Mortgage Organisation
Kazakhstan Mortgage Company JSC

Financial Statements

for the year ended 31 December 2017

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Independent Auditors' Report

To the Board of Directors of Mortgage Organisation Kazakhstan Mortgage Company JSC

Opinion

We have audited the financial statements of Mortgage Organisation Kazakhstan Mortgage Company JSC (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to customers and finance lease receivables

Please refer to the Notes 3 (l), 12 and 13 in the financial statements.

The key audit matter	**How the matter was addressed in our audit**
The assessment of the Company's estimate of impairment losses against loans to customers and finance lease receivables is considered to be a key audit matter due to the significance of loans to customers and finance lease receivables, and the significant judgments it requires the Company to make. Calculation of the collective loss allowance uses statistical models based on historical delinquency rates, and also requires the application of management judgement.	Our audit procedures in this area included, among others: - assessing the design and operating effectiveness of controls in respect of the Company's underwriting process, management review process over impaired loans; - re-performing calculations and agreeing a sample of data inputs to source documentation; - assessing whether the data used in the models is complete and accurate through testing a sample of relevant data fields and their aggregate amounts against data in the source systems; - challenging the appropriateness of the key assumptions used for collective impairment against our understanding of the Company and its recent performance. This involved recalculation of provisioning rates based on the Company's actual historic experience; - considering the adequacy of the Company's disclosures about credit risk, structure and quality of loan and finance lease portfolios and related impairment allowances.

Other Information

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

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company 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.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

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

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Assel Khairova
General Director of KPMG Audit LLC
acting on the basis of the Charter

28 February 2018

	Note	2017 KZT'000	2016 KZT'000
Interest income	4	15,995,742	18,539,350
Interest expense	4	(6,280,876)	(9,010,568)
Net interest income		**9,714,866**	**9,528,782**
Fee and commission income		2,549	1,072
Fee and commission expense		(219,095)	(302,672)
Net fee and commission expense		**(216,546)**	**(301,600)**
Net foreign exchange loss		(18,437)	(186,927)
Net gain from repurchase of debt securities issued		-	4,978
Other operating income		686,679	761,912
Operating income		**10,166,562**	**9,807,145**
Impairment losses	5	(2,019,839)	(2,456,527)
Personnel expenses	6	(1,619,826)	(1,488,949)
General administrative expenses	7	(1,615,460)	(1,373,010)
Profit before income tax		**4,911,437**	**4,488,659**
Income tax expense	8	(1,216,314)	(1,399,395)
Profit for the year		**3,695,123**	**3,089,264**
Other comprehensive (loss)/income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(160,586)	512,706
Other comprehensive (loss)/income for the year, net of income tax		**(160,586)**	**512,706**
Total comprehensive income for the year		**3,534,537**	**3,601,970**
Basic and diluted earnings per share, in KZT	22(f)	621	555

The financial statements as set out on pages 7 to 68 were approved by Management on 28 February 2018 and were signed on its behalf by:

«ҚАЗАҚСТАН ИПОТЕКАЛЫҚ КОМПАНИЯСЫ» ИПОТЕКАЛЫҚ ҰЙЫМЫ

Mukhamedzhanov A.B.	Sagimkulova B.D.	Toktarkozha A.T.
Chairman of the Management Board	*Managing Director*	*Chief Accountant*

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Note	2017 KZT'000	2016 KZT'000
ASSETS			
Cash and cash equivalents	9	21,800,196	38,665,521
Placements with banks and other financial institutions	10	6,109,035	167,534
Available-for-sale financial assets	11	9,234,246	11,089,637
Loans to customers	12	50,049,179	56,535,641
Finance lease receivables	13	117,838,422	74,921,988
Current tax asset		2,645,992	3,201,687
Advances paid for acquisition and construction of real estate	14	3,746,747	28,212,420
Assets to be transferred under finance lease agreements	15	7,652,924	24,221,971
Construction in progress	16	23,475,511	9,229,741
Property and equipment		2,173,139	2,186,810
Investment property		917,489	1,315,991
Other assets	17	4,842,065	4,783,924
Total assets		**250,484,945**	**254,532,865**
LIABILITIES			
Debt securities issued	18	43,177,214	37,334,185
Subordinated debt securities issued		-	10,152,242
Other borrowed funds	19	29,832,799	35,159,984
Deferred income	20	106,893,420	109,964,767
Deferred tax liability	8	1,309,953	1,106,223
Other liabilities	21	10,462,066	9,813,706
Total liabilities		**191,675,452**	**203,531,107**
EQUITY	22		
Share capital		63,313,800	58,113,800
Share premium		12,661	12,661
Treasury shares		(2,597,522)	(2,597,522)
Additional paid-in capital		5,822,856	5,822,856
Reserve capital		2,734,447	2,734,447
Revaluation reserve for available-for-sale financial assets		(1,366,764)	(1,206,178)
Accumulated losses		(9,109,985)	(11,878,306)
Total equity		**58,809,493**	**51,001,758**
Total equity and liabilities		**250,484,945**	**254,532,865**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	2017 KZT'000	2016 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	12,692,986	16,184,504
Interest payments	(3,446,024)	(6,611,235)
Fee and commission receipts	2,345	1,010
Fee and commission payments	(122,467)	(302,672)
Other income receipts	955,228	714,192
Personnel expenses payments	(1,494,124)	(1,153,692)
General administrative expenses payments	(1,566,594)	(1,127,837)
	7,021,350	**7,704,270**
(Increase)/decrease in operating assets		
Placements with banks and other financial institutions	(6,037,579)	15,387,917
Loans to customers	5,827,827	24,968,326
Advances paid for acquisition and construction of real estate	632,760	(34,617,304)
Assets to be transferred under finance lease agreements	(8,548,873)	(9,124,200)
Construction in progress	(12,274,013)	(878,543)
Finance lease receivables	3,716,008	1,975,686
Other assets	359,324	(2,682,361)
Increase in operating liabilities		
Other liabilities	963,776	1,224,295
Net cash (used in)/from operating activities before income tax paid	**(8,339,420)**	**3,958,086**
Income tax paid	(456,890)	(1,100,777)
Cash flows (used in)/from operations	**(8,796,310)**	**2,857,309**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

	2017 KZT'000	2016 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption and sale of available-for-sale financial assets	-	3,481,687
Purchases of property, equipment and intangible assets	(132,079)	(549,726)
Sales of investment property	158,017	126,048
Cash flows from investing activities	**25,938**	**3,058,009**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase/redemption of debt securities issued	(9,599,700)	(21,414,874)
Proceeds from issue of debt securities	14,374,280	
Redemption of subordinated debt securities issued	(10,000,000)	-
Receipts of other borrowed funds	-	41,592,292
Repayment of other borrowed funds	(7,150,000)	(14,416,667)
Dividends paid	(926,802)	-
Proceeds from issuance of share capital	5,200,000	-
Cash flows (used in)/from financing activities	**(8,102,222)**	**5,760,751**
Net (decrease)/increase in cash and cash equivalents	**(16,872,594)**	**11,676,069**
Effect of changes in exchange rates on cash and cash equivalents	7,269	177,863
Cash and cash equivalents at the beginning of the year	38,665,521	26,811,589
Cash and cash equivalents at the end of the year (Note 9)	**21,800,196**	**38,665,521**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

KZT'000	Share capital	Share premium	Treasury shares	Additional paid in capital	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
Balance as at 1 January 2016	**58,113,800**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	**(1,718,884)**	**(14,967,570)**	**47,399,788**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	3,089,264	3,089,264
Other comprehensive income								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for sale financial assets	-	-	-	-	-	512,706	-	512,706
Total other comprehensive income	-	-	-	-	-	512,706	-	512,706
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**512,706**	**3,089,264**	**3,601,970**
Balance as at 31 December 2016	**58,113,800**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	**(1,206,178)**	**(11,878,306)**	**51,001,758**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

KZT'000	**Share capital**	**Share premium**	**Treasury shares**	**Additional paid in capital**	**Reserve capital**	**Revaluation reserve for available-for-sale financial assets**	**Accumulated losses**	**Total**
Balance as at 1 January 2017	**58,113,800**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	**(1,206,178)**	**(11,878,306)**	**51,001,758**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	3,695,123	3,695,123
Other comprehensive income								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for sale financial assets	-	-	-	-	-	(160,586)	-	(160,586)
Total other comprehensive income	-	-	-	-	-	(160,586)	-	(160,586)
Total comprehensive income for the year						**(160,586)**	**3,695,123**	**3,534,537**
Transactions with owners, recorded directly in equity								
Share issued	5,200,000	-	-	-	-	-	-	5,200,000
Dividends declared	-	-	-	-	-	-	(926,802)	(926,802)
Balance as at 31 December 2017	**63,313,800**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	**(1,366,764)**	**(9,109,985)**	**58,809,493**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Reporting entity

(a) Organisation and operations

Mortgage Organisation Kazakhstan Mortgage Company JSC (the "Company") was established on 29 December 2000 in accordance with the Decree #469 of the National Bank of the Republic of Kazakhstan (the "NBRK") dated 20 December 2000. The principal activity of the Company is acquisition of rights on mortgage loans, finance leasing and issuance of mortgage loans in accordance with the license of regulatory authorities. The Company may additionally perform trust, factoring, forfeiting and leasing operations.

