"Al Hilal" Islamic Bank" JSC

Financial statements

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

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Independent auditor's report

To the Shareholder and Board of Directors of
"Al Hilal" Islamic Bank" JSC

Opinion

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

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

Basis for opinion

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

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

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

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

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

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

Building a better working world

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 skepticism throughout the audit. We also:

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

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

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / Audit partner

Auditor qualification certificate
No. МФ - 0000099 dated 27 August 2012

Gulmira Turmagambetova
General director
Ernst & Young LLP

State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003, issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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Al-Farabi Ave., 77/7, Esentai Tower

2 April 2018

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(In thousands of tenge)

	Notes	*2017*	*2016*
Assets			
Cash and cash equivalents	6	**12,651,090**	14,192,485
Islamic derivative financial instruments	7	**–**	1,726,353
Receivables under Commodity Murabaha agreements	8	**6,286,962**	2,760,064
Wakala investment deposits	9	**413,393**	1,031,361
Ijara	10	**699,798**	962,216
Bank participation in Wakala pool	11	**2,203,100**	–
Property and equipment	12	**468,454**	262,657
Intangible assets	13	**61,811**	13,057
Current corporate income tax assets	14	**343,815**	20,202
Deferred corporate income tax assets	14	**31,593**	33,393
Other assets	15	**157,843**	70,799
Total assets		23,317,859	21,072,587
Liabilities			
Amounts due to other banks	16	**101,526**	76,758
Amounts due to customers	17	**7,498,720**	6,175,612
Unamortised commission income	18	**9,387**	11,740
Other liabilities	15	**293,445**	210,500
Total liabilities		**7,903,078**	6,474,610
Equity			
Share capital	19	**10,732,338**	10,732,338
Retained earnings		**4,682,443**	3,865,639
Total equity		**15,414,781**	14,597,977
Total liabilities and equity		**23,317,859**	21,072,587

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

Gordon Haskins — Chairman of the Management Board

مصرف الهلال

al hilal bank

Aidyn Tairov — Chief Accountant

2 April 2018

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(In thousands of tenge)

	Notes	2017	2016
Revenue from Ijara and Islamic financing activities	20	1,500,947	1,490,147
Revenue from Wakala investment deposits	20	43,281	105,818
Expenses from Islamic finance activities	20	–	(21,032)
Net revenue from Islamic finance activities		1,544,228	1,574,933
Net fee and commission income	21	1,189,365	1,559,290
Impairment reversal/(charge)	22	17,362	(75,068)
Net gains from foreign currencies	23	195,269	299,774
Non-finance income		1,401,996	1,783,996
Loss from Islamic derivative financial instruments	7	(40,823)	(133,600)
Personnel expenses	24	(999,941)	(791,464)
Other operating expenses	24	(924,479)	(596,125)
Other impairment and provisions	25	(310)	(3,617)
Non-finance expenses		(1,965,553)	(1,524,806)
Profit before corporate income tax expense		980,671	1,834,123
Corporate income tax expense	14	(163,867)	(355,050)
Profit for the year		816,804	1,479,073
Other comprehensive income		–	–
Total comprehensive income for the year		816,804	1,479,073

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(In thousands of tenge)

	Share capital	*Retained earnings*	*Total equity*
As at 1 January 2016	10,732,338	2,386,566	13,118,904
Profit for the year	–	1,479,073	1,479,073
Total comprehensive income for the year	–	1,479,073	1,479,073
As at 31 December 2016	10,732,338	3,865,639	14,597,977
As at 1 January 2017	10,732,338	3,865,639	14,597,977
Profit for the year	–	816,804	816,804
Total comprehensive income for the year	–	816,804	816,804
As at 31 December 2017	10,732,338	4,682,443	15,414,781

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(In thousands of tenge)

	Notes	*2017*	*2016*
Cash flows from operating activities			
Revenue received from Islamic finance activities		1,697,664	1,413,081
Expenses from Islamic finance activities paid		–	(21,032)
Fees and commissions received		1,204,365	1,562,942
Fees and commissions paid		(17,353)	(10,987)
Net realised gains from dealing in foreign currencies		200,522	109,638
Personnel expenses paid		(943,901)	(784,769)
Other operating expenses paid		(898,810)	(502,416)
Cash flows from operating activities before changes in operating assets and liabilities		1,242,487	1,766,457
Net (increase)/decrease in operating assets			
Islamic derivative financial instruments	7	1,685,530	–
Receivables under Commodity Murabaha agreements		(3,958,599)	6,459,504
Wakala investment deposits		625,093	821,214
Ijara		375,012	593,788
Bank participation in Wakala pool		(2,203,100)	–
Other assets		(151,516)	(6,707)
Net increase/(decrease) in operating liabilities			
Amounts due to other banks		24,768	(2,444,004)
Amounts due to customers		1,598,236	1,977,222
International reverse Murabaha		–	(6,272,990)
Other liabilities		2,596	(15,179)
Net cash flows (used in) / received from operating activities before corporate income tax		(759,493)	2,879,305
Corporate income tax paid		(485,680)	(446,348)
Net cash flows (used in) / received from operating activities		(1,245,173)	2,432,957
Cash flows from investing activities			
Purchase of property and equipment	12	(287,946)	(51,559)
Purchase of intangible assets	13	(57,868)	(6,348)
Net cash flows used in investing activities		(345,814)	(57,907)
Effect of exchange rates changes on cash and cash equivalents		49,592	(149,260)
Net (decrease)/increase in cash and cash equivalents		(1,541,395)	2,225,790
Cash and cash equivalents, as at 1 January		14,192,485	11,966,695
Cash and cash equivalents, as at 31 December	6	12,651,090	14,192,485

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

(In thousands of tenge)

1. Principal activities

“Al Hilal” Islamic Bank” JSC (hereinafter – the “Bank”) was formed on 22 January 2010 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking license No. 1.1.261 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations on 17 March 2010 and re-issued by the National Bank of the Republic of Kazakhstan (hereinafter – the “NBRK”) on 23 February 2015.

The Bank is involved in Islamic banking activities and carries out its operations through its head office in Almaty and branches in Almaty, Astana and Shymkent. The Bank accepts deposits from the public and conducts finance transactions based on Sharia principles and rules, transfers payments within the Republic of Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial customers.

The sole shareholder of the Bank is Al Hilal Bank PJSC (Abu Dhabi, United Arab Emirates). The ultimate shareholder of the Bank is the Government of Abu Dhabi, represented by Abu Dhabi Investment Council.

The registered and actual address of the Bank is: Republic of Kazakhstan, Almaty, Al-Farabi Ave. 77/7, Esentai Tower.

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except for Islamic derivative financial instruments which are stated at fair value. These financial statements are presented in thousands of tenge (“tenge” or “KZT”) unless otherwise is stated.

