Associated Bank
"Kazakhstan-Ziraat International Bank"
Joint-Stock Company

Financial statements

Year ended 31 December 2018
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Board of Directors of Associated Bank "Kazakhstan-Ziraat International Bank" Joint Stock Company

Qualified opinion

We have audited the financial statements of Associated Bank "Kazakhstan-Ziraat International Bank" Joint Stock Company (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2018, 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, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

In calculations of the allowance for expected credit losses on loans to customers measured at amortized cost on a collective basis the Bank used undiscounted expected cash flows on recoveries in case of default, which is not in accordance with the requirements of IFRS 9. For this reason, as at 31 December 2018, the allowance for expected credit losses on loans to customers at amortized cost and related credit loss expense on loans to customers for 2018 were understated by KZT 131,972 thousand.

Also, in calculating the allowance for expected credit losses on loans to customers on an individual basis with total gross value as at 31 December 2018 of KZT 3,246,086 thousand, the Bank used the overstated value of pledged property. The effect of the above error on the financial statements of the Bank has not been determined.

We conducted our audit in accordance with International Standards on Auditing (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 (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 qualified opinion.

Other information included in the Bank's 2018 Annual report

Other information consists of the information included in the Annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

The Annual report is expected to be made available to us after the date of this auditor's report.

Our qualified opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Board of Directors for the financial statements

Management 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.

The Board of Directors are responsible for overseeing the Bank's financial reporting process.

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.

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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.

We communicate with the Board of Directors 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

Paul Cohn
Audit Partner

Olga Khegay
Auditor

Gulmira Turmagambetova
General Director
Ernst & Young LLP

Auditor's qualification certificate
No. МФ-0000286 dated 25 September 2015

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

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

31 May 2019

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(In thousands of tenge)

	Notes	*2018*	*2017*
Assets			
Cash and cash equivalents	6	**14,643,508**	11,175,455
Receivables under reverse repurchase agreements	7	**4,505,084**	6,004,562
Loans to customers	8	**44,173,647**	36,132,728
Property and equipment	9	**1,239,155**	1,211,337
Intangible assets	10	**119,590**	126,207
Current corporate income tax assets		**1,167**	12,155
Other assets	11	**5,215,909**	2,412,569
Total assets		69,898,060	57,075,013
Liabilities			
Amounts due to other banks	12	**9,342,289**	9,411,880
Amounts due to customers	13	**32,953,986**	21,801,237
Deferred corporate income tax liabilities	14	**183,013**	259,722
Other liabilities	15	**133,201**	101,158
Total liabilities		42,612,489	31,573,997
Equity			
Share capital	16	**15,000,000**	15,000,000
Reserve funds	16	**1,177,175**	1,750,542
Revaluation reserve for property and equipment	16	**543,149**	543,149
Retained earnings		**10,565,247**	8,207,325
Total equity		27,285,571	25,501,016
Total liabilities and equity		69,898,060	57,075,013

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

Dzhanan Olekli — Chairwoman of the Management Board

Zhumakhanova T.N. — Chief Accountant

31 May 2019

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(In thousands of tenge)

	Notes	*2018*	*2017**
Interest income calculated using effective interest rate	17	**4,370,017**	4,303,350
Other interest income	17	**227,350**	–
		4,597,367	4,303,350
Interest expense	17	**(1,094,276)**	(985,725)
Net interest income		**3,503,091**	3,317,625
Credit loss expense	18	**(75,196)**	(268.159)
Net interest income after credit loss expense		**3,427,895**	3,049,466
Net fee and commission income	19	**605,898**	655,255
Net gains from transactions in foreign currencies:			
- dealing		**776,941**	798,386
- translation differences		**19,133**	3,223
Net gain from derecognition of financial assets measured at amortised cost		**88,809**	–
Loss from financial assets measured at fair value through profit or loss		**(30,231)**	–
Loss on initial recognition of financial assets measured at amortised cost		–	(51,968)
Other income		**36,124**	3,968
Administrative and other operating expenses	20	**(1,810,609)**	(1,764,079)
Profit before corporate income tax expense		**3,113,960**	2,694,251
Corporate income tax expense	14	**(551,400)**	(602,003)
Profit for the year		**2,562,560**	2,092,248
Other comprehensive income			
Other comprehensive income not to be subsequently reclassified to profit or loss:			
Revaluation of land and buildings	16	–	97,395
Corporate income tax effect	16	–	(19,479)
Other comprehensive income for the year, net of tax		–	77,916
Total comprehensive income for the year		**2,562,560**	2,170,164
Basic and diluted earnings per share (in tenge)	16	**170.84**	139.48

* *Certain amounts included in this column do not agree to the financial statements for 2017 as they reflect the reclassifications made and disclosed in Note 2.*