On 12 April 2010 the Company obtained a banking license #5.1.69 on banking lending transactions.

The activities of the Company are regulated by the National Bank of the Republic of Kazakhstan.

The Company's registered office is 98, Karasay Batyr st., A05E3B4, Almaty, Kazakhstan. The Company has a representative office in Astana.

(b) Shareholders

As at 31 December 2017 the Company is wholly-owned by the National Management Holding Baiterek JSC ("NMH "Baiterek" JSC).

(c) Kazakhstan business environment

The Company's operations are primarily located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of Kazakhstan which display display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, the depreciation of the Kazakhstan tenge which took place during 2015, and the reduction in the global price of oil, have increased the level of uncertainty in the business environment.

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

2 Basis of accounting

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

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

Tenge is also the presentation currency for the purposes of these financial statements.

Financial information presented in KZT is rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgments

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

2 Basis of accounting, continued

(d) Use of estimates and judgments

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

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

- Available-for-sale financial assets – Note 11;
- Loans to customers – Note 12;
- Other borrowed funds – Note 19.

(e) Changes in accounting policies

The Company has adopted the following amendments to standards with a date of initial application of 1 January 2017:

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

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by the Company.

(a) Foreign currency

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

(b) Cash and cash equivalents

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

3 Significant accounting policies, continued

(c) Financial instruments

(i) Classification

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

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

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

The Company may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Company has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company:

- intends to sell immediately or in the near term;

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

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

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

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

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

(i) Recognition

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(ii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method;

- held-to-maturity investments that are measured at amortised cost using the effective interest method;

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

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

(iii) Amortised cost

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

(iv) Fair value measurement principles

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

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Fair value measurement principles, continued

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

(vi) Gains and losses on subsequent measurement

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

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

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

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

(vii) Derecognition

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

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

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

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

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

The Company writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(viii) Repurchase and reverse repurchase agreements, continued

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

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

(ix) Offsetting

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

(e) Leases

Leases which assume transfer of substantially all the risks and rewards of ownership are classified as finance leases. Leases which do not assume transfer of substantially all the risks and rewards of ownership are classified as operating leases.

The Company classifies the property leasing under the hire purchase contracts as finance lease as at the date of beginning of the lease relationship in accordance with IAS 17 Leases

- The lease transfers ownership of the asset to the lessee by the end of the lease term
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised
- The lease term is for the major part of the economic life of the asset even if title is not transferred
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, or
- The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

The Company as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Company’s net investment in the finance lease.

(f) Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value. The cost of foreclosed assets is based on the specific identification principle, and recorded at net book value of underlying lease at foreclosure date.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

3 Significant accounting policies, continued

(g) Property and equipment, continued

(ii) Leased assets

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Depreciation

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

- buildings	8 - 100 years
- computer equipment	2 - 10 years
- vehicles	5 - 7 years
- other	3 - 20 years.

(h) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 year for programme software to 20 years for licenses.

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses.

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

(j) Assets held for sale

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

(k) Inventories

Inventories include assets to be transferred under finance lease agreements and other inventory. Assets to be transferred under finance lease are real estate objects acquired by the Company and transferred to the lessees once the title of ownership on objects is obtained. Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3 Significant accounting policies, continued

(l) Impairment

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

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

(i) Financial assets carried at amortised cost

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

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

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Company uses its experience and judgment to estimate the amount of any impairment loss.

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

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

3 Significant accounting policies, continued

(l) Impairment, continued

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(m) Government grants

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the Company. Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and the grants will be received. If there are conditions that may require repayment, the grant is recognised as a "deferred income" in other liabilities.

3 Significant accounting policies, continued

(m) Government grants, continued

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined as described in Note 3(d) (iii) and the proceeds received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate.

(n) Provisions

A provision is recognised in statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Share capital

(i) Ordinary shares

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

(ii) Treasury shares

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

(iii) Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of Kazakh legislation.

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

(p) Taxation

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

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

3 Significant accounting policies, continued

(p) Taxation, continued

(ii) Deferred tax, continued

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

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(q) Income and expense recognition

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

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

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

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

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

3 Significant accounting policies, continued

(r) Segment reporting

An operating segment is a component of a Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Company); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's financial position and performance. The Company plans to adopt these pronouncements when they become effective.

The following standards are expected to have a material impact on the Company's financial statements in the period of initial application.

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

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

The Company has not early adopted IFRS 9 in its financial statements for the year ended 31 December 2017.

The Company will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Company's equity at 1 January 2018 will not exceed 5% of the total equity.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Company to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Company has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Company is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalises its first financial statements that include the date of initial application.

3 Significant accounting policies, continued

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

IFRS 9 Financial instruments, continued

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

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

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

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

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

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

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

A financial asset is classified into one of these categories on initial recognition. See (v) for the transition requirements relating to classification of financial assets.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;

3 Significant accounting policies, continued

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

IFRS 9 Financial instruments, continued

i. Classification – Financial assets, continued

Business model assessment, continued

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

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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

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

All of the Company's retail loans contain prepayment features.

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

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

3 Significant accounting policies, continued

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

IFRS 9 Financial instruments, continued

i. Classification – Financial assets, continued

Impact assessment

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

- Placements with banks and other financial institutions, reverse repurchase agreements and loans to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

ii.- Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ELC) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

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

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

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

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

Impairment allowance for lease receivables will be estimated in the amount equal to expected credit losses in accordance to the certain stage of impairment.

Loss allowances for lease receivables will always be measured at an amount equal to lifetime ECLs.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

3 Significant accounting policies, continued

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

IFRS 9 Financial instruments, continued

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

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

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39 (see Note 3(h).

Definition of default

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

- there is a delay in payments of 90 (ninety) days and more as at the reporting date;
- the financial instrument has been restructured due to financial difficulties, which resulted in decrease in the net present value of the operating cash flows by 10% and more;
- according to information from the publicly available information sources the counterparty is in the state of bankruptcy;
- the external credit rating of the financial instrument/counterparty is below CC- (hereinafter according to the rating scales of Standard&Poor's, Moody's, etc.);
- at the current reporting date the Company has defaulted on another financial instrument of the counterparty;
- other indicators which evidence the counterparty's impaired ability to fulfil its financial liabilities to the Company and deterioration of the state of financial asset/increased probability of fulfillment by the Company of the contingent liabilities.

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

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

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

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information.

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

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

3 Significant accounting policies, continued

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

IFRS 9 Financial instruments, continued

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

Significant increase in credit risk, continued

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Credit risk grades

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

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

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

Generating the term structure of PD

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

The Company will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. For inter-bank exposures and debt securities the Company decided to use external ratings of counterparties and respective PDs for each rating.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth.

The Company's approach to incorporating forward-looking information into this assessment is discussed below.

Determining whether credit risk has increased significantly

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

3 Significant accounting policies, continued

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

IFRS 9 Financial instruments, continued

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

Determining whether credit risk has increased significantly, continued

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

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

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

Modified financial assets

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

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- the remaining lifetime PD at the reporting date based on the modified terms;
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms;
- decrease in net present value (NPV) of cash flows by more than 10%.

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

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

3 Significant accounting policies, continued

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

IFRS 9 Financial instruments, continued

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

Modified financial assets, continued

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

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

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

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

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

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, the amount of claims at default, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD. LGD estimates will be calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default.

3 Significant accounting policies, continued

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

IFRS 9 Financial instruments, continued

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

Inputs into measurement of ECLs, continued

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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

- instrument type;
- collateral type;

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

For portfolios in respect of which the Company has limited historical data, external benchmark information will be used to supplement the internally available data.

Forward-looking information

Under IFRS 9, the Company will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, such as NBRK and Ministry of National Economy of Kazakhstan, and selected private sector and academic forecasters.

The Company will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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

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

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
- the remaining amount of the change in the fair value will be presented in profit or loss.