3. Definition of significant terms

Sharia

The provisions of Islamic law derived from the Holy Qur’an , Prophitic Tradition “Sunnah”, or binding authority of the dicta and decisions of the Prophet Mohammed (peace be upon him), ijma, or “consensus” of the community of Islamic scholars, and the qiyas, or analogical deductions as well as other Islamic law evidence, as may be determined or deduced by the Board. The Bank being an Islamic Financial Institution incorporates the principles and rules of Sharia in its activities, as interpreted by its Islamic Financial Principles Board.

Commodity Murabaha and Tawarruq and Reverse Murabaha

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

Ijara

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

Mudaraba

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

(In thousands of tenge)

3. Definition of significant terms (continued)

Wakala

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

Zakah

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

Sukuk

Sukuk are certificates of equal value representing undivided common shares in ownership of tangible assets or in the ownership of a specific asset (leased or to be leased either existing or to be constructed in future), usufruct and services, or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or partnership companies. In all these cases, the Sukuk holders are the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the partnership or the Mudaraba.

Wa'ad Swap (Islamic derivative financial instrument)

Currency and profit rate swaps are promises to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or profit rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency profit rate swaps).

Qard Hassan

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

4. Summary of significant accounting policies

Changes in accounting policies

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

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

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

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

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Financial assets

The Bank has voluntarily adopted IFRS 9 starting from 1 January 2013.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

The financing instruments are measured at amortised cost only if:

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

If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss (FVTPL). Additionally, even if the asset meets the amortised cost criteria the entity may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. The Bank has elected not to designate any financing instruments as FVTPL under the fair value option.

Only financial assets that are classified and measured at amortised cost are tested for impairment.

Investments in equity instruments not held for trading are designated by the Bank as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

The management has reviewed and assessed all of the Bank's existing financial assets as at the date of initial application of IFRS 9. The adoption of IFRS 9 has no impact on the financial statements, and the Bank has not performed any reclassification or made any adjustment of the carrying amount of its financial instruments as a result of adoption of IFRS 9.

Initial recognition

Financial assets in the scope of IFRS 9 are classified as either financial assets at fair value through profit or loss, at fair value through other comprehensive income or financial assets measured at amortised cost as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

Receivables from Islamic finance activities

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

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

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Fair value measurement

The Bank measures financial instruments such as Islamic derivative financial instruments at fair value at the reporting date. Fair values of financial instruments measured at amortised cost are disclosed in *Note 28*.

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

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

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

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

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

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

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

Offsetting

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

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

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

Islamic derivative financial instruments

In the normal course of business, the Bank enters into Islamic derivative financial instruments (Wa'ad Swap) in the foreign exchange markets. Such financial instruments are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Islamic derivative financial instruments are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as loss/gain from Islamic derivative financial instruments.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Leases

Operating – Bank as lessee

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

Ijara Muntahia Bitamleek (finance lease) – Bank as lessor

For leasing of an identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek), the Bank recognises Ijara assets at value equal to the net investment in the lease, starting from the date of commencement of the lease term. However, for leasing of a specified asset which will be constructed or manufactured with ownership transfer (also known as Ijarah Mawsufa Fi Zima and Muntahiya Bitamleek), the Bank recognises the Ijarah asset from the time of delivery of the asset and starting commencement of the lease term. Rental income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the financing under Ijara agreements.

Impairment of financial assets

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

Receivables from Islamic finance activities

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

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

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

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

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Receivables from Islamic finance activities (continued)

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

Derecognition of financial assets and liabilities

Financial assets

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

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement;
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; and
- There is a total loss of the subject of the lease not due to the customer's fault; in which case the existing asset will generally be derecognised and the rental payments will be recalculated on the basis of the prevailing market rate of rental for similar property which will be determined by the Bank.

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

Financial liabilities

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

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

Taxation

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

Deferred corporate income tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Property and equipment

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

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

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

	Years
Buildings	20
Leasehold improvements	7
Motor vehicles	4
Furniture and fixtures	4
Computers and office equipment	4

Assets’ residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Assets under construction represent property and equipment under construction and equipment awaiting installation and are stated at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. Once completed or when the equipment is ready for its intended use, construction-in-process is transferred into the appropriate category and depreciation commenced accordingly.

Intangible assets

Intangible assets include computer software and licenses. Intangible assets are carried at cost less any accumulated amortisation. Intangible assets are amortised on a straight-line basis over the useful economic lives of 4 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Provisions

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

Retirement and other employee benefit obligations

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

Share capital

Common shares with discretionary dividends are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in the equity.

Fiduciary assets

Assets held in a fiduciary capacity under Wakala and Mudaraba agreements are not reported in the financial statements, as they are not the assets of the Bank.

Since the Bank carries no risk and is not responsible for any losses incurred during normal investment activity for Mudaraba and Wakala products, unless this happened due to the Bank’s gross negligence or willful misconduct, both Wakala and Mudaraba deposits are accounted for as off balance sheet items.

Contingencies

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

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Recognition of income and expenses

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

Income and expense on Islamic finance activities

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

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

Fee and commission income

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate quoted by KASE on the date of the transaction are included in net gains/(losses) from foreign currencies – dealing. The market exchange rates quoted by KASE at 31 December 2017 and 2016 were KZT 332.33 and KZT 333.29 to USD 1, respectively.

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

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

The Bank plans to adopt the new standard by recognising the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information.

Based on the data as at 31 December 2017 and current implementation status, the Bank estimates that the adoption of IFRS 9 will result in a decrease in the shareholders' equity as at 1 January 2018 up to KZT 692,844 thousand (approximate amount).

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement

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

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

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

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

(b) Impairment

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

IFRS 15 Revenue from Contracts with Customers

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

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

IFRS 16 Leases

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

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

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases (continued)

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

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

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

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

These improvements include:

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

5. Significant accounting judgments and estimates

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

Property and equipment

The cost of property and equipment is depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

Contingent liability arising from litigations

Due to the nature of its operations, the Bank may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with certainty.

(In thousands of tenge)

5. Significant accounting judgments and estimates (continued)

Business model

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Bank considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- How management evaluates the performance of the portfolio;
- Whether management's strategy focuses on earning contractual profit revenues;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In particular, the Bank exercises judgment to determine the objective of the business model for portfolios which are held for liquidity purposes.

The securities may be sold in order to meet unexpected liquidity shortfalls but such sales are not anticipated to be more than infrequent.

The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

When a business model involves transfers of contractual rights to cash flows from financial assets to third parties and the transferred assets are not derecognised, the Bank reviews the arrangements to determine their impact on assessing the objective of the business model. In making the assessment, the Bank considers whether, under the arrangements, the Bank will continue to receive cash flows from the assets, either directly from the issuer, or indirectly from the transferee, including whether it will repurchase the assets from the transferee.