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

Dzhanan Olekli — Chairwoman of the Management Board

Zhumakhanova T.N. — Chief Accountant

31 May 2019

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(In thousands of tenge)

	Note	*Share capital*	*Reserve funds*	*Revaluation reserve for property and equipment*	*Retained earnings*	*Total equity*
At 31 December 2016		15,000,000	1,750,542	596,955	5,983,355	23,330,852
Profit for the year		–	–	–	2,092,248	2,092,248
Other comprehensive income for the year		–	–	77,916	–	77,916
Total comprehensive income for the year		–	–	77,916	2,092,248	2,170,164
Transfer from revaluation reserve for property and equipment	16	–	–	(131,722)	131,722	–
At 31 December 2017		15,000,000	1,750,542	543,149	8,207,325	25,501,016
Impact of adopting IFRS 9	3	–	–	–	(778,005)	(778,005)
Restated balance under IFRS 9 as at 1 January 2018		15,000,000	1,750,542	543,149	7,429,320	24,723,011
Profit for the year		–	–	–	**2,562,560**	**2,562,560**
Other comprehensive income for the year		–	–	–	–	–
Total comprehensive income for the year		–	–	–	**2,562,560**	**2,562,560**
Transfer from reserve funds	16	–	**(573,367)**	–	**573,367**	–
At 31 December 2018		**15,000,000**	**1,177,175**	**543,149**	**10,565,247**	**27,285,571**

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

Dzhanan Olekli — Chairwoman of the Management Board

Zhumakhanova T.N. — Chief Accountant

31 May 2019

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(In thousands of tenge)

	Note	*2018*	*2017*
Cash flows from operating activities			
Interest received		**4,413,633**	3,730,106
Interest paid		**(1,061,878)**	(952,636)
Fees and commissions received		**488,982**	563,405
Fees and commissions paid		**(66,158)**	(47,079)
Net realized gains from dealing in foreign currencies		**776,941**	798,386
Other operating income received		**6,006**	3,968
Personnel expenses paid		**(885,540)**	(855,911)
Administrative and other operating expenses paid		**(789,477)**	(759,057)
Cash flows from operating activities before changes in operating assets and liabilities		**2,882,509**	2,481,182
Net decrease/(increase) in operating assets			
Receivables under reverse repurchase agreements		**1,500,002**	3,999,999
Loans to customers		**(8,847,890)**	(4,810,074)
Other assets		**(29,365)**	556,210
Net (decrease)/increase in operating liabilities			
Amounts due to other banks		**(1,479,828)**	(3,275,261)
Amounts due to customers		**8,712,733**	626,587
Other liabilities		**143,637**	115,257
Net cash flows from operating activities before corporate income tax		**2,881,798**	(306,100)
Corporate income tax paid		**(617,121)**	(634,994)
Net cash flows received from/(used in) operating activities		**2,264,677**	(941,094)
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		**(138,996)**	(141,606)
Proceeds from sale of property and equipment		**30,118**	–
Net cash flows used in investing activities		**(108,878)**	(141,606)
Effect of exchange rate changes on cash and cash equivalents		**1,312,581**	(105,232)
Effect of expected credit losses on cash and cash equivalents		**(327)**	–
Net increase/(decrease) in cash and cash equivalents		**3,468,053**	(1,187,932)
Cash and cash equivalents, as at 1 January		**11,175,455**	12,363,387
Cash and cash equivalents, as at 31 December	6	**14,643,508**	11,175,455
Non-cash transactions			
Repossessed collaterals on loans to customers	8	**3,685,206**	626,295

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

Dzhanan Olekli — Chairwoman of the Management Board

Zhumakhanova T.N. — Chief Accountant

31 May 2019

(in thousands of tenge)

1. Principal activities

Associated Bank "Kazakhstan – Ziraat International Bank" Joint Stock Company (the "Bank") was registered in 1993 in accordance with the laws of the Republic of Kazakhstan. The Bank conducts its activities under the general bank license No. 163 issued by the National Bank of the Republic of Kazakhstan (the "NBRK") on 29 December 2007. The Bank's activities are regulated by the NBRK.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank is a member of the obligatory deposit insurance system. The system operates under the Law of the Republic of Kazakhstan on *"Obligatory Insurance of Second Tier Banks Deposits"* dated 7 July 2006 and is governed by the NBRK. Insurance covers the Bank's liabilities: up to 10 million tenge on qualifying deposit in national currency and up to 5 million tenge on qualifying deposit in foreign currency for each individual in the event of business failure and revocation of the NBRK banking licence. Starting from 1993 the Bank is a member of Kazakhstan Stock Exchange foreign exchange market (the "KASE").

As at 31 December 2018, the Bank's branch network comprises 5 branches located in the Republic of Kazakhstan (31 December 2017: 4 branches).