3 Significant accounting policies, continued

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

IFRS 9 Financial instruments, continued

iii. Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Company will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Company does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Company does not expect material impact from adopting these new requirements.

iv. Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs.

v. Transition

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

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.
- If a debt investment security has low credit risk at 1 January 2018, then the Company will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance including 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*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

3 Significant accounting policies, continued

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

IFRS 16 Leases, continued

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at 1 January 2019, the composition of the Company's lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

Other standards

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

— *IFRS 15 Revenue*

— *IFRS 17 Insurance contracts*

— *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28*

— *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*

— *Transfers of Investment Property (Amendments to IAS 40)*

— *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*

— *IFRIC 22 Foreign Currency Transactions and Advance Consideration*

— *IFRIC 23 Uncertainty over Income Tax Treatments.*

4 Net interest income

	2017 KZT'000	2016 KZT'000
Interest income		
Finance lease receivables	6,449,233	3,692,457
Loans to customers	5,531,587	6,489,073
Cash and cash equivalents	2,656,740	5,739,239
Available-for-sale financial assets	1,044,447	1,139,911
Placements with banks and other financial institutions	141,073	1,409,922
Reverse repurchase agreements	37,761	-
Other assets	134,901	68,748
	15,995,742	**18,539,350**
Interest expense		
Debt securities issued	(3,465,068)	(4,979,360)
Other borrowed funds	(2,472,220)	(2,958,898)
Subordinated debt securities issued	(247,758)	(970,566)
Recognition of discount on long-term receivable	(95,830)	(101,744)
	(6,280,876)	**(9,010,568)**
Net interest income	**9,714,866**	**9,528,782**

Included within various line items under interest income for the year ended 31 December 2017 is a total of KZT 224,334 thousand (2016: KZT 1,082,826 thousand) accrued on impaired financial assets.

Interest income on finance lease receivables for the period ended 31 December 2017 includes amortisation of deferred income of KZT 3,071,347 thousand (2016: KZT 1,609,314 thousand) (Note 20).

5 Impairment losses

	2017 KZT'000	2016 KZT'000
Finance lease receivables (Note 13)	174,186	(129,211)
Cash and cash equivalents (Note 9)	(93,360)	(2,525,730)
Loans to customers (Note 12)	(448,718)	200,191
Available-for-sale financial assets (Note 11)	(1,474,449)	-
Other assets (Note 17)	(177,498)	(1,777)
	(2,019,839)	**(2,456,527)**

6 Personnel expenses

	2017 KZT'000	2016 KZT'000
Employee compensation	1,467,161	1,360,418
Salary related taxes	152,665	128,531
	1,619,826	**1,488,949**

7 General administrative expenses

	2017 KZT'000	2016 KZT'000
Taxes other than on income	261,532	207,669
Professional services	255,568	351,226
Land use planning expenses	188,362	113,884
Advertising and marketing	149,958	93,948
Depreciation and amortisation	123,354	113,297
Utilities	95,714	60,621
Outsourcing	65,645	24,010
Insurance of mortgage loans	62,538	44,314
Technical services for software	50,953	45,000
Security	45,856	33,704
Business travel	41,264	28,324
Repairs and maintenance	27,018	25,478
Occupancy	23,269	42,165
Communications and information services	11,368	12,465
State duties	3,226	9,708
Other	209,835	167,197
	1,615,460	**1,373,010**

8 Income tax expense

	2017 KZT'000	2016 KZT'000
Current year tax expense	(1,012,584)	(209,325)
Deferred taxation movement due to origination and reversal of temporary differences and movement in valuation allowance	(203,730)	(1,190,070)
Total income tax expense	**(1,216,314)**	**(1,399,395)**

In 2017, the applicable tax rate for current and deferred tax is 20% (2016: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2017 KZT'000	%	2016 KZT'000	%
Profit before income tax	**4,911,437**		**4,488,659**	
Income tax at the applicable tax rate	(982,287)	(20)	(897,732)	(20)
Tax exempt interest on securities	208,144	4	228,162	5
Non-deductible impairment losses	(314,224)	(6)	(531,344)	(12)
Other non-deductible expenses	(127,947)	(3)	(198,481)	(4)
	(1,216,314)	**(25)**	**(1,399,395)**	**(31)**

Deferred tax asset and liability

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

Movements in temporary differences during the year ended 31 December 2017 are presented as follows:

KZT'000	1 January 2017	Recognised in profit or loss	31 December 2017
Property and equipment	(132,389)	59,419	(72,970)
Available-for-sale financial assets	3,982	(683)	3,299
Other assets	10,277	(2,205)	8,072
Other borrowed funds	(23,010,027)	335,683	(22,674,344)
Deferred income	21,992,953	(614,269)	21,378,684
Other liabilities	28,981	18,325	47,306
Tax loss carry-forward	370,994	-	370,994
	(735,229)	**(203,730)**	**(938,959)**
Unrecognised deferred tax asset	(370,994)	-	(370,994)
	(1,106,223)	**(203,730)**	**(1,309,953)**

Movements in temporary differences during the year ended 31 December 2016 are presented as follows:

KZT'000	1 January 2016	Recognised in profit or loss	31 December 2016
Property and equipment	(48,223)	(84,166)	(132,389)
Available-for-sale financial assets	3,804	178	3,982
Other assets	3,677	6,600	10,277
Other borrowed funds	(16,659,503)	(6,350,524)	(23,010,027)
Deferred income	15,617,604	6,375,349	21,992,953
Other liabilities	36,271	(7,290)	28,981
Tax loss carry-forward	1,501,211	(1,130,217)	370,994
	454,841	**(1,190,070)**	**(735,229)**
Unrecognised deferred tax asset	(370,994)	-	(370,994)
	83,847	**(1,190,070)**	**(1,106,223)**

9 Cash and cash equivalents

	2017 KZT'000	2016 KZT'000
Nostro accounts with the NBRK	1,291,453	-
Nostro accounts with other banks		
- rated BB	3,395,831	11,754,995
- rated BB-	2,644,991	198
- rated B+	9,950,088	28,346
- rated B	405,255	18,432,830
- rated B-	5,355	8,449,152
- rated D	2,141,045	2,525,730
Total gross nostro accounts with other banks	**19,834,018**	**41,191,251**
Impairment allowance	(2,141,045)	(2,525,730)
Total net nostro accounts with banks	**17,692,973**	**38,665,521**
Reverse repurchase agreements		
- rated BBB- to BBB+	4,107,223	**-**
Total reverse repurchase agreements	**4,107,223**	**-**
Total cash and cash equivalents	**21,800,196**	**38,665,521**

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

On 27 December 2016 the NBRK revoked the license of Kazinvestbank JSC (KIB) citing its repeated failures to process payments. As at 31 December 2017 the Company considers the nostro account held with KIB for the total amount of KZT 2,141,045 thousand fully impaired as based on its understanding of the KIB's current position it does not expect probable future cash flows from the assets.

As at 31 December 2017 the Company has one bank (2016: four banks) whose balance exceeds 10% of equity. The gross value of these balance as at December 2017 is KZT 9,899,932 thousand (2016: KZT 34,027,974 thousand).

During 2017 the Company entered into the reverse REPO transactions with counterparties at Kazakhstan Stock Exchange. These transactions are collatelarised with the treasury bills of the Ministry of Finance of the Republic of Kazakhstan and notes of the NBRK. As at 31 December 2017 the fair value of financial assets collateralising reverse repurchase agreements is KZT 4,102,001 thousand.

Analysis of movements in the impairment allowance:

	2017 KZT'000	2016 KZT'000
Balance at the beginning of the year	2,525,730	-
Net charge	93,360	2,525,730
Write-offs	(478,045)	-
Balance at the end of the year	**2,141,045**	**2,525,730**

10 Placements with banks and other financial institutions

	2017 KZT'000	2016 KZT'000
- rated BB-	6,006,411	-
- rated B-	-	167,534
- not rated	102,624	-
	6,109,035	**167,534**

10 Placements with banks and other financial institutions, continued

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

None of the balances of placements are impaired or past due.

As at 31 December 2017 the Company placed term deposit with interest rate 9.75% per annum (2016: 6.3%) and which has maturity in March 2018 (2016: March 2017).

As at 31 December 2017 the Company has one bank (2016: no banks) whose balances exceed 10% of equity. The gross value of the balance as at 31 December 2017 was KZT 6,006,411 thousand.

11 Available-for-sale financial assets

	2017 KZT'000	2016 KZT'000
Available-for-sale securities		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,179,676	1,140,166
Corporate bonds rated BBB-	1,222,537	-
Corporate bonds rated from BB+ to BB-	-	1,289,855
Corporate bonds rated from B+ to B-	4,810,588	4,872,214
Corporate bonds not rated	5,051,433	5,342,941
	12,264,234	**12,645,176**
Impairment allowance	(3,029,988)	(1,555,539)
	9,234,246	**11,089,637**

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

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable on the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Rosa JSC ("Rosa"), Kazakhstan Kagazy JSC ("KK"), "Corporation "APK Invest" LLC ("APK") and "KT Orda Credit LLC ("OC") with gross amounts of KZT 437,743 thousand, KZT 1,117,796 thousand, KZT 984,930 thousand and KZT 489,519 thousand respectively (31 December 2016: Rosa and KK of KZT 437,743 thousand and KZT 1,117,796 thousand, respectively). Rosa, KK, APK and OC bonds were excluded from trading on KASE on 2 October 2009, 13 November 2015, 4 July 2017 and 26 January 2018, respectively.

As at 31 December 2017 and 2016 the Company considers bonds fully impaired as based on its understanding of the issuers' financial positions it does not expect probable future cash flows from the assets.