Impairment losses on receivables under Commodity Murabaha, Wakala investment deposits and Ijara

The Bank regularly reviews its receivables under Commodity Murabaha, Wakala investment deposits and Ijara to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where an debtor is in financial difficulties and there are few available sources of historical data relating to similar debtors. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of debtors.

Measurement and recognition of Wa'ad Swap (Islamic derivative financial instruments)

The Bank enters into derivative transactions with counterparties. The transaction price in the market in which these transactions are undertaken may be different from fair value in the Bank's principal market for those instruments, which is the wholesale dealer market. At initial recognition, the Bank estimates the fair values of Islamic derivative financial instruments transacted with counterparties using valuation techniques. In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the wholesale dealer market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Bank uses valuation techniques that rely on unobservable inputs – for example, volatilities of certain underlyings.

(In thousands of tenge)

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2017	*2016*
Cash on hand	322,344	166,121
Current account with the NBRK	349,919	1,468,943
Murabaha treasury tawarruq with the NBRK	7,205,550	8,409,961
Current accounts with other financial institutions	4,773,277	4,147,460
Cash and cash equivalents	12,651,090	14,192,485

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

As at 31 December 2017, obligatory reserves were equal to KZT 212,367 thousand (as at 31 December 2016: KZT 252,139 thousand).

7. Wa'ad Swap (Islamic derivative financial instruments)

Derivative financial asset represents the fair value of the cross currency wa'ad swaption undertaking with the NBRK to deliver KZT 1,989,570 thousand in exchange for USD 11,000 thousand. At wa'ad swap inception date in 2014, the Bank paid the premium of KZT 179,080 thousand, which was fully amortised. This wa'ad swap matured in November 2017 in accordance with the terms of the agreement without using the right of early execution by the NBRK at exchange rate KZT 334.1 for USD 1, which resulted in a net cash inflow of KZT 1,685,530 thousand. As at 31 December 2017, the Bank did not have any wa'ad swap (as at 31 December 2016: KZT 1,726,353 thousand).

During 2017, the Bank recognised a realised loss of KZT 40,823 thousand due to expiration of the Wa'ad Swap with notional amount of USD 11,000 thousand (in 2016: a loss of KZT 133,600 thousand as a result of amortisation of prepayments and tenge appreciation).

8. Receivables under Commodity Murabaha agreements

Receivables under Commodity Murabaha agreements comprise the following:

	2017	*2016*
Receivables under Commodity Murabaha agreements – corporate	6,308,931	2,726,613
Receivables under Commodity Murabaha agreements – retail	42,447	33,451
Gross receivables under Commodity Murabaha agreements	6,351,378	2,760,064
Less: allowance for impairment *(Note 22)*	(64,416)	–
Net receivables under Commodity Murabaha agreements	6,286,962	2,760,064

As at 31 December 2017, receivables under Commodity Murabaha agreements bear profit rate of 6%-15.5% per annum and mature in 2018-2022 (as at 31 December 2016: profit rate of 8.3%-14% per annum and maturity in 2017-2021).

As at 31 December 2017 and 2016, the Bank has no counterparties, whose balances of receivables under Commodity Murabaha agreements exceed 10% of its equity.

Collateral and other credit enhancements

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

As at 31 December 2017 and 2016, receivables arising from Commodity Murabaha agreements are secured by real estate, movable property, inventory, corporate guarantees. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment on receivables under Commodity Murabaha agreements.

(In thousands of tenge)

8. Receivables under Commodity Murabaha agreements (continued)

Concentration of receivables under Commodity Murabaha agreements

Receivables arise under Commodity Murabaha agreements which are made within the Republic of Kazakhstan in the following industry sectors:

	2017	*2016*
Agriculture	1,375,508	82,211
Food trading	1,339,656	318,371
Energy supply	1,270,688	–
Trade	964,100	619,375
Transportation and communication	858,739	1,400,756
Construction	500,240	–
Individuals (employees of the Bank)	42,447	33,451
Machinery and equipment trade	–	305,900
	6,351,378	2,760,064
Less: allowance for impairment *(Note 22)*	(64,416)	–
	6,286,962	2,760,064

As at 31 December 2017 and 2016, no receivables under Commodity Murabaha agreements show specific indicators of impairment. However, the Management of the Bank in 2017 estimated the annual rate of loss in the amount of 1.04% for corporate receivables and 1.07% for retail receivables under Commodity Murabaha agreements portfolio based on a review of historical data of the Kazakhstan banking sector for a group of assets with similar characteristics.

Information on movements in impairment allowance is disclosed in *Note 22*.

9. Wakala investment deposits

As at 31 December 2017, the Bank had investment transactions under Wakala agreements, which bear expected profit rate of 7%-8% per annum and mature on 14 March 2019 (as at 31 December 2016: profit rate of 7%-8% per annum and mature in 2017-2019). As at 31 December 2017, carrying amount of the Wakala investment deposits was equal to KZT 413,393 thousand (as at 31 December 2016: KZT 1,031,361 thousand). Wakala investment deposits are made within the Republic of Kazakhstan in the postal services sector.

As at 31 December 2017 and 2016, the Bank has no financial institution, whose Wakala investment deposit balances exceed 10% of its equity.

10. Ijara

Ijara represent net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentation for Ijara includes a separate undertaking from the Bank to sell the leased assets to the lessee upon maturity of the lease:

As at 31 December 2017	*Not later than 1 year*	*Later than 1 year and not later than 5 years*	*Total*
Ijara to be received upon maturity – corporate	752,331	782	753,113
Less: future variable rental (deferred income) – corporate	(53,136)	(179)	(53,315)
Net present value of minimum Ijara	699,195	603	699,798

As at 31 December 2016	*Not later than 1 year*	*Later than 1 year and not later than 5 years*	*Total*
Ijara to be received upon maturity – corporate	502,431	753,541	1,255,972
Less: future variable rental (deferred income) – corporate	(41,975)	(170,017)	(211,992)
Less: allowance for impairment *(Note 22)*	–	(81,764)	(81,764)
Net present value of minimum Ijara	460,456	501,760	962,216

As at 31 December 2017 and 2016, Ijara transactions bear profit rate of 18% per annum and mature in 2019. Ijara are made within the Republic of Kazakhstan in the trade industry sector.

The entire amount of Ijara is collateralised by equipment, fair value of which is determined at the reporting date.

As at 31 December 2017 and 2016, the Bank has no counterparties under Ijara, whose Ijara balances exceed 10% of its equity.