Registered address of the Bank's head office: 132 Klochkov Str., Almaty, Republic of Kazakhstan.

As at 31 December 2018 and 2017, the Bank's controlling shareholder is T.C. Ziraat Bankasi A.S (Turkey) (the "Parent" or the "Controlling shareholder").

As at 31 December 2018 and 2017, the shareholders of the Bank were as follows:

Shareholder	***2018, %***	***2017, %***
T.C. Ziraat Bankasi A.S.	**99.58**	99.58
Emlak Pazarlama Insaat Proje Yonetimi ve Ticaret A.S.	**0.25**	0.25
T. Emlak Bankasi A.S. Munzam Sosyal Guvenlik Ve Yardim Vakfi	**0.17**	0.17
Total	**100.00**	100.00

2. Basis of preparation

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, land and buildings have been measured at fair value.

These financial statements are presented in thousands of Kazakh tenge ("tenge" or "KZT"), unless otherwise is stated.

Reclassifications

Following adoption of IFRS 9 (*Note 3*), the Bank updated presentation of statement of comprehensive income to present impairment losses determined in accordance with IFRS 9 as a single line item. Accordingly, the following reclassifications of impairment charges on other financial assets have been made to 2017 statement of comprehensive income to conform to the 2018 presentation.

	As previously reported	***Reclassification***	***As adjusted***
Allowance for loan impairment	(197,591)	197,591	–
Other impairment	(70,568)	70,568	–
Credit loss expense	–	(268,159)	(268,159)

(in thousands of tenge)

3. Summary of significant accounting policies

Changes in accounting policies

The Bank applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The Bank applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. 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:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

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

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

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

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in *Note 22*. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(c) Effect of adopting IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement		Reclas-	Remeasure	IFRS 9 measurement	
	Ref	**Category**	**Amount**	**sification**	**ment ECL**	**Amount**	**Category**
Financial assets							
Cash and cash equivalents		Loans and receivables	11,175,455	–	(5)	11,175,450	Amortised cost
Receivables under reverse repurchase agreements		Loans and receivables	6,004,562	–	–	6,004,562	Amortised cost
Loans to customers – amortised cost	A	Loans and receivables	36,132,728	(310,145)	(747,625)	35,074,958	Amortised cost
Loans to customers – FVPL	A		–	310,145	–	310,145	FVPL
Total assets			**53,312,745**	**–**	**(747,630)**	**52,565,115**	
Financial liabilities							
Other liabilities			(29,586)	–	(30,375)	(59,961)	
Total liabilities			**(29,586)**	**–**	**(30,375)**	**(59,961)**	

A As of 1 January 2018, the Bank's analysis highlighted that certain loans to customers did not meet the SPPI criterion. Therefore, these loans previously measured at amortised cost are classified by Bank as financial assets at FVPL.

The effect of transition to IFRS 9 on reserves and retained earnings is as follows:

	Retained earnings
Balance as at the end of the period in accordance with IAS 39 (31 December 2017)	8,207,325
Recognition of IFRS 9 ECLs	(778,005)
Restated opening balance under IFRS 9 (1 January 2018)	**7,429,320**
Total changes in equity due to adopting IFRS 9	**(778,005)**

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(c) Effect of adopting IFRS 9 (continued)

The following table reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

	Loan impairment allowance under IAS 39 / IAS 37 at 31 December 2017	***Remeasurement***	***ECL under IFRS 9 at 1 January 2018***
Impairment allowance			
Cash and cash equivalents	–	5	5
Loans to customers	1,123,974	747,625	1,871,599
	1,123,974	**747,630**	**1,871,604**
Financial guarantees	–	30,375	30,375
	–	30,375	30,375
	1,123,974	**778,005**	**1,901,979**

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, 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, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Bank's revenue including interest income, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the majority of the Bank's income are not impacted by the adoption of this standard

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. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Bank's financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Bank's financial statements.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IAS 28 Investments in Associates and Joint Ventures Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Bank's financial statements.

Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI and non-financial assets such as buildings and land, at fair value at each balance sheet date.

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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

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

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers measured at amortised cost

Before 1 January 2018, amounts due from credit institutions and loans to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term;
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale;
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Bank only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of comprehensive income, and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Held-to-maturity investments

Before 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturity were classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this classification. Held-to-maturity investments were subsequently measured at amortised cost. Gains and losses were recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investment securities available-for-sale. Such assets were carried at amortised cost using the effective interest method. Gains and losses were recognised in profit or loss when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified.

Cash and cash equivalents

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

Receivables under repurchase and reverse repurchase agreements and securities lending

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

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Such subsidies are presented as deduction of related expenses in the financial statements.

