenge, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate established by the Kazakhstan Stock Exchange (hereinafter – the “KASE”) and communicated by the NBRK ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as gains/(losses) from transactions in foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(In thousands of tenge, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate quoted by KASE on the date of the transaction are included in gains/(losses) from transactions in foreign currencies. The market exchange rates quoted by KASE as at 31 December 2017 and 2016 were KZT 332,33 and KZT 333,29 to 1 USD, respectively.

Standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank’s financial statements are listed below. The Bank intends, if necessary, to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IFRS Board published the final version of IFRS 9 *Financial Instruments*, that replaces IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 addresses classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Bank plans to adopt the new standard by recognising the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. Based on the data as at 31 December 2017 and current implementation status, the Bank estimates that the adoption of IFRS 9 will result in a decrease in the shareholders’ equity as at 1 January 2018 up to KZT 238,903 thousand (approximate amount).

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a “basic financing arrangement”, such as instruments containing embedded conversion options or “non-recourse” financing, are measured at FVPL. For debt financial assets or tangible financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a “hold to collect” basis are measured at amortised cost;
- Instruments that are managed on a “hold to collect and for sale” basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The Bank expects that the classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

The Bank expects that it will continue to measure at fair value all financial assets that are currently measured at fair value.

Loans to customers are expected to meet the SPPI criterion and will continue to be measured at amortized cost.

(b) Impairment

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as financing commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016 will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard using the modified retrospective method by recognising the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

(In thousands of tenge, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, profit and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). As a result, the majority of the Bank's income will not be impacted by the adoption of this standard.

The Bank currently does not expect a material effect from initial application of IFRS 15.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the profit expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Bank will continue to assess the potential effect of IFRS 16 on its financial statements.

Annual improvements 2014-2016 cycle (issued in December 2016)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-financial asset or non- financial liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non- financial asset or non-financial liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Bank's current practice is in line with the Interpretation, the Bank does not expect any effect on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to profit and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

(In thousands of tenge, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Annual improvements 2014-2016 cycle (issued in December 2016) (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (continued)

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IAS 12 Income Taxes

These amendments clarify that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. Earlier application is permitted and must be disclosed. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with the amendments, the Bank does not expect any effect on its financial statements.

5. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Allowance for loans impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementation of regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

Adequacy of provision for guarantees issued

The Bank regularly reviews its exposures under guarantees and similar off balance sheet credit instruments issued. These instruments are assessed and provision is made in a similar manner as for loans. The Bank uses its experienced judgment to adjust the provisions against guarantees issued based on probability of outflow of resources required to settle the obligation under the guarantee.

(In thousands of tenge, unless otherwise indicated)

6. Cash and cash equivalents

As at 31 December cash and cash equivalents comprise the following:

	2017	*2016*
Cash on hand	54,516	563,973
Current accounts with the NBRK	264,311	690,183
Current accounts with credit institutions	871,999	451,334
Cash and cash equivalents	1,190,826	1,705,490

Under legislation of the Republic of Kazakhstan, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on current account with the NBRK or physical cash computed based on average monthly balances of the aggregate of cash balances on current account with the NBRK or physical cash in national and hard currencies during the period of reserve creation. However, the Bank is not restricted from using these funds to finance its day-to-day operations.

As at 31 December 2017, obligatory reserves were equal to KZT 38,997 thousand (as at 31 December 2016: KZT 51,478 thousand).

7. Receivables from Islamic finance activities

As of December 31, receivable from Islamic finance activities include the following items:

	2017
Receivables under Commodity Murabaha agreements – corporate	11,330,653
Qard Hassan	22,615
Receivables under Commodity Murabaha agreements – retail	2,979
Gross receivables from Islamic finance activities	11,356,247
Less: allowance for impairment	(1,381,829)
Net receivables from Islamic finance activities	9,974,418

In 2017, the Bank fully completed the process of conversion from commercial bank to Islamic banking model. As a result of conversion to Islamic banking model, more than 90% of loans to customers were converted to Islamic banking products (such as, receivables under Commodity Murabaha agreements – corporate and retail, and Qard Hassan).

As at 31 December 2017, receivables from Islamic finance activities bear profit rate of 5.5%-16% per annum and mature in 2018-2024.