Analysis of movements in the impairment allowance:

	2017 KZT'000	2016 KZT'000
Balance at the beginning of the year	1,555,539	1,555,539
Net charge	1,474,449	-
Balance at the end of the year	**3,029,988**	**1,555,539**

12 Loans to customers

Loans to customers comprise mortgage loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan and mortgage loans issued to individuals. The loans comprise KZT and USD denominated mortgage loans due from individuals located in the Republic of Kazakhstan.

	2017 KZT'000	2016 KZT'000
Mortgage loans	53,300,190	59,421,900
Accrued interest	757,626	676,436
Gross loans to customers	**54,057,816**	**60,098,336**
Impairment allowance	(4,008,637)	(3,562,695)
Net loans to customers	**50,049,179**	**56,535,641**

During the year ended 31 December 2017 the Company acquired mortgage loan portfolios from two commercial banks and one mortgage organisation (2016: nil). The loans acquired during 2017 were recorded at their fair value totalling KZT 4,129,110 thousand (2016: nil).

(a) Credit quality of mortgage loans

The following table provides information on the credit quality of mortgage loans as at 31 December 2017 and 2016:

	2017 KZT'000	2016 KZT'000
Mortgage loans		
- not overdue	48,953,692	55,507,964
- overdue less than 30 days	2,090,382	1,809,108
- overdue 30-89 days	755,102	573,006
- overdue 90-179 days	404,837	453,656
- overdue 180-360 days	131,808	248,093
- overdue more than 360 days	1,721,995	1,506,509
Total loans to customers	**54,057,816**	**60,098,336**
Total impairment allowance on loans to customers	(4,008,637)	(3,562,695)
Total net loans to customers	**50,049,179**	**56,535,641**

As at 31 December 2017 carrying amounts of loans with full recourse and partial recourse to the seller were KZT 10,397,029 thousand and KZT 19,684,750 thousand, respectively (31 December 2016: KZT 8,093,174 thousand and KZT 25,006,142 thousand, respectively).

In accordance with agreements on partial recourse, the recourse options do not exceed 20-25% of the total principal amount of mortgage loans at the date of purchase of those loans.

(b) Key assumptions and judgements for estimating loan impairment

As described in Note 2, the Company uses its experience and judgment to estimate the amount of impairment loss for loans to customers.

The significant assumptions used in determining the impairment losses for mortgage loans include:

- mortgage loans with recourse overdue more than 60 days can be sold back by the Company at any time at their gross amount;
- other mortgage loans are subject to collective impairment assessment based on their past loss experience;

12 Loans to customers, continued

(b) Key assumptions and judgements for estimating loan impairment, continued

- loss migration rates are constant and can be estimated based on the historical loss migration pattern for the past 24 months;
- a delay of two years in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of 65% to 80% to the originally appraised value if the property pledged is sold through court procedures (2016: 65% to 80%).

Movements in the loan impairment allowance for the year ended 31 December are as follows:

	2017 KZT'000	2016 KZT'000
Balance at the beginning of the year	3,562,695	3,764,985
Net charge (recovery)	448,718	(200,191)
Write-offs	(1,121)	(1,241)
Exchange differences on translation	(1,655)	(858)
Balance at the end of the year	**4,008,637**	**3,562,695**

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to customers as at 31 December 2017 would be KZT 1,501,475 thousand lower/higher (31 December 2016: KZT 1,696,069 thousand).

(c) Analysis of collateral

Mortgage loans are secured by the underlying housing real estate.

For loans with recourse to the seller, the commercial banks-partners are responsible for monitoring of collateral on a periodic basis according to requirements of the NBRK. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers and commercial banks-partners rather than the value of collateral, and the current value of the collateral has lesser impact on the impairment assessment.

The following tables provide information on real estate collateral securing mortgage loans, net of impairment:

31 December 2017 KZT'000	**Loans to customers, carrying amount**	**Fair value of collateral – for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Not overdue loans	46,807,119	42,651,446	13,384	4,142,289
Overdue loans	3,242,060	3,210,826	-	31,234
	50,049,179	**45,862,272**	**13,384**	**4,173,523**
31 December 2016				
Not overdue loans	53,697,468	27,326,881	24,098,793	2,271,794
Overdue loans	2,838,173	1,562,912	1,230,996	44,265
	56,535,641	**28,889,793**	**25,329,789**	**2,316,059**

The table above excludes overcollateralisation.

The Company updates the appraised values of collateral obtained at inception of the loans to the current values considering the approximate changes in property values. The Company may also obtain specific individual valuation of collateral at each reporting date where there are indications of impairment.

12 Loans to customers, continued

(c) Analysis of collateral, continued

Repossessed property

The Company obtains certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2017, the carrying amount of such assets was KZT 1,197,831 thousand (2016: KZT 1,860,732 thousand), which consisted of investment property of KZT 917,489 thousand (2016: KZT 991,700 thousand) and other assets of KZT 280,342 thousand (2016: KZT 869,032 thousand).

The Company's policy is to sell these assets.

(d) Asset securitisation

Loans to customers with the amount of principal of KZT 18,899,802 thousand (2016: KZT 21,793,626 thousand) serve as collateral for debt securities issued by the Company. As at 31 December 2017, the carrying amount of these debt securities is KZT 17,141,829 thousand (31 December 2016: KZT 18,797,316 thousand). Refer to Note 18.

(e) Significant credit exposures

As at 31 December 2017 the Company has one bank with credit rating B- (2016: no banks) to whom the Company has recourse in respect of its purchased loans, whose loan exposures exceed 10% of equity. The gross value of this balance as at 31 December 2017 is KZT 7,956,252 thousand (2016: nil).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 23(e), which shows the remaining period from the reporting date to the contractual maturity of the loans.

13 Finance lease receivables

The components of net investments in finance lease as at 31 December 2017 and 2016 are as follows:

	2017 KZT'000	**2016 KZT'000**
Within one year	8,450,647	5,498,695
More than one year, but less than five years	33,849,644	21,978,822
More than five years	115,081,647	75,629,063
Minimum lease payments	**157,381,938**	**103,106,580**
Less unearned finance income:		
Less than one year	(3,581,758)	(2,494,462)
From one to five years	(13,452,112)	(9,421,510)
More than five years	(22,216,162)	(15,800,950)
Less unearned finance income, total	**(39,250,032)**	**(27,716,922)**
Less impairment allowance	(293,484)	(467,670)
Net investment in finance lease	**117,838,422**	**74,921,988**

The Company leases out housing real estate under Nurly Zher and Own programme.

These lease agreements are classified as finance lease under IAS 17 because ownership of the assets gets transferred to lessees by the end of the lease term, and at the inception the present value of the minimum lease payments amounts to substantially all of the fair value of the leased assets.

13 Finance lease receivables, continued

The finance lease agreements for Own programme have a maturity term up to 20 years and bear nominal interest rates of 11.50% and 13.00%. The finance lease agreements for Nurly Zher have a maturity term of 20 years and monthly lease payments limited to KZT 1,120 per square meter for Almaty and Astana cities and KZT 924 per square meter in other regions. The interest rate implicit in the lease payments under Nurly Zher program is 3.1%.

(a) Credit quality of finance lease receivables

The following table provides information on credit quality of finance lease receivables as at 31 December 2017 and 2016:

	2017 KZT'000	2016 KZT'000
Finance lease receivables under Own Programme		
- not overdue	2,082,982	3,779,308
- overdue 30-89 days	13,167	13,607
- overdue 180-360 days	28,390	14,059
- overdue more than 360 days	98,973	-
Total finance lease receivables under Own Programme	**2,223,512**	**3,806,974**
Impairment allowance on finance lease receivables under Own Programme	(36,954)	(17,961)
Net finance lease receivables under Own Programme	**2,186,558**	**3,789,013**
Finance lease receivables under Nurly Zher Programme		
- not overdue	107,958,744	68,535,299
- overdue less than 30 days	6,406,354	2,426,263
- overdue 30-89 days	1,416,149	551,727
- overdue 90-179 days	112,424	43,497
- overdue 180-360 days	7,268	11,223
- overdue more than 360 days	7,455	14,675
Total finance lease receivables under Nurly Zher Programme	**115,908,394**	**71,582,684**
Impairment allowance on finance lease receivables under Nurly Zher Programme	(256,530)	(449,709)
Net finance lease receivables under Nurly Zher Programme	**115,651,864**	**71,132,975**
Total finance lease receivables	**118,131,906**	**75,389,658**
Total impairment allowance on finance lease receivables	(293,484)	(467,670)
Total net finance lease receivables	**117,838,422**	**74,921,988**

Movements in the finance lease receivables impairment allowance for the year ended 31 December 2017 are as follows:

	2017 KZT'000	2016 KZT'000
Balance at the beginning of the year	467,670	338,459
Net (recovery) charge	(174,186)	129,211
Balance at the end of the year	**293,484**	**467,670**

14 Advances paid for acquisition and construction of real estate

Advances paid for acquisition and construction of real estate comprise advances made by the Company for housing real estate to be acquired from third parties. The Company plans to lease it out under finance lease, once the legal title on the property passes to the Company.