Borrowings

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

(in thousands of tenge)

3. 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.

Offsetting of financial instruments

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.

Renegotiated loans

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

From 1 January 2018, the Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within loss from modification of financial assets measured at amortized cost in the statement of comprehensive income.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 3-month probation period. In order for the restructured loan to be reclassified out of Stage 3, impairment indicators should be eliminated and at least two subsequent payments have been made in accordance with the modified payment schedule.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Impairment of financial assets as per IAS 39

Before 1 January 2018, the Bank assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may have included indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in fair value of investment below its cost.

The Bank assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

If there was an objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using original effective interest rate, or, for financial assets available-for-sale, as the difference between cost of investment and its fair value. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. Interest income continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for financial assets available-for-sale, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognised, the previously recognised impairment loss was reversed in statement of comprehensive income, except for equity investments available-for-sale, for which increase in their fair value after impairment were recognised in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Information on impairment assessment under IFRS 9 is presented in *Note 22*.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

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

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

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 lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation

The current corporate income tax charge is 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 values for financial reporting purposes.

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

Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are recorded within administrative and other operating expenses in the statement of comprehensive income.

Property and equipment

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

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

Following initial recognition at cost, buildings and land are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation (of buildings) and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised within profit or loss. In which case the increase is recognised in the profit or loss. A revaluation deficit is recognised within profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

The Bank has also elected not to transfer the revaluation surplus to retained earnings in relation to actual use of respective asset.

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

	Years
Buildings	50
Computers and office equipment	2.5
Vehicles	4
Other	4-6.7

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

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

Intangible assets

Intangible assets comprise computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 6.7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Bank measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount 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-employment benefits.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Share capital

Share capital

Ordinary shares are shown within equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional capital.

Dividends

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

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Corporate banking and retail banking.

Contingent assets and liabilities

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent assets are not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

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:

Interest and similar income and expense

From 1 January 2018, the Bank calculates interest income on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying EIR to the amortized cost of financial assets). EIR 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 (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest 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 interest rate and the change in carrying amount is recorded as interest income or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest income on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest income" in the statement of comprehensive income.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Commission income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Bank's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

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 at the functional currency rate established and published by KASE ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains 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 official 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 official KASE exchange rate on the date of the transaction are included in net gains from dealing in foreign currencies. The KASE market exchange rates at 31 December 2018 and 2017, were KZT 384.20 and KZT 332.33 to USD 1, respectively.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

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 (e.g., personal computers) 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 interest 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)

3. Summary of significant accounting policies (continued)

Standards 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, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Bank plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Bank will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Bank has been assessing the impact of IFRS 16, but a reasonable estimate of the effect is not currently available.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Bank.

IFRIC Interpretation 23 — Uncertainty over Income Tax Treatments

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 interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to 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 is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. This interpretation does not affect financial statements of the Bank.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Bank.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Bank will apply these amendments when they become effective.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Bank.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Bank does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Annual IFRS improvements, 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Bank.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Early application is permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on the Bank's financial statements.

(in thousands of tenge)

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in *Note 23*.

Expected credit losses/losses from impairment on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

More details are provided in *Notes 8 and 22*.

5. Segment information

Operating segments are components of the Bank that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which discrete financial information is available. Management Board of the Bank is the operating decision maker of the Bank.

Description of products and services from which each reportable segment derives its revenue

The Bank is established based on one major business segment – corporate banking, representing direct debit instruments, current accounts, deposits, overdrafts, loans and other credit instruments and foreign exchange products. The Bank also conducts retail banking transactions that represent private banking services, private customer current accounts, savings, deposits, consumer loans.

(in thousands of tenge)

5. Segment information (continued)

Description of products and services from which each reportable segment derives its revenue (continued)

Segment information for the reportable segments for the year ended 31 December 2018 is set out below:

	Corporate Banking	*Retail banking*	*Total*
Assets			
Cash and cash equivalents	14,643,508	–	14,643,508
Receivables under reverse repurchase agreements	4,505,084	–	4,505,084
Loans to customers	40,420,635	3,753,012	44,173,647
Total assets of reportable segments	59,569,227	3,753,012	63,322,239
Unallocated amounts			6,575,821
Total assets			69,898,060
Liabilities			
Amounts due to other banks	9,342,289	–	9,342,289
Amounts due to customers	27,140,527	5,813,459	32,953,986
Total liabilities of reportable segments	36,482,816	5,813,459	42,296,275
Unallocated amounts			316,214
Total liabilities			42,612,489