Allowance for loan impairment

Movements in allowance for impairment of receivables from Islamic finance activities and loans to customers in 2017 were as follows:

	Receivables from Islamic finance activities	*Corporate lending (Note 8)*	*Lending to individual entrepreneurs (Note 8)*	*Small business lending (Note 8)*	*Total*
As at 1 January 2017	–	1,434,222	59,041	–	1,493,263
Charge/(reversal) for the year	1,378,458	(1,093,865)	(55,095)	–	229,498
Translation differences	3,371	–	–	–	3,371
As at 31 December 2017	1,381,829	340,357	3,946	–	1,726,132
Individual impairment	1,381,829	340,357	3,946	–	1,726,132
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	6,798,755	1,213,106	–	–	8,011,861

(In thousands of tenge, unless otherwise indicated)

7. Receivables from Islamic finance activities (continued)

Movements in allowance for loan impairment in 2016 were as follows:

	Receivables from Islamic finance activities	*Corporate lending (Note 8)*	*Lending to individual entrepreneurs (Note 8)*	*Small business lending (Note 8)*	*Total*
As at 1 January 2016	–	1,292,793	27,271	5,547	1,325,611
Charge/(reversal) for the year	–	464,101	31,770	(5,547)	490,324
Write-off	–	(322,672)	–	–	(322,672)
As at 31 December 2016	–	1,434,222	59,041	–	1,493,263
Individual impairment	–	1,434,222	59,041	–	1,493,263
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	9,784,568	268,009	–	10,052,577

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

As at 31 December 2017, receivables arising from Islamic finance activities are secured by real estate, movable property, inventory, corporate guarantees and deposits. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment on receivables from Islamic finance activities.

Concentration of receivables from Islamic finance activities

As at 31 December 2017, the Bank has three counterparties under receivables from Islamic finance activities, whose balances exceed 10% of equity. As at 31 December 2017 total gross value of these balances equals to KZT 5,087,930 thousand. An allowance of KZT 882,812 thousand was recognized against these receivables.

Receivables arise from Islamic finance activities which are made within the Republic of Kazakhstan in the following industry sectors:

	2017
Construction and maintenance	2,868,949
Trade	2,390,571
Engineering	1,464,340
Transport	1,057,734
Agriculture and food processing	793,086
Services	483,164
Metal goods manufacturing	411,453
Industrial production	208,215
Individuals and entrepreneurs	25,594
Other	271,312
Net receivables from Islamic finance activities	9,974,418

(In thousands of tenge, unless otherwise indicated)

8. Loans to customers

As at 31 December loans to customers comprise the following:

	2017	*2016*
Corporate lending	1,213,106	12,734,526
Lending to individual entrepreneurs	8,844	326,509
Small business lending	–	122,478
Residential mortgages	–	30,606
Consumer lending	–	10,045
Total gross loans to customers before allowance for loan impairment	1,221,950	13,224,164
Less: allowance for loan impairment *(Note 7)*	(344,303)	(1,493,263)
Loans to customers	877,647	11,730,901

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and other;
- For retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As at 31 December 2017, the Bank has no counterparties on loans to customers (as at 31 December 2016: three), whose balances exceed 10% of equity. As at 31 December 2017, total gross value of these balances was nil (as at 31 December 2016: KZT 4,925,720 thousand). An allowance recognized against these loans was nil (in 2016: KZT 1,044,634 thousand).

The structure of the loan portfolio by industries is as follows:

	2017	*2016*
Engineering	406,714	1,640,640
Services	298,406	934,191
Trade	135,048	3,910,969
Agriculture and food processing	32,580	644,700
Individuals and entrepreneurs	4,899	308,119
Construction and maintenance	–	2,790,768
Transport	–	835,449
Metal goods manufacturing	–	409,709
Industrial production	–	200,276
Other	–	56,080
	877,647	11,730,901

9. Finance lease receivables

The analysis of finance lease receivables as at 31 December 2017 and 2016 is as follows:

	2017		
	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance lease	41,272	–	41,272
Unearned future finance income on finance leases	(371)	–	(371)
Net investment in finance lease	40,901	–	40,901
Finance lease receivables as at 31 December 2017	40,901	–	40,901

(In thousands of tenge, unless otherwise indicated)

9. Finance lease receivables (continued)

	2016		
	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance lease	41,761	–	41,761
Unearned future finance income on finance leases	(442)	–	(442)
Net investment in finance lease	41,319	–	41,319
Finance lease receivables as at 31 December 2016	41,319	–	41,319

10. Receivables on re-assigned loans

Receivables on re-assigned loans consist of receivables from transfer of rights on loans not complying with the requirements of conversion to Islamic banking. In 2017, as a result of changes in law on collection activities, receivables from transfer of rights on loans were terminated by the Bank. As at 31 December 2017, receivables on re-assigned loans were classified by the Bank as loans to customers with no interest charged.

As at 31 December 2017, receivables on re-assigned loans was nil (as at 31 December 2016: KZT 580,699 thousand). In 2016, the Bank recognized effect from initial recognition of receivables on re-assigned loans in the amount of KZT 181,870 thousand and unwinding of discount in the amount of KZT 41,855 thousand.