14 Advances paid for acquisition and construction of real estate, continued

	2017 KZT'000	2016 KZT'000
Baiterek Development JSC	2,000,000	1,007,820
VK-Technogrup LLP	1,379,824	1,849,266
Capital Construction Company of administration of Almaty city LLP	-	11,032,390
Others	366,923	14,322,944
	3,746,747	**28,212,420**

15 Assets to be transferred under finance lease agreements

Assets to be transferred under finance lease agreements include housing real estate, which the Company intends to transfer to lessees in 2018.

The major portion of the assets relates to assets to be transferred under Nurly Zher programme.

During 2017, the largest micro districts acquired by the Company are located in city of Almaty and Almaty region in the total amount of KZT 4,695,715 thousand (2016: micro districts in cities of Shymkent, Aktobe, Petropavlovsk, and Almaty in the total amount of KZT 21,930,991 thousand).

16 Construction in progress

Construction in progress represents capitalised costs incurred by the Company during construction of residential real estate in different regions of Kazakhstan as part of implementation of the state and government programs adopted before (State program of Infrastructure Development Nurly zhol for 2015-2019 adopted in accordance with the Edict of the President of the RK dated 6 April 2015, No.1030; "Regions Development Program till 2020" approved by the Decree #728 of the Government of the Republic of Kazakhstan dated 28 June 2014) integrated into the Housing Contrsuction Program Nurly Zher (hereinafter, the "Progam"). The Company will lease out the constructed housing estate in accordance with the terms established by the Program through signing the finance lease contracts.

As at 31 December 2017 the largest construction projects relate to construction of micro districts "Zhas-Kanat" located in Almaty, "micro district #32A" located in Aktau, and "Nur-Aktobe" located in Aktobe in the amounts of KZT 14,302,250 thousand, KZT 3,151,947 thousand and KZT 1,107,736 thousand, respectively (2016: micro districts "Assar" located in Shymkent and Zachagansk village in Uralsk in the amounts of KZT 2,983,500 thousand and KZT 2,983,480 thousand, respectively).

17 Other assets

	2017 KZT'000	2016 KZT'000
Receivables on loan acquisition transactions	2,849,920	2,851,703
Receivable from sale of assets held for sale	1,269,948	725,626
Other receivables	163,312	-
Impairment allowance	(163,312)	-
Total other financial assets	**4,119,868**	**3,577,329**
Foreclosed property	280,342	869,032
Intangible assets	177,387	136,715
Other prepayments	112,618	129,257
Receivables from government duties	57,258	-
Inventory	24,135	34,816
Other	111,280	63,412
Impairment allowance	(40,823)	(26,637)
Total other non-financial assets	**722,197**	**1,206,595**
Total other assets	**4,842,065**	**4,783,924**

Receivables on loan acquisition transactions. In July 2013, the Company acquired a portfolio of mortgage loans from a second-tier bank and paid a premium for the acquired mortgage loans. Ceratin portion of the acquired loans was fully repaid by the borrowers before registration of the cession agreements. As at 31 December 2017 and 2016 the value of receivable comprises the amount of unamortised premiums related to unregistered mortgage loans which were repaid in advance of the contractual repayment schedule before finalisation of the loan acquisition procedures and on overdue mortgage loans.

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17 Other assets, continued

Foreclosed property comprises real estate collateral accepted by the Company in exchange for its rights and obligations under impaired mortgage loans.

Analysis of movements in the impairment allowance

	2017 KZT'000			2016 KZT'000
	Other financial assets	Other non financial assets	Total	Other non financial assets
Balance at the beginning of the year	-	26,637	26,637	24,860
Net charge	163,312	14,186	177,498	1,777
Balance at the end of the year	**163,312**	**40,823**	**204,135**	**26,637**

18 Debt securities issued

Debt securities issued as at 31 December 2017 and 2016 comprised KZT denominated bonds.

Emission	Maturity date	Nominal coupon rate	Effective rate	2017 KZT'000	2016 KZT'000
KZ2C0Y07E517	26.07.2020	8.5%	8.50%	10,355,151	10,350,981
KZ2C0Y08D913	23.12.2018	1.00%+NBRK refinancing rate (limited to maximum 10%, minimum 6%)	12.72%	9,963,200	8,950,306
KZ2C0Y05E503	26.07.2018	8.00%	8.00%	8,190,622	8,185,888
KZ2C0Y10F013	15.12.2027	10.5%	10.50%	8,526,339	-
KZ2C0Y08E218	02.04.2020	7.00%	7.00%	6,141,902	7,121
KZPC4Y10B547	15.01.2017	0.01%+floating inflation index (limited to 7.5%)	13.45%	-	5,161,471
KZPC2Y12B547	10.04.2017	0.01%+floating inflation index (limited to 7.5%)	7.42%	-	4,678,418
				43,177,214	**37,334,185**

Debt securities with ISIN #KZ2C0Y08D913 and #KZ2C0Y08E218 are secured under the bank loan agreements issued by the Company and rights of claims under the contracts of bank loans acquired from the partner banks by means of purchase of the mortgage certificates or signing the contracts of assignment of the right of claim (cession contracts) (Note 12) for a total amount of KZT 18,899,802 thousand (2016: KZT 21,793,626 thousand).

The floating rate is based on the inflation index for the prior 12 months published by the Statistics Agency of the Republic of Kazakhstan and is revised semi-annually according to the date of issue.

19 Other borrowed funds

	2017 KZT'000	2016 KZT'000
Loan from National Management Holding Baiterek JSC	25,596,002	24,075,406
Due to the Government of the Republic of Kazakhstan	4,236,797	3,931,321
Loans from banks of the Republic of Kazakhstan	-	7,153,257
	29,832,799	**35,159,984**

As at 31 December 2017 and 31 December 2016, other borrowed funds comprised loans from the NMC "Baiterek" JSC under the State Program of Infrastructure Development Nurly Zhol for 2015-2019 adopted in accordance with the Edict of the President of the RK dated 6 April 2015, No.1030; "Regions Development Program till 2020" program approved by the Decree #728 of the Government of the Republic of Kazakhstan dated 28 June 2014, which were integrated in the Program of Housing Construction Nurly Zher with regard to construction and acquisition of the leased and credit housing (currently Nurly Zher Program). As set out in the programme, the purpose of the loans is to finance construction and acquisition of housing real estate to be further leased out under finance lease. The loans bear a nominal interest rate of 0.15% per annum and mature in January 2045, January 2046 and June 2046. The principal is repayable at maturity. At initial recognition these 4 loans were recognised at fair value measured by applying estimated relevant market interest rates ranging from 6.9% to 8.0% to discount the contractual future cash flows. The discount on these loans is recognised as deferred income (Note 20).

19 Other borrowed funds, continued

Amounts due to the Government of the Republic of Kazakhstan consist of a loan received in December 2007 from the Ministry of Finance of the Republic of Kazakhstan for the purchase of mortgage loans from second-tier banks. The loan carries a nominal interest rate of 0.1% per annum with principal repayable at maturity in December 2027. The fair value of the loan at initial recognition was estimated by discounting the contractual future cash flows of the loan using management's estimate of a long-term market borrowing rate for the Company of 8% p.a.

During 12-month period ended 31 December 2017, the Company repaid principal on a loan from Halyk Savings Bank of Kazakhstan JSC in accordance with the repayment schedules in amounts of KZT 7,150,000 thousand.

Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2017:

	Liabilities			
'000 KZT	**Debt securities issued**	**Subordinated debt securities issued**	**Other borrowed funds**	**Total**
Balance at 1 January 2017	**37,334,185**	**10,152,242**	**35,159,984**	**82,646,411**
Changes from financing cash flows				
Repurchase/redemption of debt securities issued	(9,599,700)	-	-	(9,599,700)
Proceeds from issue of debt securities	14,374,280	-	-	14,374,280
Redemption of subordinated debt securities issued	-	(10,000,000)	-	(10,000,000)
Repayment of other borrowed funds	-	-	(7,150,000)	(7,150,000)
Total changes from financing cash flows	**42,108,765**	**152,242**	**28,009,984**	**70,270,991**
Interest expense	3,465,068	247,758	2,472,220	6,185,046
Interest paid	(2,396,619)	(400,000)	(649,405)	(3,446,024)
Balance at 31 December 2017	**43,177,214**	-	**29,832,799**	**73,010,013**

20 Deferred income

	2017 KZT'000	**2016 KZT'000**
Balance at the beginning of the year	109,964,767	78,088,020
Deferred income from low-interest rate loans obtained during the period (Note 19)	-	33,486,061
Amortisation for the year	(3,071,347)	(1,609,314)
Balance at the end of the year	**106,893,420**	**109,964,767**

During period ended 31 December 2016 the Company recorded as deferred income the benefits of KZT 33,486,061 thousand, provided by means of low interest rate on the loans from National Management Holding "NMH Baiterek" JSC. The benefits are to be allocated further to the Company lessees by providing favourable rates. No low interest rate loans were received by the Company during period ended 31 December 2017.