Information on movements in impairment allowance is disclosed in *Note 22.*

(In thousands of tenge)

11. Bank participation in Wakala pool

The Bank's investments in Wakala investments pool of depositors takes in the Sharia form of the funding of pool and are subject to the funding pool distribution rules. Given the potential mismatch between assets and depositors' investments owing to early termination or maturity of respective deposits, shortages arising in a pool could be financed from the Bank's own funds. As at 31 December 2017, carrying amount of the Bank's participation in Wakala pool was equal to KZT 2,203,100 thousand (as at 31 December 2016: nil).

12. Property and equipment

Movements in property and equipment were as follows:

	Buildings	*Leasehold improve-ments*	*Motor vehicles*	*Furniture and fixtures*	*Computers and other office equipment*	*Total*
Cost						
At 31 December 2015	221,969	113,323	22,557	39,813	30,627	428,289
Additions	–	6,269	–	944	44,346	51,559
Disposals	–	–	–	(359)	(137)	(496)
At 31 December 2016	221,969	119,592	22,557	40,398	74,836	479,352
Additions	–	195,286	–	41,496	51,164	287,946
Disposals	–	–	–	(148)	–	(148)
At 31 December 2017	221,969	314,878	22,557	81,746	126,000	767,150
Accumulated depreciation						
At 31 December 2015	(50,386)	(36,890)	(22,557)	(31,325)	(19,761)	(160,919)
Charge for the year	(11,025)	(36,126)	–	(2,992)	(5,894)	(56,037)
Disposal	–	–	–	132	129	261
At 31 December 2016	(61,411)	(73,016)	(22,557)	(34,185)	(25,526)	(216,695)
Charge for the year	(11,025)	(47,024)	–	(4,951)	(19,119)	(82,119)
Disposal	–	–	–	118	–	118
At 31 December 2017	(72,436)	(120,040)	(22,557)	(39,018)	(44,645)	(298,696)
Net book value						
At 31 December 2015	171,583	76,433	–	8,488	10,866	267,370
At 31 December 2016	160,558	46,576	–	6,213	49,310	262,657
At 31 December 2017	149,533	194,838	–	42,728	81,355	468,454

13. Intangible assets

Movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
At 31 December 2015	1,879	24,452	26,331
Additions	1,284	5,064	6,348
At 31 December 2016	3,163	29,516	32,679
Additions	12,984	44,884	57,868
At 31 December 2017	16,147	74,400	90,547
Accumulated amortisation			
At 31 December 2015	(1,746)	(14,044)	(15,790)
Charge for the year	(244)	(3,588)	(3,832)
At 31 December 2016	(1,990)	(17,632)	(19,622)
Charge for the year	(920)	(8,194)	(9,114)
At 31 December 2017	(2,910)	(25,826)	(28,736)
Net book value			
At 31 December 2015	133	10,408	10,541
At 31 December 2016	1,173	11,884	13,057
At 31 December 2017	13,237	48,574	61,811

(In thousands of tenge)

14. Taxation

The corporate income tax expense comprises:

	2017	*2016*
Current corporate income tax charge	162,067	381,337
Deferred corporate income tax charge/(benefit) – origination and reversal of temporary differences	1,800	(26,287)
Corporate income tax expense	163,867	355,050

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2017 and 2016.

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

	2017	*2016*
Profit before corporate income tax expense	980,671	1,834,123
Statutory tax rate	20%	20%
Theoretical corporate income tax expense at the statutory rate	196,134	366,825
Non-taxable income from Ijara	(38,538)	(14,371)
Non-deductible expenditures	6,271	2,596
Corporate income tax expense	163,867	355,050

As at 31 December 2017, current corporate income tax assets comprised KZT 343,815 thousand (as at 31 December 2016: KZT 20,202 thousand).

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

	2015	*Origination and reversal of temporary differences in profit or loss*	*2016*	*Origination and reversal of temporary differences in profit or loss*	*2017*
Tax effect of deductible temporary differences					
Accrual for bonuses	25,622	4,586	30,208	11,352	41,560
Allowance for impairment	–	16,353	16,353	(16,353)	–
Accrued professional services	–	3,734	3,734	2,431	6,165
Unused vacation accrual	1,115	461	1,576	310	1,886
Deferred corporate income tax assets	26,737	25,134	51,871	(2,260)	49,611
Tax effect of taxable temporary differences					
Property and equipment	(19,631)	1,153	(18,478)	460	(18,018)
Deferred corporate income tax liabilities	(19,631)	1,153	(18,478)	460	(18,018)
Net deferred corporate income tax assets/ (liabilities)	7,106	26,287	33,393	(1,800)	31,593

(In thousands of tenge)

15. Other assets and liabilities

Other assets comprise the following:

	2017	*2016*
Guarantee deposit	64,734	35,040
Due from employees under Qard Hassan agreements	5,361	5,144
Total other financial assets	70,095	40,184
Information services and consulting prepayments	34,497	3,698
Prepaid insurance premium	17,305	10,197
Prepaid taxes other than income tax	14,989	3,449
Rent prepayment	14,948	12,684
Prepayments for air tickets	1,553	941
Other	4,456	3,263
Total other non-financial assets	87,748	34,232
Less: allowance for impairment of other assets *(Note 25)*	–	(3,617)
Other assets	157,843	70,799

Other liabilities comprise the following:

	2017	*2016*
Accounts payable	43,856	23,776
Total other financial liabilities	43,856	23,776
Accrued bonuses	180,082	133,819
Salary payable	39,227	25,639
Taxes other than income tax payable	12,840	9,438
Accrued unused vacations expenses	9,428	7,878
Other	8,012	9,950
Total other non-financial liabilities	249,589	186,724
Other liabilities	293,445	210,500

16. Amounts due to other banks

As at 31 December 2017, amounts due to other banks mainly comprise current accounts of AsiaCredit Bank JSC and Bank CenterCredit JSC totaling to KZT 35,679 thousand and KZT 65,847 thousand, respectively (as at 31 December 2016: KZT 52,516 thousand and KZT 24,242 thousand, respectively).