11. Bank participation in investments pool

The Bank's investments in investments pool of depositors takes in the Sharia form of the funding of pool and are subject to the funding pool distribution rules. Given the potential mismatch between assets and depositors investments owing to early termination or maturity of respective deposits, shortages arising in a pool could be financed from the Bank's own funds. As at 31 December 2017, carrying amount of the Bank's participation in investments pool was equal to KZT 1,062,300 thousand (as at 31 December 2016: nil).

12. Property and equipment

Movements in property and equipment were as follows:

	Computers and office equipment	*Vehicles*	*Furniture*	*Total*
Cost				
At 31 December 2015	33,414	6,584	18,352	58,350
Additions	7,841	–	1,995	9,836
Disposals	(2,571)	–	(4,528)	(7,099)
At 31 December 2016	38,684	6,584	15,819	61,087
Additions	12,301	–	5,922	18,223
Disposals	(7,367)	–	(2,768)	(10,135)
At 31 December 2017	43,618	6,584	18,973	69,175
Accumulated depreciation				
At 31 December 2015	(18,763)	(3,402)	(9,054)	(31,219)
Charge for the year	(8,632)	(1,317)	(4,657)	(14,606)
Disposals	2,440	–	4,527	6,967
At 31 December 2016	(24,955)	(4,719)	(9,184)	(38,858)
Charge for the year	(9,899)	(1,317)	(4,348)	(15,564)
Disposals	7,368	–	2,539	9,907
At 31 December 2017	(27,486)	(6,036)	(10,993)	(44,515)
Net book value				
At 31 December 2015	14,651	3,182	9,298	27,131
At 31 December 2016	13,729	1,865	6,635	22,229
At 31 December 2017	16,132	548	7,980	24,660

(In thousands of tenge, unless otherwise indicated)

13. Intangible assets

Movements in intangible assets were as follows:

	Computer software and licenses
Cost	
At 31 December 2015	56,664
Additions	1,382
Disposals	(10,560)
At 31 December 2016	47,486
Additions	3,301
Disposals	(23,718)
At 31 December 2017	27,069
Accumulated amortization	
At 31 December 2015	(33,568)
Charge for the year	(9,692)
Disposals	10,560
At 31 December 2016	(32,700)
Charge for the year	(7,983)
Disposals	23,717
At 31 December 2017	(16,966)
Net book value	
At 31 December 2015	23,096
At 31 December 2016	14,786
At 31 December 2017	10,103

14. Inventory

As at 31 December 2017, inventories comprise real estate property repossessed by the Bank from a borrower who failed to meet its obligations to repay a loan to the Bank. The Bank plans to sell the property in future.

15. Taxation

The corporate income tax expense comprises:

	2017	*2016*
Current corporate income tax charge	163,210	168,207
Deferred corporate income tax charge/(benefit) – origination and reversal of temporary differences	12,113	(25,832)
Adjustment of current corporate income tax of prior periods	–	(10)
Corporate income tax expense	175,323	142,365

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank’s income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20.0% in 2017 and 2016.

As at 31 December 2017, current corporate income tax assets comprised KZT 4,981 thousand (as at 31 December 2016: nil).

(In thousands of tenge, unless otherwise indicated)

15. Taxation (continued)

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax multiplied by the statutory tax rate for the years ended 31 December is as follows:

	2017	*2016*
Profit before corporate income tax expense	869,796	678,896
Statutory tax rate	20%	20%
Theoretical corporate income tax expense at the statutory rate	173,959	135,779
Non-taxable income		
Non-taxable interest income on finance lease	(13)	(1,045)
Non-deductible administrative expenses	1,377	7,783
Adjustment of income tax of prior periods	–	(10)
Other permanent differences	–	(142)
Corporate income tax expense	175,323	142,365

Deferred corporate income tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	2015	*Origination and reversal of temporary differences in profit or loss*	*2016*	*Origination and reversal of temporary differences in profit or loss*	*2017*
Tax effect of deductible temporary differences					
Loans to customers	–	–	–	15,708	15,708
Property and equipment and intangible assets	–	1,676	1,676	1,202	2,878
Payroll accruals	10,020	(6,211)	3,809	(1,109)	2,700
Unused vacations accrual	1,762	265	2,027	(433)	1,594
Accrued professional services	1,037	49	1,086	109	1,195
Other taxes	–	–	–	213	213
Receivables on re-assigned loans	–	28,003	28,003	(28,003)	–
Time deposits	650	(551)	99	(99)	–
Deferred corporate income tax assets	13,469	23,231	36,700	(12,412)	24,288
Tax effect of taxable temporary differences					
Loans to customers	(2,702)	2,403	(299)	299	–
Property and equipment and intangible assets	(198)	198	–	–	–
Deferred corporate income tax liabilities	(2,900)	2,601	(299)	299	–
Net deferred corporate income tax assets / (liabilities)	10,569	25,832	36,401	(12,113)	24,288