21 Other liabilities

	2017 KZT'000	2016 KZT'000
Payable for rights on loans acquired	6,404,853	6,418,389
Prepaid loans	1,725,836	795,817
Interest strip payable	735,546	1,017,687
Professional services	63,037	10,275
Loan portfolios servicing fee payable	24,116	29,643
Total other financial liabilities	**8,953,388**	**8,271,811**
Contract enforcement fees payable	989,018	1,053,154
Payables to employees	219,295	142,345
Guarantee fees payable	134,824	103,414
Other taxes payable	62,680	19,928
Other non-financial liabilities	102,861	223,054
Total other non-financial liabilities	**1,508,678**	**1,541,895**
Total other liabilities	**10,462,066**	**9,813,706**

The amount payable for rights on loans acquired represents final instalments payable for certain acquired mortgage loans (Note 12). Part of the amount is due upon completion of transfer of the agreed volume of mortgage loans and part is pending completion of reconciliation process.

Interest strip payable represents obligation to return to the original loan issuer a portion of interest receivable on mortgage loan portfolios acquired from three banks during 2013-2015. The Company is obliged to pay 1.2%-1.7% p.a. of the outstanding mortgage loan portfolio on a monthly basis. This balance does not meet criteria for offsetting and, thus, is recognised as a separate financial liability.

22 Share capital and reserves

(a) Issued capital and share premium

As at 31 December 2017 and 2016 authorised share capital comprises 13,681,000 ordinary shares. As at 31 December 2017 issued and outstanding share capital comprises 6,331,380 shares (2016: 5,811,380), including treasury shares (Note (c) below). During 2017 the Company issued 520,000 ordinary shares with the total value of KZT 5,200,000 thousand. All shares have a nominal value of KZT 10 thousand.

(b) Dividends

In accordance with the legislation of the Republic of Kazakhstan, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRSs or profit for the period if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Company's insolvency.

During the year ended 31 December 2017, dividends in the amount of KZT 926,802 thousand or KZT 146.38 per ordinary share were declared and paid relating to the previous year results of the Company (2016: no dividends were declared and paid relating to the previous year results of the Company).

(c) Treasury shares

As at 31 December 2017 and 2016 the Company held 250,000 of its own shares.

(d) Reserve capital

The Company has established a reserve capital in accordance with a decision of shareholders. As at 31 December 2017 and 2016 the reserve capital amounted to KZT 2,734,447 thousand. This reserve capital is available for distribution.

During the years ended 31 December 2017 and 2016 the shareholders did not make any transfer from accumulated losses to this reserve capital.

22 Share capital and reserves, continued

(e) Revaluation reserve for available-for-sale financial assets

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

(f) Basic and diluted earnings per share

The calculation of basic and diluted earnings per share is based on the profit or loss for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

	2017	2016
Profit for the year, in thousand of KZT	3,695,123	3,089,264
Weighted average number of ordinary shares	5,948,887	5,561,380
Basic and diluted earnings per share, in KZT	**621**	**555**

There are no potentially dilutive shares for the years ended 31 December 2017 and 2016.

(g) Book value per share

Under the listing rules of the Kazakhstan Stock Exchange the Company should present book value per share in its financial statements. The book value per share is calculated dividing net assets less intangible assets by the number of outstanding ordinary shares. As at 31 December 2017 the book value per share was KZT 9,641.25 (2016: KZT 9,146.12).

23 Risk management

Management of risk is fundamental to the lending business and is an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, which includes interest rate and currency risks, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

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

The Management Board of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Head of Risk Department of the Company is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Risk Management Committee develops proposals on assets/liabilities and risk management based on strategies, policies and procedures approved by the Management Board and the Board of Directors.

Both external and internal risk factors are identified and managed throughout the Company's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise. The Board of Directors on a regular basis examines reports on risks.

23 Risk management, continued

(b) Market risk

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

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

Overall authority for market risk is vested in the Risk Management Committee.

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

(i) Interest rate risk

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

23 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major interest-bearing financial instruments is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2017							
ASSETS							
Cash and cash equivalents	20,027,035	-	-	-	-	1,773,161	21,800,196
Placements with banks and other financial institutions	6,006,411	-	-	-	-	102,624	6,109,035
Available-for-sale financial assets	3,251,779	1,614,462	3,203,609	-	1,164,396	-	9,234,246
Loans to customers	2,687,910	1,044,926	2,154,910	18,697,567	25,463,866	-	50,049,179
Finance lease receivables	1,325,093	1,171,860	2,371,935	20,397,532	92,572,002	-	117,838,422
Other financial assets	-	-	-	-	-	4,119,868	4,119,868
Total assets	**33,298,228**	**3,831,248**	**7,730,454**	**39,095,099**	**119,200,264**	**5,995,653**	**209,150,946**
LIABILITIES							
Debt securities issued	638,789	10,115,474	7,917,805	16,018,473	8,486,673	-	43,177,214
Other borrowed funds	76,292	15,990	125	-	29,740,392	-	29,832,799
Other financial liabilities	-	-	-	-	-	8,953,388	8,953,388
Total liabilities	**715,081**	**10,131,464**	**7,917,930**	**16,018,473**	**38,227,065**	**8,953,388**	**81,963,401**
Net position	**32,583,147**	**(6,300,216)**	**(187,476)**	**23,076,626**	**80,973,199**	**(2,957,735)**	**127,187,545**

23 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2016							
ASSETS							
Cash and cash equivalents	38,592,103	-	-	-	-	73,418	38,665,521
Placements with banks and other financial institutions	167,534	-	-	-	-	-	167,534
Available-for-sale financial assets	116,981	116,942	1,315,816	6,748,645	2,791,253	-	11,089,637
Loans to customers	1,540,935	7,399,520	1,926,029	16,804,382	28,864,775	-	56,535,641
Finance lease receivables	834,616	717,059	1,452,559	12,557,312	59,360,442	-	74,921,988
Other financial assets	-	-	-	-	-	3,577,329	3,577,329
Total assets	**41,252,169**	**8,233,521**	**4,694,404**	**36,110,339**	**91,016,470**	**3,650,747**	**184,957,650**
LIABILITIES							
Debt securities issued	5,800,260	13,628,845	-	17,905,080	-	-	37,334,185
Subordinated debt securities issued	-	10,152,242	-	-	-	-	10,152,242
Other borrowed funds	79,549	3,590,512	3,575,125	-	27,914,798	-	35,159,984
Other financial liabilities	-	-	-	-	-	8,271,811	8,271,811
Total liabilities	**5,879,809**	**27,371,599**	**3,575,125**	**17,905,080**	**27,914,798**	**8,271,811**	**90,918,222**
Net position	**35,372,360**	**(19,138,078)**	**1,119,279**	**18,205,259**	**63,101,672**	**(4,621,064)**	**94,039,428**

23 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2017 and 2016. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2017 Average effective interest rate, %		2016 Average effective interest rate, %	
	KZT	**USD**	**KZT**	**USD**
Interest bearing assets				
Cash and cash equivalents	9.38	0.50	11.03	1.00
Placement with banks and other financial institutions	9.75	-	-	6.30
Available-for-sale financial assets	8.23	-	10.64	-
Loans to customers	12.51	13.67	11.87	13.69
Finance lease receivables	3.25	-	3.54	-
Interest bearing liabilities				
Debt securities issued	11.14	-	10.02	-
Subordinated debt securities issued	-	-	9.76	-
Other borrowed funds	7.21	-	7.24	-

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Interest rates sensitivity analysis

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

	2017 KZT'000		2016 KZT'000	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	196,206	196,206	154,155	154,155
100 bp parallel fall	(196,206)	(196,206)	(154,155)	(154,155)

23 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rates sensitivity analysis, continued

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2017 KZT'000		2016 KZT'000	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	-	(208,549)	-	(287,170)
100 bp parallel fall	-	219,536	-	302,659

(c) Currency risk

The Company has assets and liabilities denominated in USD.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hedge its exposure to currency risk.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2017 and 2016:

	USD	
	2017 KZT'000	**2016 KZT'000**
Assets		
Cash and cash equivalents	371,341	50,025
Placement with banks and other financial institutions	-	167,534
Loans to customers	1,218,455	1,958,489
Other assets	2,602,190	2,607,635
Total financial assets	**4,191,986**	**4,783,683**
Liabilities		
Other liabilities	4,687,017	4,702,747
Total financial liabilities	**4,687,017**	**4,702,747**
Net on and off balance sheet position	**(495,031)**	**80,936**

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

	2017 KZT'000		2016 KZT'000	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
20% appreciation of USD against KZT	(79,205)	(79,205)	12,950	12,950
5% depreciation of USD against KZT	19,801	19,801	(3,237)	(3,237)

23 Risk management, continued

(d) Credit risk

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

The Company's credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- minimum financial and collateral requirements for loan approvals
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The main task of credit risk management is the application of a weighted credit policy, considering profitability with safety of asset allocation at purchase of mortgage loans and control over position of loan portfolio based on in-depth, objective, complete and qualified monitoring.