17. Amounts due to customers

Amounts due to customers comprise the following:

	2017	*2016*
Current accounts	7,498,720	6,175,612
Amounts due to customers	7,498,720	6,175,612

Amounts due to customers include accounts with the following types of customers:

	2017	*2016*
Private enterprises	6,239,607	5,364,303
Government entities	779,988	329,679
Individuals	294,617	292,176
International organisations	147,836	183,184
Employees	36,672	6,270
Amounts due to customers	7,498,720	6,175,612

(In thousands of tenge)

17. Amounts due to customers (continued)

Amounts due to customers are geographically concentrated within the Republic of Kazakhstan in the following economic sectors:

	2017	*2016*
Trade	2,393,618	983,775
Construction	2,287,129	3,366,205
Government	779,988	329,679
Post	473,024	251,383
Leasing	370,790	446,806
Individuals	294,617	292,176
Financial services	263,543	76,119
Education	199,388	–
Charity	147,836	183,184
Agriculture	124,723	92,776
Food trading	41,890	86,278
Employees	36,672	6,270
Transport and communication	30,405	2,087
Energy	26,329	43,267
Machinery and equipment trade	6,510	12,022
Other	22,258	3,585
Amounts due to customers	7,498,720	6,175,612

18. Unamortised commission income

Unamortised commissions are the commissions charged by the Bank to its customers for study and documenting Islamic financing. As unamortised commissions are transaction costs directly attributable to the issue of Islamic financing, they are amortised over the expected life of respective agreements. As at 31 December 2017 and 2016, carrying amount of unamortised commission income was equal to KZT 9,387 thousand and KZT 11,740 thousand, respectively.

19. Equity

As at 31 December 2017 and 2016, authorised and outstanding 10,732,338 common shares are issued and fully paid by the sole shareholder of the Bank at placement value of KZT 1 thousand per common share. No dividends were declared or paid during 2017 and 2016.

20. Net revenue from Islamic finance activities

Net revenue from Islamic finance activities comprises:

	2017	*2016*
Revenue from Murabaha Treasury tawarruq – banks	782,145	699,274
Revenue from receivables under Commodity Murabaha agreements – corporate	558,397	716,850
Revenue from Ijara – corporate	157,599	71,854
Revenue from Wakala investment deposits – corporate	43,281	105,818
Revenue from receivables under Commodity Murabaha agreements – retail	2,806	2,169
Expenses from Islamic finance activities	–	(21,032)
	1,544,228	1,574,933

In 2017 expenses from Islamic finance activities were nil (in 2016: these expenses included expenses from international reverse Murabaha and were equal to KZT 21,032 thousand).

(In thousands of tenge)

21. Net fee and commission income

Net fee and commission income comprises:

	2017	*2016*
Agency commission and performance incentive under Wakala and Mudarib share of profit under Mudaraba agreements *(Note 26)*	1,021,606	1,394,130
Letters of credit and guarantees	111,946	111,443
Transfer operations	33,737	32,262
Non-deferred portion of study and documentation fee in relation to financing	26,443	18,991
Settlement and cash operations	11,610	12,616
Other	1,376	835
Fee and commission income	1,206,718	1,570,277
Transfer operations	(1,891)	(1,211)
Other	(15,462)	(9,776)
Fee and commission expense	(17,353)	(10,987)
Net fee and commission income	1,189,365	1,559,290

22. Impairment reversal/(charge)

Movement in allowance for impairment of receivables from Islamic finance activities was as follows:

	Receivables under Commodity Murabaha agreements (Note 8)	*Wakala investment deposits*	*Ijara (Note 10)*	*Total*
As at 1 January 2017	–	–	81,764	81,764
Charge/(reversal) for the year	64,402	–	(81,764)	(17,362)
Translation difference	14	–	–	14
As at 31 December 2017	64,416	–	–	64,416
Collective impairment	64,416	–	–	64,416
	64,416	–	–	64,416

	Receivables under Commodity Murabaha agreements (Note 8)	*Wakala investment deposits*	*Ijara (Note 10)*	*Total*
As at 1 January 2016	6,696	–	–	6,696
(Reversal)/charge for the year	(6,696)	–	81,764	75,068
As at 31 December 2016	–	–	81,764	81,764
Specific impairment	–	–	81,764	81,764
	–	–	81,764	81,764

23. Net gains from foreign currencies

Net gains from foreign currencies comprise:

	2017	*2016*
Net gains from foreign currencies		
- dealing	200,522	109,638
- translation differences	(5,253)	190,136
	195,269	299,774

(In thousands of tenge)

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2017	*2016*
Salaries and bonuses	922,731	731,340
Social security costs	77,210	60,124
Personnel expenses	999,941	791,464
Rent	344,574	300,294
Marketing and advertising	162,631	–
Depreciation and amortisation	91,233	59,869
Information technology services	72,509	59,638
Taxes other than income tax	68,565	39,087
Professional services	55,335	33,389
Business trips	22,072	21,124
Communication	19,509	16,173
Security	17,679	15,001
Utilities	9,202	8,394
Transportation	8,631	8,990
Cleaning services	6,747	6,285
Trainings	5,631	3,240
Penalties	5,446	1,272
Stationery	4,047	2,276
Sponsorship	3,757	1,300
Other	26,911	19,793
Other operating expenses	924,479	596,125

25. Other impairment and provisions

Movements in other impairment allowances and provisions were as follows:

	Other assets	*Total*
As at 31 December 2015	–	–
Charge for the year	3,617	3,617
As at 31 December 2016	3,617	3,617
Charge for the year	310	310
Write-off	(3,927)	(3,927)
As at 31 December 2017	–	–

Allowance for impairment of other assets is deducted from the carrying amount of respective assets.

26. Commitments and contingencies

Operating environment

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

In 2017, similar to 2016, the Kazakhstan economy continued to be negatively impacted by a significant volatility in crude oil prices that continued through to early 2017 and a significant tenge devaluation that occurred in 2015. These factors resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. However, in the latter half of 2016 and into 2017, the tenge stabilised, the rate of inflation decreased and economic growth improved. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

The Bank's strategy for 2017 and for the next five years is to continue its expansion in the corporate segment in the Kazakhstan banking sector and in the key customer retail segment. The Bank intends to increase its share of the retail banking market in Kazakhstan. The Bank's strategy is to attract new high net worth and professional retail customers by offering a wide range of Islamic banking products. In particular, the Bank plans to develop its range of Islamic financing retail banking products (including residential mortgage financing and credit cards).

(In thousands of tenge)

26. Commitments and contingencies (continued)

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or future performance of the Bank. As at 31 December 2017 and 2016, no provision has been made in these financial statements for any of such action or complaints.

Taxation

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

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

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan 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.