16. Other assets and liabilities

As at 31 December other assets comprise the following:

	2017	*2016*
Information services and consulting prepayments	85,338	–
Prepayments for goods and services	9,323	17,228
Commissions receivables	7,211	2,713
Other	10,406	1,770
Other assets	112,278	21,711

(In thousands of tenge, unless otherwise indicated)

16. Other assets and liabilities (continued)

As at 31 December other liabilities comprise the following:

	2017	*2016*
Amounts due to employees	13,500	19,044
Accrued unused vacations expenses	7,969	10,136
Professional fees payable	5,975	5,432
Deferred commission income from guarantees issued	–	13,135
Contribution due to Kazakhstan Deposit Insurance Fund JSC	–	1,191
Other	7,048	3,126
Other liabilities	34,492	52,064

17. Amounts due to credit institutions

As at 31 December 2017, amounts due to credit institutions mainly comprise current accounts of Parsian Bank (Tehran, Iran) and Islamic Corporation for the Development of the Private Sector totaling to KZT 564,471 thousand and KZT 31,295 thousand, respectively (as at 31 December 2016: KZT 21,674 thousand and KZT 31,295 thousand, respectively).

18. Amounts due to customers

As at 31 December amounts due to customers comprise the following:

	2017	*2016*
Current accounts	516,080	1,882,628
Time deposits	31,582	566,167
Amounts due to customers	547,662	2,448,795
Held as collateral against guarantees *(Note 21)*	30,000	560,329

As at 31 December 2017, amounts due to customers of KZT 497,100 thousand (90.77% of total amounts due to customers) were due to the ten largest customers (in 2016: KZT 2,114,344 thousand (86.34% of total amounts due to customers)).

As at 31 December 2017, amounts included in time deposits are deposits of individuals was nil (as at 31 December 2016: KZT 363,806 thousand). In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay deposits of individuals upon demand of a depositor. In case a term deposit is repaid before maturity upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers as at 31 December included the following:

	2017	*2016*
Current deposits		
Private enterprises	494,782	757,455
Individuals	21,298	1,125,173
	516,080	1,882,628
Time accounts		
Private enterprises	31,582	202,361
Individuals	–	363,806
	31,582	566,167
Amounts due to customers	547,662	2,448,795

(In thousands of tenge, unless otherwise indicated)

18. Amounts due to customers (continued)

Below is the breakdown of amounts due to customers by industry sectors:

	2017	*2016*
Trade	220,542	60,665
Fuel	106,309	41,377
Power generation	94,768	271,728
Real estate construction	56,907	318,376
Transport and communication	27,195	44,056
Individuals	21,298	1,488,979
Industrial production	7,129	21,622
Finance leasing	6,445	196,995
Agriculture	2,652	3,073
Other	4,417	1,924
Amounts due to customers	547,662	2,448,795

19. Provisions for commitments and contingencies

Movements in provisions for commitments and contingencies were as follows:

	Guarantees issued	*Total*
At 31 December 2015	182,270	182,270
Reversal for the year	(9,208)	(9,208)
At 31 December 2016	173,062	173,062
Reversal for the year	(123,498)	(123,498)
At 31 December 2017	49,564	49,564

20. Equity

As at 31 December 2017 and 2016, authorized and outstanding 10,000,000 common shares are issued and fully paid by the shareholders of the Bank at placement value of KZT 1,005 per common share.

The share capital of the Bank was contributed by the shareholders in tenge and they are entitled to dividends and any capital distribution in tenge. Each common share entitles to one vote. No dividends were declared or paid during 2017 (in 2016: KZT 625,844 thousand).

21. Commitments and contingencies

Political and economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2017, similar to 2016, the Kazakhstan economy continued to be negatively impacted by a significant volatility in crude oil prices and significant tenge devaluation. These factors resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal actions and claims

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

(In thousands of tenge, unless otherwise indicated)

21. Commitments and contingencies (continued)

Legal actions and claims (continued)

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the above described contingent liabilities.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and republican tax authorities are not unusual. The current regime of penalties and profit related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of 50% of the taxes unpaid or more.