	Corporate banking	*Retail banking*	*Total*
Interest income calculated using the effective interest rate	3,847,429	522,588	4,370,017
Other interest income	227,350	–	227,350
Interest expense	(1,052,301)	(41,975)	(1,094,276)
Net interest income	3,022,478	480,613	3,503,091
Credit loss expense	(288,800)	213,604	(75,196)
Net interest income after allowance for loan impairment	2,733,678	694,217	3,427,895
Fee and commission income	509,965	162,091	672,056
Fee and commission expense	(66,158)	–	(66,158)
Net gains from transactions with foreign currencies:			
- dealing	776,941	–	776,941
- translation differences	19,133	–	19,133
Net gains from derecognition of financial assets measured at amortised cost	–	88,809	88,809
Losses from financial assets at fair value through profit or loss	(30,231)	–	(30,231)
Other income	36,124	–	36,124
Administrative and other operating expenses	(1,810,609)	–	(1,810,609)
Segment results	2,168,843	945,117	3,113,960
Corporate income tax expense			(551,400)
Profit for the year			2,562,560

5. Segment information (continued)

Description of products and services from which each reportable segment derives its revenue (continued)

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

	Corporate banking	*Retail banking*	*Total*
Assets			
Cash and cash equivalents	11,175,455	–	11,175,455
Receivables under reverse repurchase agreements	6,004,562	–	6,004,562
Loans to customers	32,290,832	3,841,896	36,132,728
Total assets of reportable segments	49,470,849	3,841,896	53,312,745
Unallocated amounts			3,762,268
Total assets			57,075,013
Liabilities			
Amounts due to other banks	9,411,880	–	9,411,880
Amounts due to customers	16,830,633	4,970,604	21,801,237
Total liabilities of reportable segments	26,242,513	4,970,604	31,213,117
Unallocated amounts			360,880
Total liabilities			31,573,997

	Corporate banking	*Retail banking*	*Total*
Interest income	3,692,406	610,944	4,303,350
Interest expense	(926,040)	(59,685)	(985,725)
Net interest income	2,766,366	551,259	3,317,625
Allowance for loan impairment	(300,607)	32,448	(268,159)
Net interest income after allowance for loan impairment	2,465,759	583,707	3,049,466
Fee and commission income	518,825	183,509	702,334
Fee and commission expense	(47,079)	–	(47,079)
Net gains from transactions with foreign currencies:			
- dealing	798,386	–	798,386
- translation differences	3,223	–	3,223
Losses from initial recognition of financial assets measured at amortised cost	(5,962)	(46,006)	(51,968)
Other income	3,968	–	3,968
Administrative and other operating expenses	(1,764,079)	–	(1,764,079)
Segment results	1,973,041	721,210	2,694,251
Corporate income tax expense			(602,003)
Profit for the year			2,092,248

Income of the Bank, other than interest income from deposits with other banks, is generated in the Republic of Kazakhstan. Geographic areas of the Bank's activities are presented in *Note 22* to these financial statements on the basis of the actual location of the counterparty, i.e. on the basis of economic risk rather than legal risk of the counterparty. The Bank has no customers, which would bring more than ten percent of the total income earned in 2018 and 2017.

(in thousands of tenge)

6. Cash and cash equivalents

Cash comprises:

	2018	*2017*
Cash on hand	**1,304,203**	1,473,314
Cash balance on current accounts in the NBRK	**6,249,686**	3,202,624
Current accounts with other banks	**6,321,452**	6,499,517
Time deposits with credit institutions up to 90 days	**768,494**	–
	14,643,835	11,175,455
Less allowance for impairment	**(327)**	–
Cash and cash equivalents	**14,643,508**	11,175,455

All balances of cash equivalents are allocated to Stage 1. An analysis of changes in the ECL allowances during the year is, as follows:

Allowance for ECL as at 1 January 2018 *(Note 3)*	(5)
Changes in ECL	**(213)**
Foreign exchange differences	**(109)**
Allowance for ECL as at 31 December 2018	**(327)**

Under Kazakh legislation, the Bank is required to maintain reserve assets, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the 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 and/or physical cash in national currency during the period of reserve creation. As at 31 December 2018, obligatory reserves amounted to KZT 1,376,832 thousand (as at 31 December 2017: KZT 1,145,148 thousand).

7. Receivables under reverse repurchase agreements

As at 31 December 2018, the Bank entered into reverse repurchase agreements with KASE with the carrying amount of KZT 4,505,084 thousand (as at 31 December 2017: KZT 6,004,562 thousand). The subject of these agreements are bonds of the Ministry of Finance of the Republic of Kazakhstan with the fair value of KZT 4,726,953 thousand as at 31 December 2018 (as at 31 December 2017: KZT 6,309,312 thousand).