Credit related commitments and contingencies

As at 31 December, the Bank’s credit related commitments comprise:

	2017	*2016*
Undrawn commitments on receivables from Islamic finance activities	10,689,722	15,781,803
Guarantees issued	3,617,480	3,157,103
Letters of credit issued	141,694	226,974
Credit related commitments	14,448,896	19,165,880

Trust activities

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

	2017	*2016*
Wakala		
Unutilised portion of Wakala deposits at 1 January	–	–
Wakala deposits received	113,448,340	81,428,978
Amount utilised for Murabaha, Ijara and Tawarruq	(64,595,830)	(81,428,978)
Amount utilised for Wakala investment deposits	(48,852,510)	–
Unutilised portion of Wakala deposits at 31 December	–	–
Mudaraba		
Unutilised portion of Mudaraba deposits at 1 January	–	–
Mudaraba deposits received	646,310	10,332
Amount utilised for issuance of Murabaha receivables	(646,310)	(10,332)
Unutilised portion of Mudaraba deposits at 31 December	–	–
Profit accrued on receivable under Murabaha agreements and Ijara	1,502,659	1,894,443
Profit accrued on Wakala investment deposits	44,000	–
Profit accrued on investments in Tawarruq	116,020	–
Agency commission attributable to the Bank *(Note 21)*	(1,021,606)	(1,394,130)
Profit attributable to customers on Wakala and Mudaraba deposits	641,073	500,313

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

(In thousands of tenge)

27. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, Sharia risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

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

Risk management structure

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

Board of Directors

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

Management Board

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

Risk Management Department and Internal Control and Operational Risk Department

The Risk Management Department and Internal Control and Operational Risk Department are responsible for control over compliance with principles, policies on risk-management and risk limits of the Bank for independent risk control, including positions subject to risk in comparison with established limits for estimation of risk of new products and structured transactions; and also for collecting full information in risk estimation systems and risk-management reports. The Risk Management Department monitors the quality of the credit portfolio and coverage of credit risk by liquid collateral. The Risk Management Department together with business units is responsible for realisation of the credit policy of the Bank and requirements of other internal documents and of state regulators. The Risk Management Department and Internal Control and Operational Risk Department take part in making decisions on accepting different risks. The Risk Management Department and Internal Control and Operational Risk Department develop methods of quantitative estimation of risks attributable to the Bank and provide recommendations to different departments of the Bank on minimisation of effective control over risks. The Risk Management Department develops and implements methodologies and analytical instruments, which allow the evaluation of risks, to control the level of risks and organise procedures to mitigate those risks.

Islamic Finance Principles Board

The Islamic Finance Principles Board is responsible to review the operating, financing and investing activities of the Bank ensuring their alignment and compliance with the principles and rules of Sharia. Being a supervisory board it is also required to audit the business activities undertaken and present an independent Sharia report to the shareholders with regard to the implementation of the principles and rules of Sharia in the Bank's overall activities.

The Sharia Coordinator represents the Islamic Finance Principles Board and is also responsible to ensure compliance with instructions issued by the Islamic Finance Principles Board including reviewing all standard and non-standard contracts, product parameters and financial statements and conducting the Sharia audit.

Bank Treasury

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

Internal Audit

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

(In thousands of tenge)

27. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Asset and Liability Committee, and the Credit Committee as appropriate. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, capital adequacy ratios, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry and customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

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

The Bank actively uses collateral to reduce its credit risk.

Excessive risk concentration

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

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

Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Islamic derivative financial instruments

Credit risk arising from Islamic derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments

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

The maximum exposure to credit risk for the components of the statement of financial position, including derivative financial instruments, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(In thousands of tenge)

27. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for receivable-related lines in the statement of financial position, based on the Bank’s credit rating system.

2017	*Notes*	*Neither past due nor impaired* *Standard grade*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	6	12,328,746	–	12,328,746
Receivables under Commodity Murabaha agreements	8	6,351,378	–	6,351,378
Wakala investment deposits	9	413,393	–	413,393
Ijara	10	–	699,798	699,798
Bank participation in Wakala pool	11	2,203,100	–	2,203,100
Other financial assets	15	70,095	–	70,095
Total		21,366,712	699,798	22,066,510

2016	*Notes*	*Neither past due nor impaired* *Standard grade*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	6	14,026,364	–	14,026,364
Receivables under Commodity Murabaha agreements	8	2,760,064	–	2,760,064
Wakala investment deposits	9	1,031,361	–	1,031,361
Ijara	10	10	1,043,970	1,043,980
Other financial assets	15	40,184	–	40,184
Total		17,857,983	1,043,970	18,901,953

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

Impairment assessment

The main considerations for the impairment assessment of receivables from Islamic finance activities include whether any payments on those receivables are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the agreement. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for individually significant receivables from Islamic finance activities on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(In thousands of tenge)

27. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on receivables from Islamic finance activities that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet any objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the expected delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by risk management to ensure alignment with the Bank's overall policy.

The geographical concentration of Bank's financial assets and liabilities is set out below:

	2017		
	Kazakhstan	*UAE*	*Total*
Assets			
Cash and cash equivalents	7,929,123	4,721,967	12,651,090
Receivables under Commodity Murabaha agreements	6,286,962	–	6,286,962
Wakala investment deposits	413,393	–	413,393
Ijara	699,798	–	699,798
Bank participation in Wakala pool	2,203,100	–	2,203,100
Other financial assets	70,095	–	70,095
	17,602,471	4,721,967	22,324,438
Liabilities			
Amounts due to other banks	101,526	–	101,526
Amounts due to customers	7,498,720	–	7,498,720
Other financial liabilities	43,856	–	43,856
	7,644,102	–	7,644,102
Net financial assets	9,958,369	4,721,967	14,680,336

	2016		
	Kazakhstan	*UAE*	*Total*
Assets			
Cash and cash equivalents	10,045,025	4,147,460	14,192,485
Islamic derivative financial instruments	1,726,353	–	1,726,353
Receivables under Commodity Murabaha agreements	2,760,064	–	2,760,064
Wakala investment deposits	1,031,361	–	1,031,361
Ijara	962,216	–	962,216
Other financial assets	40,184	–	40,184
	16,565,203	4,147,460	20,712,663
Liabilities			
Amounts due to other banks	76,758	–	76,758
Amounts due to customers	6,175,612	–	6,175,612
Other financial liabilities	23,776	–	23,776
	6,276,146	–	6,276,146
Net financial assets	10,289,057	4,147,460	14,436,517

Liquidity risk and funding management

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

(In thousands of tenge)

27. Risk management (continued)

Liquidity risk and funding management (continued)

The Bank maintains a portfolio of diverse assets the terms to maturity of which provide sufficient liquidity to manage unforeseen interruptions of cash flow. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily based on certain liquidity ratios established by the NBRK.

Analysis of financial liabilities by remaining contractual maturities

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

As at 31 December 2017	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to other banks	101,526	–	–	–	101,526
Amounts due to customers	7,498,720	–	–	–	7,498,720
Other financial liabilities	–	43,856	–	–	43,856
Total undiscounted financial liabilities	7,600,246	43,856	–	–	7,644,102

As at 31 December 2016	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to other banks	76,758	–	–	–	76,758
Amounts due to customers	6,175,612	–	–	–	6,175,612
Other financial liabilities	–	23,776	–	–	23,776
Total undiscounted financial liabilities	6,252,370	23,776	–	–	6,276,146

The table below shows the contractual maturity of the Bank's financial commitments and contingencies. Each undrawn commitment on a receivable is included in the time band containing the earliest date it can be drawn down.