The Bank believes that it has paid or accrued all taxes which are applicable. Where legislation concerning the provision of taxes is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2017. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

Financial commitments and contingencies

As at 31 December the Bank's financial commitments and contingencies comprise the following:

	2017	*2016*
Credit related commitments		
Guarantees issued	526,119	3,137,642
Undrawn loan commitments	–	1,249,080
	526,119	4,386,722
Operating lease commitments		
Not later than 1 year	59,089	57,897
	59,089	57,897
Commitments and contingencies (before deducting collateral)	585,208	4,444,619
Less: cash held as collateral against guarantees *(Note 18)*	(30,000)	(560,329)
Commitments and contingencies	555,208	3,884,290

The loan commitments agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise, including breach of contracts by borrowers, worsening of financial performance and other conditions.

Trust activities

The Bank acts in agent capacity for investing amount received under Wakala and act as a Mudarib in Mudaraba agreements as follows:

	2017
Mudaraba	
Unutilised portion of Mudaraba deposits at 1 January	–
Mudaraba deposits received	1,098,000
Amount utilized for issuance of receivables from Islamic finance activities	(1,098,000)
Unutilised portion of Mudaraba deposits at 31 December	–
Profit accrued on receivables from Islamic finance activities	35,710
Profit attributable to customers on Wakala and Mudaraba deposits	–

(In thousands of tenge, unless otherwise indicated)

21. Commitments and contingencies (continued)

Trust activities (continued)

The Bank carries no risk for utilised portion of Wakala and Mudaraba deposits except when the deposits are lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank. Profit attributable to customers also includes depositors profit reserves and the Zakah due on these reserves. The Bank is discharging this Zakah on behalf of the depositors.

22. Net fee and commission income

Net fee and commission income comprises the following:

	2017	*2016*
Guarantees issued	35,393	109,944
Cash operations	16,216	13,577
Transfer operations	8,146	8,299
Currency conversion operations	1,897	17,783
Customer accounts maintenance	1,512	1,454
Other	2,494	3,020
Fee and commission income	65,658	154,077
Transfer operations	(8,309)	(2,200)
Cash operations	(6,052)	(2,096)
Fee and commission expenses	(14,361)	(4,296)
Net fee and commission income	51,297	149,781

23. Net (losses)/gains from transactions in foreign currencies

Net (losses)/gains from transactions in foreign currencies comprise the following:

	2017	*2016*
Gain less losses from currency translation differences	(36,017)	44,586
Gain less losses from dealing in foreign currencies	20,672	5,380
Net (losses)/gains from transaction in foreign currencies	(15,345)	49,966

24. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	2017	*2016*
Salaries and bonuses	180,780	192,000
Social security costs	22,172	24,380
Personnel expenses	202,952	216,380
Rent	59,089	57,897
Professional services	41,708	13,664
Depreciation and amortization	23,547	24,298
Technical support of software	23,024	20,895
Security	11,703	11,767
Business trips	9,269	10,243
Taxes other than income tax	7,929	3,497
Communication	6,789	6,772
Repair and maintenance of property and equipment	5,268	1,582
Utilities	4,844	6,212
Transportation	3,855	3,523
Advertising and marketing	3,432	2,519
Contributions to Kazakhstan Deposit Insurance Fund JSC	3,248	4,128
Office supplies	1,121	1,801
Representative expenses	729	1,156
Encashment	220	715
Other	37,980	33,858
Other operating expenses	243,755	204,527

25. Risk management

Introduction

Risk is inherent in the Bank's activities. The Bank manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management process comprises identification, measuring, control and limitation of risks that are carried out by the Bank on a regular basis.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks, however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental liquidity risk issues and manages and monitors relevant risk decisions.

Risk Management

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

The main purpose of the Department is generating and functioning of the Bank's effective risk management system providing application of methods of risk detection and control, ensuring effective determination, evaluation and limitation of the Bank's risks considering the type and scope of transactions conducted by the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

The Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors of the Bank.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Assets and Liabilities Management Committee (hereinafter – the "ALMC"), and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Credit committee assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A regular briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of credit limits, liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank monitors its exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Risk concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Risk concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit – related commitments risks

The Bank makes available to its customers guarantees, which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantees and letters of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The carrying amount of components of the statement of financial position without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 7* "Receivables from Islamic finance activities", *Note 8* "Loans to customers" and *Note 21* "Commitments and contingencies".