8. Loans to customers

Loans to customers comprise:

	2018	*2017*
Loans to small and medium businesses	**37,809,118**	30,615,062
Consumer loans	**2,065,510**	1,879,425
Mortgage loans	**1,914,233**	2,408,087
Loans to major customers	**1,395,253**	2,354,128
Gross loans to customers at amortised cost	**43,184,114**	37,256,702
Less allowance for loan impairment	**(2,200,518)**	(1,123,974)
Loans to customers at amortised cost	**40,983,596**	36,132,728
Loans to small and medium businesses	**3,190,051**	–
Loans to customers at FVPL	**3,190,051**	–
Loans to customers	**44,173,647**	36,132,728

As at 31 December 2018 and 2017, the Bank classified loans to customers with an average annual number of employees of no more than two hundred and fifty people and (or) an average annual revenue of no more than 3,000,000 monthly calculation index as "loans to small and medium businesses". As at 31 December 2018, the monthly calculation index was equal to KZT 2,405 (31 December 2017: KZT 2,269).

(in thousands of tenge)

8. Loans to customers (continued)

Loans to customers at FVPL

Loans to customers at FVPL are mostly represented by project finance loans that are economically or contractually non-recourse, and loans with embedded derivatives at terms that are inconsistent with basic lending arrangement. Information on fair value measurement of loans to customers at FVPL is presented in *Note 23*.

Allowance for impairment of loans to customers measured at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to lending to small and medium businesses during the year ended 31 December 2018 is as follows:

Loans to small and medium businesses	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2018	18,223,103	11,194,268	887,546	30,304,917
New assets originated or purchased	**21,341,529**	**–**	**–**	**21,341,529**
Transfers to other categories	**(1,656,940)**	**–**	**–**	**(1,656,940)**
Assets repaid	**(12,174,369)**	**(293,049)**	**(2,310,047)**	**(14,777,465)**
Transfers to Stage 1	**12,256,782**	**(12,171,093)**	**(85,689)**	**–**
Transfers to Stage 2	**(17,404,940)**	**20,590,233**	**(3,185,293)**	**–**
Transfers to Stage 3	**–**	**(15,489,002)**	**15,489,002**	**–**
Foreign exchange differences	**864,940**	**629,002**	**784,110**	**2,278,052**
Recoveries	**–**	**–**	**79,408**	**79,408**
Changes in accrued interest	**1,494**	**(599,306)**	**837,429**	**239,617**
As at 31 December 2018	**21,451,599**	**3,861,053**	**12,496,466**	**37,809,118**

Loans to small and medium businesses	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018 (*Note 3*)	(49,006)	(227,681)	(489,085)	(765,772)
New assets originated or purchased	**(123,308)**	**–**	**–**	**(123,308)**
Transfers to other categories	**1,727**	**–**	**–**	**1,727**
Assets repaid	**62,844**	**162,094**	**529,941**	**754,879**
Transfers to Stage 1	**(221,728)**	**162,864**	**58,864**	**–**
Transfers to Stage 2	**215,487**	**(974,771)**	**759,284**	**–**
Transfers to Stage 3	**–**	**1,391,183**	**(1,391,183)**	**–**
Impact on ECL due to transfers between stages or changes to inputs used	**(57,190)**	**(615,911)**	**(847,625)**	**(1,520,726)**
Recoveries	**–**	**–**	**(79,408)**	**(79,408)**
Unwinding of discount (recognised in interest income)	**–**	**–**	**(97,337)**	**(97,337)**
Foreign exchange differences	**(5,232)**	**(14,990)**	**(109,666)**	**(129,888)**
As at 31 December 2018	**(176,406)**	**(117,212)**	**(1,666,215)**	**(1,959,833)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer lending during the year ended 31 December 2018 is as follows:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2018	1,452,179	278,653	148,593	1,879,425
New assets originated or purchased	**1,565,169**	**–**	**–**	**1,565,169**
Assets repaid	**(1,190,524)**	**(85,116)**	**(169,758)**	**(1,445,398)**
Transfers to Stage 1	**363,015**	**(358,969)**	**(4,046)**	**–**
Transfers to Stage 2	**(668,602)**	**816,767**	**(148,165)**	**–**
Transfers to Stage 3	**–**	**(387,098)**	**387,098**	**–**
Amounts written off	**–**	**–**	**(9,990)**	**(9,990)**
Foreign exchange differences	**39,922**	**13,409**	**2,760**	**56,091**
Changes in accrued interest	**8,462**	**(353)**	**12,104**	**20,213**
As at 31 December 2018	**1,569,621**	**277,293**	**218,596**	**2,065,510**

(in thousands of tenge)

8. Loans to customers (continued)

Allowance for impairment of loans to customers measured at amortised cost (continued)