2017	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Undrawn commitments on receivables from Islamic finance activities	–	6,120,004	4,569,718	–	10,689,722
Guarantees issued	2,320,916	1,081,940	214,624	–	3,617,480
Letters of credit issued	12,396	12,983	116,315	–	141,694

2016	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Undrawn commitments on receivables from Islamic finance activities	440,586	5,679,450	9,661,767	–	15,781,803
Guarantees issued	299,447	2,857,656	–	–	3,157,103
Letters of credit issued	226,974	–	–	–	226,974

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

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

In accordance with Kazakhstan legislation, the Bank is obliged to repay term deposits of individuals upon demand of a depositor. However, the Bank is not obliged to return utilised portion of Wakala and Mudaraba deposits, except when the deposit is lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case such losses would be borne by the Bank. For further information on liquidity risk, see *Note 29*.

(In thousands of tenge)

27. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates and profit rates.

Profit rate risk

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

Profit rate sensitivity analysis

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

	2017		*2016*	
Inflation	*Increase in basis points by*	*Sensitivity of net profit*	*Increase in basis points by*	*Sensitivity of net profit*
Currency				
KZT	100	23,127	100	13,485

	2017		*2016*	
Inflation	*Decrease in basis points by*	*Sensitivity of net profit*	*Decrease in basis points by*	*Sensitivity of net profit*
Currency				
KZT	100	(23,127)	(100)	(13,485)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Asset and Liability Committee has set limits on positions by currency based on the NBRK regulations. Positions are monitored on a daily basis.

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

As at 31 December 2017	*KZT*	*USD*	*EUR*	*AED*	*Total*
Assets					
Cash and cash equivalents	7,667,449	4,701,978	39,370	242,293	12,651,090
Receivables under Commodity Murabaha agreements	5,790,195	496,767	–	–	6,286,962
Wakala investment deposits	413,393	–	–	–	413,393
Ijara	699,798	–	–	–	699,798
Bank participation in Wakala pool	2,203,100	–	–	–	2,203,100
Other financial assets	70,095	–	–	–	70,095
Total assets	16,844,030	5,198,745	39,370	242,293	22,324,438
Liabilities					
Amounts due to other banks	–	–	–	101,526	101,526
Amounts due to customers	2,949,100	4,315,815	124,968	108,837	7,498,720
Other financial liabilities	43,856	–	–	–	43,856
Total liabilities	2,992,956	4,315,815	124,968	210,363	7,644,102
Net position	13,851,074	882,930	(85,598)	31,930	14,680,336

(In thousands of tenge)

27. Risk management (continued)

Market risk (continued)

Currency risk (continued)

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

As at 31 December 2016	*KZT*	*USD*	*EUR*	*AED*	*Total*
Assets					
Cash and cash equivalents	9,283,000	4,572,751	229,082	107,652	14,192,485
Islamic derivative financial instruments	1,726,353	–	–	–	1,726,353
Receivables under Commodity Murabaha agreements	2,760,064	–	–	–	2,760,064
Wakala investment deposits	1,031,361	–	–	–	1,031,361
Ijara	962,216	–	–	–	962,216
Other financial assets	40,184	–	–	–	40,184
Total assets	15,803,178	4,572,751	229,082	107,652	20,712,663
Liabilities					
Amounts due to other banks	–	–	–	76,758	76,758
Amounts due to customers	1,309,073	4,606,486	229,059	30,994	6,175,612
Other financial liabilities	23,776	–	–	–	23,776
Total liabilities	1,332,849	4,606,486	229,059	107,752	6,276,146
	14,470,329	(33,735)	23	(100)	14,436,517
Islamic derivative financial instruments	(1,989,570)	3,666,190	–	–	1,676,620
Net position	12,480,759	3,632,455	23	(100)	16,113,137

The table below indicates the currencies to which the Bank had significant exposure at 31 December on certain monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the profit or loss (due to the fair value of certain currency sensitive certain monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the statement of profit or loss, while a positive amount reflects a net potential increase.

	2017		*2016*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	+10%	(19,526)	+13%	25,032
EUR	+13.5%	7,667	+15%	(56)
AED	+10%	(3,098)	+13%	(13)

	2017		*2016*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	-10%	19,526	-13%	(25,032)
EUR	-9.5%	(7,667)	-15%	56
AED	-10%	3,098	-13%	13

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors (other than credit, market and liquidity risks) such as those arising from legal, Sharia and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank’s operations.

The Bank’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

(In thousands of tenge)

27. Risk management (continued)

Operational risk (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management and the Internal Control and Operational Risk Department. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with Sharia, regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation.

Compliance with the Bank’s standards is supported by a program of periodic reviews undertaken by Internal Audit and Sharia Audit. The results of Internal Audit and Sharia Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board of Directors, Islamic Finance Principle Board and senior management of the Bank.

28. Fair values of financial instruments

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

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

		Fair value measurement using			
As at 31 December 2017	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2017	12,651,090	–	–	12,651,090
Receivables under Commodity Murabaha agreements	31 December 2017	–	6,252,689	–	6,252,689
Wakala investment deposits	31 December 2017	–	402,085	–	402,085
Ijara	31 December 2017	–	781,603	–	781,603
Bank participation in Wakala pool	31 December 2017	–	2,203,100	–	2,203,100
Other financial assets	31 December 2017	–	70,095	–	70,095
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2017	–	101,526	–	101,526
Amounts due to customers	31 December 2017	–	7,498,720	–	7,498,720
Other financial liabilities	31 December 2017	–	43,856	–	43,856

(In thousands of tenge)

28. Fair values of financial instruments (continued)

		Fair value measurement using			
As at 31 December 2016	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets measured at fair value					
Islamic derivative financial instruments	31 December 2016	–	–	1,726,353	1,726,353
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2016	14,192,485	–	–	14,192,485
Receivables under Commodity Murabaha agreements	31 December 2016	–	2,675,485	–	2,675,485
Wakala investment deposits	31 December 2016	–	987,337	–	987,337
Ijara	31 December 2016	–	1,023,564	–	1,023,564
Other financial assets	31 December 2016	–	40,184	–	40,184
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2016	–	76,758	–	76,758
Amounts due to customers	31 December 2016	–	6,175,612	–	6,175,612
Other financial liabilities	31 December 2016	–	23,776	–	23,776

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

Assets for which fair value approximates carrying amount

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

Financial instruments with fixed and floating rates

If assets and liabilities are not measured at fair values but the fair values are disclosed in the financial statements, future cash flows are discounted at the average market rate of financial instruments with similar maturities and risk characteristics. The source of those rates is the NBRK statistics.