Susceptibility to credit risk is controlled by obtaining high quality collateral, the receipt of a guarantees and obtaining recourse to the seller of the loans.

The Company's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2017 KZT'000	2016 KZT'000
ASSETS		
Cash and cash equivalents	21,800,196	38,665,521
Placements with banks and other financial institutions	6,109,035	167,534
Available-for-sale financial assets	9,234,246	11,089,637
Loans to customers	50,049,179	56,535,641
Finance lease receivables	117,838,422	74,921,988
Other financial assets	4,119,868	3,577,329
Total maximum exposure	**209,150,946**	**184,957,650**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 12.

As at 31 December 2017 and 2016 the Company has no debtors or companies of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

23 Risk management, continued

(d) Credit risk, continued

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Company's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether, they are offset in the statement of financial position.

The agreements include global master repurchase agreements. Such financial instruments include sale and repurchase agreements and reverse sale and repurchase agreements. The Company receives and accepts collateral in the form of cash and marketable securities in respect of these sale and repurchase and reverse sale and repurchase agreements.

The Company's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

23 Risk management, continued

(d) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The Company's sale and repurchase, reverse sale and repurchase transactions, and securities borrowings and lendings are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or the counterparties. In addition the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Information on the financial instruments such as loans and deposits is not disclosed in the tables below, except for the cases when they are offset in the statement of financial position. The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements:

				Related amounts not offset in the statement of financial position		
'000 KZT	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the statement of financial position**	**Net amount of financial assets presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
31 December 2017						
Reverse repurchase agreements	4,107,223	-	4,107,223	(4,107,223)	-	-
Total financial assets	**4,107,223**	**-**	**4,107,223**	**(4,107,223)**	**-**	**-**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the following basis:
Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

23 Risk management, continued

(e) Liquidity risk

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

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

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

The liquidity management policy of the Company requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The following tables show the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. The total gross amount outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability. The Company's expected cash flows on these financial liabilities may vary significantly from this analysis.

23 Risk management, continued

(e) Liquidity risk, continued

The liquidity position of the Company as at 31 December 2017 was as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities								
Debt securities issued	1,241,987	-	1,173,995	19,836,482	22,460,903	12,962,500	57,675,867	43,177,214
Other borrowed funds	86,250	-	28,638	95,270	840,633	147,487,470	148,538,261	29,832,799
Other financial liabilities	15,489	1,235,005	45,305	7,070,816	565,919	526,402	9,458,936	8,953,388
Total	**1,343,726**	**1,235,005**	**1,247,938**	**27,002,568**	**23,867,455**	**160,976,372**	**215,673,064**	**81,963,401**

The position of the Company as at 31 December 2016 was as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities								
Debt securities issued	5,929,320	-	5,097,434	1,067,065	31,762,365	-	43,856,184	37,334,185
Subordinated debt securities issued	-	-	10,400,000	-	-	-	10,400,000	10,152,242
Other borrowed funds	86,250	146,575	3,750,213	3,816,845	840,633	147,697,628	156,338,144	35,159,984
Other financial liabilities	50,569	841,540	6,473,784	107,839	709,751	729,430	8,912,913	8,271,811
Total	**6,066,139**	**988,115**	**25,721,431**	**4,991,749**	**33,312,749**	**148,427,058**	**219,507,241**	**90,918,222**

23 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2017:

Assets	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Total KZT'000
Cash and cash equivalents	21,800,196	-	-	-	-	-	21,800,196
Placements with banks and other financial institutions	6,411	6,000,000	-	-	-	102,624	6,109,035
Available-for-sale financial assets	180,750	38,308	3,399,392	2,764,021	2,851,775	-	9,234,246
Loans to customers	801,278	709,539	3,348,074	19,314,787	25,875,501	-	50,049,179
Finance lease receivables	549,023	776,070	3,543,795	20,397,532	92,572,002	-	117,838,422
Current tax asset	-	-	-	-	-	2,645,992	2,645,992
Advances paid for acquisition and construction of real estate	-	2,203,267	1,543,480	-	-	-	3,746,747
Assets to be transferred under finance lease agreements	-	-	-	-	-	7,652,924	7,652,924
Construction in progress	-	-	23,475,511	-	-	-	23,475,511
Property and equipment	-	-	-	-	-	2,173,139	2,173,139
Investment property	-	-	-	-	-	917,489	917,489
Other assets	20,782	96,058	3,702,262	1,886	2,319	1,018,758	4,842,065
Total assets	**23,358,440**	**9,823,242**	**39,012,514**	**42,478,226**	**121,301,597**	**14,510,926**	**250,484,945**
Liabilities							
Debt securities issued	638,789	-	18,033,279	16,018,473	8,486,673	-	43,177,214
Other borrowed funds	76,292	-	16,115	-	29,740,392	-	29,832,799
Deferred income	91,743	198,797	1,094,780	8,461,672	97,046,428	-	106,893,420
Deferred tax liability	-	-	-	-	1,309,953	-	1,309,953
Other liabilities	60,577	1,659,482	8,080,497	422,122	226,558	12,830	10,462,066
Total liabilities	**867,401**	**1,858,279**	**27,224,671**	**24,902,267**	**136,810,004**	**12,830**	**191,675,452**
Net position as at 31 December 2017	**22,491,039**	**7,964,963**	**11,787,843**	**17,575,959**	**(15,508,407)**	**14,498,096**	**58,809,493**
Net position as at 31 December 2016	33,565,184	(3,459,619)	21,432,157	1,334,211	(33,659,406)	31,789,231	51,001,758

23 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2016:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
Assets	**KZT'000**	**KZT'000**	**KZT'000**	**KZT'000**	**KZT'000**	**KZT'000**	**KZT'000**
Cash and cash equivalents	38,665,521	-	-	-	-	-	38,665,521
Placements with banks and other financial institutions	889	166,645	-	-	-	-	167,534
Available-for-sale financial assets	58,392	58,589	1,432,758	6,748,645	2,791,253	-	11,089,637
Loans to customers	801,165	739,770	3,352,374	19,296,342	32,345,990	-	56,535,641
Finance lease receivables	359,948	474,668	2,169,618	12,557,312	59,360,442	-	74,921,988
Current tax asset	-	-	-	-	-	3,201,687	3,201,687
Advances paid for acquisition and construction of real estate	-	2,732,686	25,479,734	-	-	-	28,212,420
Assets to be transferred under finance lease agreements	-	-	-	-	-	24,221,971	24,221,971
Construction in progress	-	-	9,229,741	-	-	-	9,229,741
Property and equipment	-	-	-	-	-	2,186,810	2,186,810
Investment property	-	-	-	-	-	1,315,991	1,315,991
Other assets	19,117	97,350	3,637,438	1,504	3,071	1,025,444	4,783,924
Total assets	**39,905,032**	**4,269,708**	**45,301,663**	**38,603,803**	**94,500,756**	**31,951,903**	**254,532,865**
Liabilities							
Debt securities issued	5,800,260	-	4,692,984	26,840,941	-	-	37,334,185
Subordinated debt securities issued	-	-	10,152,242	-	-	-	10,152,242
Other borrowed funds	76,292	3,257	7,165,637	-	27,914,798	-	35,159,984
Deferred income	103,955	225,260	1,240,511	9,588,048	98,806,993	-	109,964,767
Deferred tax liability	-	-	-	-	1,106,223	-	1,106,223
Other liabilities	359,341	7,500,810	618,132	840,603	332,148	162,672	9,813,706
Total liabilities	**6,339,848**	**7,729,327**	**23,869,506**	**37,269,592**	**128,160,162**	**162,672**	**203,531,107**
Net position as at 31 December 2016	**33,565,184**	**(3,459,619)**	**21,432,157**	**1,334,211**	**(33,659,406)**	**31,789,231**	**51,001,758**

As at 31 December 2017 included in the category "More than 5 years" are overdue loans to customers and finance lease receivables with net book values of KZT 1,642,387 thousand and KZT 260,084 thousand, respectively (31 December 2016: KZT 2,838,173 thousand and KZT 2,664,709 thousand, respectively).

24 Capital management

The Company defines as capital the following items defined by statutory regulation as capital for mortgage companies:

Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' statutory retained earnings, accumulated losses and reserves created thereof and preference shares (within 15% of ordinary share capital) less intangible assets and current year statutory losses;

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's statutory income, revaluation reserves, preference shares (in excess of 15% of ordinary share capital), qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of credit risk-weighted assets.

Total capital, which is the sum of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital) less investments into equity or subordinated debt.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the NBRK mortgage companies have to maintain:

- a ratio of tier 1 capital to total statutory assets (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets and contingent liabilities (k1-2);
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1-3).