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Credit risk (continued)

Credit – related commitments risks (continued)

Credit quality per class of financial assets

The table below shows the credit quality by class of asset in the statement of financial position, based on the Bank's credit rating system. Amounts are presented before deducting any allowance for impairment:

		2017			
	Notes	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	6	1,136,310	–	–	1,136,310
Receivables from Islamic finance activities	7				
Receivables under Commodity Murabaha agreements – corporate		4,531,898	–	6,798,755	11,330,653
Qard Hassan		22,615	–	–	22,615
Receivables under Commodity Murabaha agreements – retail		2,979	–	–	2,979
Loans to customers	8				
Corporate lending		–	–	1,213,106	1,213,106
Lending to individual entrepreneurs		8,844	–	–	8,844
Finance lease receivables	9	–	40,901	–	40,901
Bank participation in investments pool	11	1,062,300	–	–	1,062,300
Total		6,764,946	40,901	8,011,861	14,817,708

		2016			
	Notes	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	6	1,141,517	–	–	1,141,517
Loans to customers	8				
Corporate lending		2,949,958	–	9,784,568	12,734,526
Lending to individual entrepreneurs		40,367	18,133	268,009	326,509
Small business lending		122,478	–	–	122,478
Residential mortgages		30,606	–	–	30,606
Consumer lending		10,045	–	–	10,045
Finance lease receivables	9	460	40,859	–	41,319
Receivables on re-assigned loans	10	580,699	–	–	580,699
Total		4,876,130	58,992	10,052,577	14,987,699

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Credit risk (continued)

Credit – related commitments risks (continued)

Aging analysis of past due but not impaired loans per class of financial assets

	2017		
	Less than 30 days	*31-90 days*	*Total*
Finance lease receivables	–	40,901	40,901
Total	–	40,901	40,901

	2016		
	Less than 30 days	*31-90 days*	*Total*
Loans to customers	–	18,133	18,133
Finance lease receivables	–	40,859	40,859
Total	–	58,992	58,992

See *Note 7* “Receivables from Islamic finance activities” for more detailed information with respect to receivables from Islamic finance activities and loans for customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank determines the allowances appropriate for each loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Financial guarantees are assessed and provision is made in a similar manner as for loans.

The geographical concentration of Bank’s financial assets and liabilities as at 31 December is set out below:

	2017			2016		
	Kazakhstan	*CIS and other countries*	*Total*	*Kazakhstan*	*CIS and other countries*	*Total*
Assets						
Cash and cash equivalents	625,633	565,193	1,190,826	1,664,923	40,567	1,705,490
Receivables from Islamic finance activities	9,974,418	–	9,974,418	–	–	–
Loans to customers	877,647	–	877,647	11,730,901	–	11,730,901
Finance lease receivables	40,901	–	40,901	41,319	–	41,319
Receivables on re-assigned loans	–	–	–	580,699	–	580,699
Bank participation in investments pool	1,062,300	–	1,062,300	–	–	–
Other financial assets	7,211	–	7,211	2,713	–	2,713
Total financial assets	12,588,110	565,193	13,153,303	14,020,555	40,567	14,061,122
Liabilities						
Amounts due to credit institutions	–	595,766	595,766	–	52,969	52,969
Amounts due to customers	547,662	–	547,662	2,448,365	430	2,448,795
Other financial liabilities	19,674	331	20,005	25,846	1,924	27,770
Total financial liabilities	567,336	596,097	1,163,433	2,474,211	55,323	2,529,534
Net position	12,020,774	(30,904)	11,989,870	11,546,344	(14,756)	11,531,588

Credit related assets and liabilities have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base. Management also manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

The Treasury Department is responsible for management of the current open position of the Bank. The Treasury performs the monitoring of the Bank’s balance sheet liquidity and any changes thereof. The Bank’s liquidity analysis is performed by the Treasury on a monthly basis, and all members of the ALMC are informed appropriately.

The Bank uses internal methodologies to analyze the Bank’s liquidity.

The ALMC performs weekly monitoring of liquidity risk by future expected cash flows – gap liquidity analysis. When the liquidity indicators worsen, the ALMC identifies the reasons and determines the strategy to mitigate the risk. The Risk Management Department performs regularly monitoring of compliance with the liquidity requirements determined by the Liquidity Management Policy, such as immediate, current, short-term, common and expected liquidity ratios.

The Board of Directors and the Management Board of the Bank, receive the information on the Bank’s current liquidity at least on monthly basis and, when the current or expected liquidity positions worsen, on immediate basis.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank’s financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

	2017				
Financial liabilities	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	31,295	564,471	–	–	595,766
Amounts due to customers	516,080	1,582	30,000	–	547,662
Other financial liabilities	–	20,005	–	–	20,005
Total undiscounted financial liabilities	547,375	586,058	30,000	–	1,163,433

	2016				
Financial liabilities	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	31,295	21,674	–	–	52,969
Amounts due to customers	1,908,945	341,833	205,517	–	2,456,295
Other financial liabilities	–	27,770	–	–	27,770
Total undiscounted financial liabilities	1,940,240	391,277	205,517	–	2,537,034