The future cash flows are calculated by applying the weighted average profit rate of the financing portfolio to the principal amount as at the end of the reporting period. The following assumptions are applied by the Bank while determining the fair values:

1. The principal amount of the financial instrument is repaid at the weighted average maturity date of the portfolio.
2. Profit payments are made evenly each year until the weighted average maturity date of the portfolio.

The above calculation is applied in determining the fair value of receivables under Islamic finance activities, amounts due from customers and amounts due from credit institutions.

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

As at 31 December 2017	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	12,651,090	12,651,090	–
Receivables under Commodity Murabaha agreements	6,286,962	6,252,689	(34,273)
Wakala investment deposits	413,393	402,085	(11,308)
Ijara	699,798	781,603	81,805
Bank participation in Wakala pool	2,203,100	2,203,100	–
Other financial assets	70,095	70,095	–
Financial liabilities			
Amounts due to other banks	101,526	101,526	–
Amounts due to customers	7,498,720	7,498,720	–
Other financial liabilities	43,856	43,856	–
Total unrecognised change in unrealised fair value			36,224

(In thousands of tenge)

28. Fair values of financial instruments (continued)

Financial instruments with fixed and floating rates (continued)

As at 31 December 2016	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	14,192,485	14,192,485	–
Receivables under Commodity Murabaha agreements	2,760,064	2,675,485	(84,579)
Wakala investment deposits	1,031,361	987,337	(44,024)
Ijara	962,216	1,023,564	61,348
Other financial assets	40,184	40,184	–
Financial liabilities			
Amounts due to other banks	76,758	76,758	–
Amounts due to customers	6,175,612	6,175,612	–
Other financial liabilities	23,776	23,776	–
Total unrecognised change in unrealised fair value			(67,255)

Movements in Level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amounts of assets and liabilities which are recorded at fair value:

	Islamic derivative financial instruments	
	2017	*2016*
Assets		
At 1 January	1,726,353	1,859,953
Total loss recorded in profit or loss	(40,823)	(133,600)
Sale	(3,675,100)	–
Purchase	1,989,570	–
At 31 December	–	1,726,353

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

Losses on financial instruments included in the profit or loss for the period comprise:

	2017			*2016*		
	Realised gains/ (losses)	*Unrealised gains/ (losses)*	*Total*	*Realised gains/ (losses)*	*Unrealised gains/ (losses)*	*Total*
Total losses included in profit or loss for the year	(40,823)	–	(40,823)	–	(133,600)	(133,600)

(In thousands of tenge)

29. Maturity analysis of assets and liabilities

The tables below show an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 27* "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2017		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	12,651,090	–	12,651,090
Receivables under Commodity Murabaha agreements	6,245,436	41,526	6,286,962
Wakala investment deposits	165,209	248,184	413,393
Ijara	699,195	603	699,798
Bank participation in Wakala pool	2,203,100	–	2,203,100
Property and equipment	–	468,454	468,454
Intangible assets	–	61,811	61,811
Current corporate income tax assets	221,000	122,815	343,815
Deferred corporate income tax assets	–	31,593	31,593
Other assets	157,843	–	157,843
Total	22,342,873	974,986	23,317,859
Amounts due to other banks	101,526	–	101,526
Amounts due to customers	7,498,720	–	7,498,720
Unamortised commission income	9,387	–	9,387
Other liabilities	293,445	–	293,445
Total	7,903,078	–	7,903,078
Net assets	14,439,795	974,986	15,414,781

	2016		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	14,192,485	–	14,192,485
Islamic derivative financial instruments	1,726,353	–	1,726,353
Receivables under Commodity Murabaha agreements	2,726,613	33,451	2,760,064
Wakala investment deposits	191,780	839,581	1,031,361
Ijara	460,456	501,760	962,216
Property and equipment	–	262,657	262,657
Intangible assets	–	13,057	13,057
Current corporate income tax assets	20,202	–	20,202
Deferred corporate income tax assets	–	33,393	33,393
Other assets	70,799	–	70,799
Total	19,388,688	1,683,899	21,072,587
Amounts due to other banks	76,758	–	76,758
Amounts due to customers	6,175,612	–	6,175,612
Unamortised commission income	11,446	294	11,740
Other liabilities	210,500	–	210,500
Total	6,474,316	294	6,474,610
Net assets	12,914,372	1,683,605	14,597,977

30. Related party disclosures

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

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

(In thousands of tenge)

30. Related party disclosures (continued)

The outstanding balances of related-party transactions are as follows:

	31 December 2017				*31 December 2016*			
Statement of financial position	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Cash and cash equivalents	4,721,967	–	–	–	4,147,460	–	–	–
Amounts due to customers	337	242,985	17,462	–	337	1,037	–	–

	31 December 2017				*31 December 2016*			
Off balance sheet	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Amounts due to Wakala depositors	19,090,309	–	13,000	555,662	16,957,795	–	–	–
Amounts due to Mudaraba depositors	–	–	1,500	–	–	–	–	–
Wakala investment deposits	2,326,310	–	–	–	–	–	–	–

The income and expenses arising from related-party transactions are as follows:

	2017				*2016*			
	Share-holder	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Off balance sheet								
Expense from Islamic finance activities	(234,833)	–	(325)	(2,457)	(439,138)	–	–	–
Revenue from Wakala investment deposits	44,000	–	–	–	–	–	–	–
On balance sheet								
Rent expense	–	(44,400)	–	–	–	(44,400)	–	–

Compensation of eight (2017: eight) members of key management personnel comprise:

	2017	*2016*
Salaries and other short-term benefits	206,360	210,990
Social security costs	20,575	21,084
Total key management personnel compensation	226,935	232,074

31. Capital adequacy

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

As at 31 December 2017, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management policies are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

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

(In thousands of tenge)

31. Capital adequacy (continued)

As at 31 December 2017 and 2016, the capital adequacy ratios of the Bank calculated in accordance with the requirements of the NBRK were as follows:

	2017	*2016*
Tier 1 capital		
Share capital	10,732,338	10,732,338
Retained earnings	3,865,639	2,386,566
Total tier 1 capital	14,597,977	13,118,904
Tier 2 capital		
Net income of the current year	816,804	1,479,073
	816,804	1,479,073
Total capital base	15,414,781	14,597,977
Risk weighted assets		
Credit risk	14,346,293	10,352,730
Market risk	59,589	64,047
Operational risk	1,368,927	894,661
Total risk weighted assets	15,774,809	11,311,438
Capital ratios		
Total capital expressed as a percentage of total risk weighted assets	98%	129%
Tier 1 capital expressed as a percentage of total risk weighted assets	93%	116%

32. Zakah

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