	2017 KZT'000	2016 KZT'000
Tier 1 capital		
Share capital	60,728,939	55,528,939
General reserves	2,734,447	2,734,447
Additional paid-in capital	5,822,856	5,822,856
Intangible assets	(21,711)	(37,249)
Statutory accumulated losses for prior years	(12,805,108)	(14,967,570)
Total tier 1 capital	**56,459,423**	**49,081,423**
Tier 2 capital		
Reserves on revaluation of available-for-sale financial assets	(1,366,764)	(1,206,178)
Subordinated debt securities issued	-	1,990,893
Net profit for the year in accordance with the NBRK requirements	3,695,123	3,089,264
Total tier 2 capital	**2,328,359**	**3,873,979**
Total capital	**58,787,782**	**52,955,402**
Total statutory assets	250,484,945	254,532,865
Credit risk weighted assets and contingent liabilities	235,980,230	195,042,079
Operational risk	6,772,035	4,089,365
Total credit risk weighted assets and contingent liabilities plus operational risk	242,752,265	199,131,444
k1 ratio	**23%**	**19%**
k1-2 ratio	**24%**	**25%**
k1-3 ratio	**24%**	**27%**

24 Capital management, continued

As at 31 December 2017 and 2016 the minimum level of ratios as applicable to the Company are as follows:

- k1 – 6%;
- k1-2 – 6%;
- k1-3 – 12%.

25 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

26 Related party transactions

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

Total remuneration included in personnel expenses is as follows (refer to Note 6):

	2017 KZT'000	2016 KZT'000
Members of the Board of Directors	46,483	48,438
Members of the Management Board	93,144	85,885
	139,627	**134,323**

The above amounts include cash and non-cash benefits in respect of the members of the Management Board and Board of Directors.

The outstanding balances and average interest rates as at 31 December 2017 and 2016 for transactions with the members of the Management Board and the Board of Directors are as follows:

	2017 KZT'000	Average interest rate, %	2016 KZT'000	Average interest rate, %
Statement of financial position				
Loans to customers	-	-	16,646	10.72
Other liabilities	25,200	-	48,424	-

Amounts included in profit or loss in relation to transactions with the members of the Management Board and the Board of Directors for the year ended 31 December are as follows:

	2017 KZT'000	2016 KZT'000
Profit or loss		
Interest income	50	3,178

(b) Transaction with other related parties

Other related parties include National Management Holding "NMH Baiterek" JSC and its subsidiaries (together the "Baiterek Group") and other State organisations.

The amounts below are included in the statement of financial position, income statement and statement of comprehensive income for transactions with related parties as at 31 December 2017 and 2016:

	2017 KZT'000	2017 KZT'000	2016 KZT'000	2016 KZT'000
	Baiterek Group	**State organisations**	**Baiterek Group**	**State organisations**
Statement of profit or loss				
Interest income	3,071,347	170,206	2,310,335	198,277
Interest expense	(2,654,590)	(1,881,489)	(2,870,480)	(2,804,540)
Commission expense		(1,123)	-	(1,199)
Net foreign exchange loss	-	-	(88,861)	-
Net gain from repurchase of debt securities issued	-	-	4,972	-
Other income	-	303,265	5,044	21,569
General administrative expenses	(131,200)	(463,009)	(279,520)	(396,266)
Income tax expense	-	(1,216,314)	-	(1,399,395)
Other comprehensive loss				
Net change in fair value of available-for-sale financial assets	-	28,468	-	(18,437)

26 Related party transactions, continued

(b) Transaction with other related parties, continued

The balances with related parties as at 31 December 2017 include:

	Baiterek Group		State organisations	
	KZT'000	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**
Cash and cash equivalents			4,107,223	9.29
Placements with banks	-	-	1,291,453	6.55
Available for sale financial assets	-	-	2,402,212	8.7
Current tax asset	-	-	2,645,992	-
Advances paid under finance lease	2,000,000	-	-	-
Other assets	-	-	137,485	-
Debt securities issued	8,020,915	11.19	16,918,662	9.25
Subordinated debt securities issued	-	-	-	-
Other borrowed funds	25,596,002	0.15	4,236,797	0.10
Deferred income	106,893,420	-	-	-
Deferred tax liability	-	-	1,309,953	-
Other liabilities	59,600	-	643,221	-
Revaluation reserve for available-for-sale financial assets	-	-	(344,458)	-

The balances with related parties as at 31 December 2016 include:

	Baiterek Group		State organisations	
	KZT'000	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**
Available-for-sale financial assets	-	-	2,430,021	6.60
Current tax asset	-	-	3,201,687	-
Other assets	1,007,820	-	79,262	-
Debt securities issued	7,486,498	11.09	23,866,262	9.65
Subordinated debt securities issued	-	-	3,396,179	9.76
Other borrowed funds	24,075,406	0.15	3,931,321	0.10
Deferred income	109,964,767	-	-	-
Deferred tax liability	-	-	1,106,223	-
Other liabilities	205,600	-	22,153	-
Revaluation reserve for available-for-sale financial assets	-	-	(315,991)	-

27 Financial assets and liabilities: fair values and accounting classification

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

KZT'000	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	21,800,196	-	-	21,800,196	21,794,974
Placements with banks and other financial institutions	6,109,035	-	-	6,109,035	6,109,035
Available-for-sale financial assets	-	9,234,246	-	9,234,246	9,234,246
Loans to customers	50,049,179	-	-	50,049,179	44,908,271
Finance lease receivables	117,838,422	-	-	117,838,422	80,753,525
Other financial assets	4,119,868	-	-	4,119,868	4,119,868
	199,916,700	**9,234,246**	**-**	**209,150,946**	**166,919,919**
Debt securities issued	-	-	43,177,214	43,177,214	41,130,180
Other borrowed funds	-	-	29,832,799	29,832,799	28,770,287
Other financial liabilities	-	-	8,953,388	8,953,388	8,953,388
	-	**-**	**81,963,401**	**81,963,401**	**78,853,855**

27 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

KZT'000	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	38,665,521	-	-	38,665,521	38,665,521
Placements with banks and other financial institutions	167,534	-	-	167,534	167,534
Available-for-sale financial assets	-	11,089,637	-	11,089,637	11,089,637
Loans to customers	56,535,641	-	-	56,535,641	55,427,563
Finance lease receivables	74,921,988	-	-	74,921,988	47,319,794
Other financial assets	3,577,329	-	-	3,577,329	3,577,329
	173,868,013	**11,089,637**	**-**	**184,957,650**	**156,247,378**
Debt securities issued	-	-	37,334,185	37,334,185	36,055,092
Subordinated debt securities issued	-	-	10,152,242	10,152,242	9,870,480
Other borrowed funds	-	-	35,159,984	35,159,984	34,029,467
Other financial liabilities	-	-	8,271,811	8,271,811	8,271,811
	-	**-**	**90,918,222**	**90,918,222**	**88,226,850**

27 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

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

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

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The Company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities.

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

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

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

- discount rates of 12.7% - 14.0% are used for discounting future cash flows from loans to customers (2016: 9.5% - 14.0%)
- discount rates of 8.0% - 8.1% are used for discounting future cash flows from finance lease receivables (2016: 9.0% - 9.6%).

27 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

The table below analyses financial instruments measured at fair value at 31 December 2017 and 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	2017 Level 2 KZT'000	2016 Level 2 KZT'000
Financial assets		
Available-for-sale financial assets	9,234,246	11,089,637
	9,234,246	**11,089,637**

As at 31 December 2017 and 2016 the Company does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market inputs.

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

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	21,794,974	-	21,794,974	21,800,196
Placements with banks and other financial institutions	6,109,035	-	6,109,035	6,109,035
Loans to customers	44,568,877	339,394	44,908,271	50,049,179
Finance lease receivables	80,583,090	170,435	80,753,525	117,838,422
Liabilities				
Debt securities issued	41,130,180	-	41,130,180	43,177,214
Other borrowed funds	28,770,287	-	28,770,287	29,832,799

27 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy, continued

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

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	38,665,521	-	38,665,521	38,665,521
Placements with banks and other financial institutions	167,534	-	167,534	167,534
Loans to customers	55,181,335	246,228	55,427,563	56,535,641
Finance lease receivables	47,290,601	29,193	47,319,794	74,921,988
Liabilities				
Debt securities issued	36,055,092	-	36,055,092	37,334,185
Subordinated debt securities issued	9,870,480	-	9,870,480	10,152,242
Other borrowed funds	34,029,467	-	34,029,467	35,159,984

28 Segment reporting

The Company's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 *Segment Reporting.* The Company's assets are concentrated in the Republic of Kazakhstan, and the Company's revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Company, the Chairman of the Management Board, only receives and reviews the information on the Company as a whole.

29 Events after the reporting period

In February 2018 the Company issued debt securities in the total amount of KZT 5,900,000 thousand with a nominal coupon rate of 10.5% and maturity in 10 years.

In February 2018 the Company purchased 10,000,000 securities of "Bank CenterCredit" JSC for KZT 10,163,207 thousand.

In February 2018 the Company received cash from the Ministry of Investments and Development of the Republic of Kazakhstan in the amount of KZT 4,833,791 thousand under subsidising the Nurly Zher program which will be transferred to second tier banks for compensation of interest rates on mortgage loans issued by the second-tier banks.