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in “less than three months” in the tables above.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2017				
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Guarantees issued	155,717	31,908	506	337,988	526,119
	155,717	31,908	506	337,988	526,119

	2016				
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Guarantees issued	205,550	1,945,925	451,358	534,809	3,137,642
Undrawn loan commitments	–	151,038	655,981	442,061	1,249,080
	205,550	2,096,963	1,107,339	976,870	4,386,722

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank has exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank's exposure to interest rate risk is not significant as the Bank borrows and places its funds with fixed rates.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBRK regulations.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading financial assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the tenge, with all other variables held constant on profit or loss (due to the fair value of currency sensitive non-trading financial assets and liabilities). All other parameters are held constant. The effect on equity does not differ from the effect on profit or loss. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Market risk (continued)

Currency risk (continued)

	2017		2016	
Currency	*Increase in currency rate in %*	*Effect on profit before tax*	*Increase in currency rate in %*	*Effect on profit before tax*
US Dollar	+10%	7,475	+13%	96,327
Euro	+13.5%	3,478	+15%	(809)
Russian ruble	+16%	4,536	+13%	5,263

	2017		2016	
Currency	*Decrease in currency rate in %*	*Effect on profit before tax*	*Decrease in currency rate in %*	*Effect on profit before tax*
US Dollar	-10%	(7,475)	-13%	(96,327)
Euro	-13.5%	(3,478)	-15%	809
Russian ruble	-16%	(4,536)	-13%	(5,263)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

26. Fair value measurement

Fair value hierarchy

At each reporting date, management of the Bank analyses the movements in value of assets and liabilities which are required to be re-measured or re-assessed as per the Bank’s accounting policies. For this analysis, management of the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management of the Bank, in conjunction with the Bank’s external appraiser also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of disclosing the fair values, the Bank determined classes of assets and liabilities based on the nature, characteristics and risks of those assets and liabilities as well as the hierarchy of fair value sources.

(In thousands of tenge, unless otherwise indicated)

26. Fair value measurement (continued)

Fair value hierarchy (continued)

2017	Date of valuation	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2017	–	1,190,826	–	1,190,826
Receivables from Islamic finance activities	31 December 2017	–	–	9,479,037	9,479,037
Loans to customers	31 December 2017	–	–	869,203	869,203
Finance lease receivables	31 December 2017	–	40,901	–	40,901
Bank participation in investments pool	31 December 2017	–	1,062,300	–	1,062,300
Other financial assets	31 December 2017	–	–	7,211	7,211
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2017	–	–	595,766	595,766
Amounts due to customers	31 December 2017	–	–	547,662	547,662
Other financial liabilities	31 December 2017	–	–	20,005	20,005

2016	Date of valuation	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2016	–	1,705,490	–	1,705,490
Loans to customers	31 December 2016	–	–	11,114,801	11,114,801
Finance lease receivables	31 December 2016	–	41,319	–	41,319
Receivables on re-assigned loans	31 December 2016	–	–	580,699	580,699
Other financial assets	31 December 2016	–	–	2,713	2,713
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2016	–	–	52,969	52,969
Amounts due to customers	31 December 2016	–	–	2,448,714	2,448,714
Other financial liabilities	31 December 2016	–	–	27,770	27,770

During 2017 and 2016, there were no transfers between levels of the fair value hierarchy.

(In thousands of tenge, unless otherwise indicated)

26. Fair value measurement (continued)

Financial instruments not carried at fair value in the statement of financial position

Set out below is a comparison by class of the carrying amounts and fair values of the Bank’s financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2017			*2016*		
	Carrying amount	*Fair value*	*Un-recognised gain/(loss)*	*Carrying amount*	*Fair value*	*Un-recognised gain/(loss)*
Financial assets						
Cash and cash equivalents	1,190,826	1,190,826	–	1,705,490	1,705,490	–
Receivables from Islamic finance activities	9,974,418	9,479,037	(495,381)	–	–	–
Loans to customers	877,647	869,203	(8,444)	11,730,901	11,114,801	(616,100)
Finance lease receivables	40,901	40,901	–	41,319	41,319	–
Receivables on re-assigned loans	–	–	–	580,699	580,699	–
Bank participation in investments pool	1,062,300	1,062,300	–	–	–	–
Other financial assets	7,211	7,211	–	2,713	2,713	–
Financial liabilities						
Amounts due to credit institutions	595,766	595,766	–	52,969	52,969	–
Amounts due to customers	547,662	547,662	–	2,448,795	2,448,714	(81)
Other financial liabilities	20,005	20,005	–	27,770	27,770	–
Total unrecognised change in unrealised fair value			(503,825)			(616,181)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that their fair value approximates to the carrying amount. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(In thousands of tenge, unless otherwise indicated)

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 25* "Risk Management" for the Bank's contractual undiscounted repayment obligations.

	2017			2016		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	1,190,826	–	1,190,826	1,705,490	–	1,705,490
Receivables from Islamic finance activities	3,847,701	6,126,717	9,974,418	–	–	–
Loans to customers	877,647	–	877,647	2,936,431	8,794,470	11,730,901
Finance lease receivables	40,901	–	40,901	41,319	–	41,319
Receivables on re-assigned loans	–	–	–	–	580,699	580,699
Bank participation in investments pool	1,062,300	–	1,062,300	–	–	–
Property and equipment	–	24,660	24,660	–	22,229	22,229
Intangible assets	–	10,103	10,103	–	14,786	14,786
Inventory	216,766	–	216,766	190,565	–	190,565
Current corporate income tax assets	4,981	–	4,981	–	–	–
Deferred corporate income tax assets	–	24,288	24,288	–	36,401	36,401
Other assets	112,278	–	112,278	21,711	–	21,711
Total	7,353,400	6,185,768	13,539,168	4,895,516	9,448,585	14,344,101
Amounts due to credit institutions	595,766	–	595,766	52,969	–	52,969
Amounts due to customers	517,662	30,000	547,662	2,245,112	203,683	2,448,795
Provisions for commitments and contingencies	49,473	91	49,564	88,467	84,595	173,062
Other liabilities	34,492	–	34,492	52,064	–	52,064
Total	1,197,393	30,091	1,227,484	2,438,612	288,278	2,726,890
Net assets	6,156,007	6,155,677	12,311,684	2,456,904	9,160,307	11,617,211

28. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related-party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(In thousands of tenge, unless otherwise indicated)

28. Related party disclosures (continued)

The amount of related party transactions and balances as at 31 December 2017 and 2016, as well as the respective amounts of income and expenses for the years then ended are as follows:

	2017				*2016*			
	Share-holders	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Loans outstanding as at 1 January	–	–	5,023	15,528	–	–	8,950	37,861
Loans issued during the year	–	–	–	502,844	–	–	–	–
Loan repayments during the year	–	–	(2,016)	(4,475)	–	–	(3,927)	(22,333)
Loans outstanding as at 31 December	–	–	3,007	513,897	–	–	5,023	15,528
Deposits outstanding as at 1 January	359,979	–	–	–	1,077,867	–	–	42,546
Deposits received during the year	–	–	–	–	200,000	–	–	–
Deposits withdrawn during the year	(359,979)	–	–	–	(917,888)	–	–	(42,546)
Deposits outstanding as at 31 December	–	–	–	–	359,979	–	–	–
Current accounts as at 31 December	3,150	6,445	1,828	108,293	7,257	193,993	2,811	50,190

The income and expense arising from transactions with related parties for the years ended 31 December 2017 and 2016 were as follows:

	2017				*2016*			
	Share-holders	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Interest income on loans	–	–	172	717	–	–	370	2,326
Fee and commission income	416	700	3	2,980	3,617	3,837	24	11,310
Interest expense on amounts due to customers	–	–	–	–	–	–	–	135
Other operating expenses	5,049	–	–	28,991	5,574	–	4,862	31,642

Below is the information about compensation of 5 (in 2016: 5) members of key management personnel:

	2017	*2016*
Salaries and other short-term benefits	53,725	63,759
Social security costs	4,539	6,330
Total key management personnel compensation	58,264	70,089

29. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBRK.

During 2017 and 2016, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains adequate capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The NBRK requires the Bank to maintain a capital adequacy ratio (Tier 1) of not less than 6% of the total assets and a capital adequacy ratio (Tier 2) of not less than 7.5% of risk weighted assets, computed based on the requirements of the NBRK. As at 31 December 2017 and 2016, the Bank's capital adequacy ratios on this basis exceeded the required minimums.

(In thousands of tenge, unless otherwise indicated)

29. Capital adequacy (continued)

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2017 and 2016:

	2017	*2016*
Tier 1 capital	12,301,581	11,602,425
Tier 2 capital	–	–
Total capital	12,301,581	11,602,425
Risk weighted assets and liabilities, possible claims and liabilities	14,666,428	16,325,717
Operational risk	1,212,974	1,175,297
Capital adequacy ratio k1-1 (minimum 5.5%)	75%	91%
Capital adequacy ratio k1-2 (minimum 6.5%)	75%	66%
Capital adequacy ratio k2 (minimum 7.5%)	75%	66%

30. Zakah

The Articles of Association of the Bank do not require management of the Bank to pay Zakah on behalf of the Shareholder. Consequently, the Zakah obligation is to be discharged by the Shareholder.