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018 (*Note 3*)	(7,395)	(7,805)	(128,674)	(143,874)
New assets originated or purchased	**(12,814)**	**–**	**–**	**(12,814)**
Assets repaid	**9,930**	**12,717**	**60,830**	**83,477**
Transfers to Stage 1	**(8,571)**	**6,849**	**1,722**	**–**
Transfers to Stage 2	**5,040**	**(39,133)**	**34,093**	**–**
Transfers to Stage 3	**–**	**20,949**	**(20,949)**	**–**
Impact on ECL due to transfers between stages or changes to inputs used	**(1,460)**	**(1,909)**	**(11,612)**	**(14,981)**
Unwinding of discount (recognised in interest income)	**–**	**–**	**(12,054)**	**(12,054)**
Amounts written off	**–**	**–**	**9,990**	**9,990**
Foreign exchange differences	**(201)**	**(215)**	**(2,094)**	**(2,510)**
As at 31 December 2018	**(15,471)**	**(8,547)**	**(68,748)**	**(92,766)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage lending during the year ended 31 December 2018 is as follows:

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2018	1,759,849	151,252	496,986	2,408,087
New assets originated or purchased	**340,976**	**–**	**–**	**340,976**
Assets repaid	**(499,383)**	**(7,568)**	**(284,204)**	**(791,155)**
Transfers to Stage 1	**568,398**	**(528,482)**	**(39,916)**	**–**
Transfers to Stage 2	**(768,735)**	**887,568**	**(118,833)**	**–**
Transfers to Stage 3	**–**	**(180,646)**	**180,646**	**–**
Amounts written off	**–**	**–**	**(97,637)**	**(97,637)**
Foreign exchange differences	**10,570**	**5,647**	**21,405**	**37,622**
Changes in accrued interest	**(4,156)**	**2,313**	**18,183**	**16,340**
As at 31 December 2018	**1,407,519**	**330,084**	**176,630**	**1,914,233**

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018 (*Note 3*)	(15,486)	(5,202)	(330,564)	(351,252)
New assets originated or purchased	**(4,758)**	**–**	**–**	**(4,758)**
Assets repaid	**15,023**	**7,128**	**134,886**	**157,037**
Transfers to Stage 1	**(23,348)**	**7,095**	**16,253**	**–**
Transfers to Stage 2	**3,131**	**(40,482)**	**37,351**	**–**
Transfers to Stage 3	**–**	**4,953**	**(4,953)**	**–**
Impact on ECL due to transfers between stages or changes to inputs used	**4,838**	**24,848**	**(24,043)**	**5,643**
Unwinding of discount (recognised in interest income)	**–**	**–**	**(22,689)**	**(22,689)**
Amounts written off	**–**	**–**	**97,637**	**97,637**
Foreign exchange differences	**(40)**	**(1)**	**(15,542)**	**(15,583)**
As at 31 December 2018	**(20,640)**	**(1,661)**	**(111,664)**	**(133,965)**

(in thousands of tenge)

8. Loans to customers (continued)

Allowance for impairment of loans to customers measured at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to major customers during the year ended 31 December 2018 is as follows:

Loans to major customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2018	250,245	–	2,103,883	2,354,128
New assets originated or purchased	**1,006,703**	**–**	**–**	**1,006,703**
Transfer from other categories	**1,656,940**	**–**	**–**	**1,656,940**
Assets repaid	**(1,389,778)**	**(245,851)**	**(2,025,842)**	**(3,661,471)**
Transfers to Stage 1	**46,408**	**(22,585)**	**(23,823)**	**–**
Transfers to Stage 2	**(290,146)**	**290,146**	**–**	**–**
Foreign exchange differences	**76,364**	**–**	**38,716**	**115,080**
Changes in accrued interest	**16,639**	**168**	**(92,934)**	**(76,127)**
As at 31 December 2018	**1,373,375**	**21,878**	**–**	**1,395,253**

Loans to major customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018 (*Note 3*)	(333)	–	(610,368)	(610,701)
New assets originated or purchased	**(4,766)**	**–**	**–**	**(4,766)**
Transfer from other categories	**(1,727)**	**–**	**–**	**(1,727)**
Assets repaid	**10,347**	**8,140**	**630,420**	**648,907**
Transfers to Stage 1	**(474)**	**385**	**89**	**–**
Transfers to Stage 2	**590**	**(590)**	**–**	**–**
Impact on ECL due to transfers between stages or changes to inputs used	**(16,566)**	**(8,345)**	**(10,746)**	**(35,657)**
Unwinding of discount (recognised in interest income)	**–**	**–**	**(7,086)**	**(7,086)**
Foreign exchange differences	**(615)**	**–**	**(2,309)**	**(2,924)**
As at 31 December 2018	**(13,544)**	**(410)**	**–**	**(13,954)**

A reconciliation of the allowance for impairment of loans to customers by class during the year ended 31 December 2017 is as follows:

	Loans to major customers	*Loans to small and medium businesses*	*Consumer loans*	*Mortgage loans*	*Total*
As at 1 January 2017	(28,636)	(857,889)	(285,693)	(557,938)	(1,730,156)
Charge/(reversal) for the year	(192,551)	(57,768)	(34,648)	87,376	(197,591)
Amounts written off	–	462,553	–	344,817	807,370
Foreign exchange difference	–	(4,067)	3,466	(2,996)	(3,597)
As at 31 December 2017	(221,187)	(457,171)	(316,875)	(128,741)	(1,123,974)

Modified and restructured loans

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

(in thousands of tenge)

8. Loans to customers (continued)

Modified and restructured loans (continued)

The table below includes Stage 2 and 3 assets that were modified during the period, and as a result accounted as restructured loans, with the related modification loss suffered by the Bank.

	2018
Gross carrying amount of loans modified during the period	**2,427,252**
Amortised cost before modification	**1,957,591**
Net modification gain	**9,187**

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending – charges over real estate properties, inventory and trade receivables;
- For retail lending – charges over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for impairment.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2018 would have been higher by:

	2018
Loans to small and medium businesses	**9,128,388**
Consumer loans	**84,644**
Mortgage loans	**30,719**
Loans to major customers	**–**
	9,243,751

During the year, the Bank took possession of different assets in exchange of indebtness of respective borrowers. The Bank is in the process of selling of those assets. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. Generally, the Bank does not occupy repossessed properties for business use. The carrying value of the assets repossessed during the period and held as at the reporting date is as follows:

	2018	*2017*
Land	**3,183,208**	677,137
Buildings	**1,602,529**	1,381,442
Total repossessed collateral	**4,785,737**	2,058,579

In 2018, the Bank obtained real estate with the carrying value of KZT 3,685,206 thousand (2017: KZT 626,295 thousand) by taking possession of collateral for loans to customers.

(in thousands of tenge)

8. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2018 the Bank had ten major borrowers, which accounted for 66% (31 December 2017: 62%) of the total amount of loan to customers before allowance for impairment. The total aggregate amount of these loans was KZT 30,467,528 thousand (at 31 December 2016: KZT 23,194,663 thousand).

Loans are made principally within the Republic of Kazakhstan in the following industry sectors:

	2018	***2017***
Trade	**13,552,734**	14,611,963
Leases	**8,532,624**	4,812,122
Hotel and hospitality	**7,406,690**	8,507,976
Manufacturing	**6,942,199**	1,410,968
Construction	**4,174,663**	1,698,604
Individuals	**3,979,743**	4,287,512
Transportation	**78,962**	67,938
Other	**1,706,550**	1,859,619
Total loans to customers before allowance for impairment	**46,374,165**	37,256,702

9. Property and equipment

The movements in property and equipment were as follows:

	Land	***Buildings***	***Office and computer equipment***	***Vehicles***	***Other***	***Total***
Cost						
As at 31 December 2016	641,579	486,842	33,913	34,223	206,186	1,402,743
Additions	–	51,433	14,936	–	49,839	116,208
Disposals	(167,098)	–	(16,086)	(2,499)	(43,792)	(229,475)
Effect of revaluation	84,235	(9,406)	–	–	–	74,829
As at 31 December 2017	558,716	528,869	32,763	31,724	212,233	1,364,305
Additions	**–**	**73,524**	**7,700**	**1,525**	**28,370**	**111,119**
Disposals	**–**	**–**	**(22,236)**	**(31,724)**	**(27,118)**	**(81,078)**
As at 31 December 2018	**558,716**	**602,393**	**18,227**	**1,525**	**213,485**	**1,394,346**
Accumulated depreciation						
As at 31 December 2016	–	(24,369)	(14,901)	(18,142)	(75,783)	(133,195)
Charge for the year	–	(18,628)	(12,106)	(8,087)	(42,520)	(81,341)
Disposals	–	–	11,532	365	27,105	39,002
Effect of revaluation	–	22,566	–	–	–	22,566
As at 31 December 2017	**–**	(20,431)	(15,475)	(25,864)	(91,198)	(152,968)
Charge for the year	**–**	**(22,195)**	**(13,357)**	**(5,860)**	**(41,889)**	**(83,301)**
Disposals	**–**	**–**	**22,236**	**31,724**	**27,118**	**81,078**
As at 31 December 2018	**–**	**(42,626)**	**(6,596)**	**–**	**(105,969)**	**(155,191)**
Net book value						
As at 31 December 2016	641,579	462,473	19,012	16,081	130,403	1,269,548
As at 31 December 2017	558,716	508,438	17,288	5,860	121,035	1,211,337
As at 31 December 2018	**558,716**	**559,767**	**11,631**	**1,525**	**107,516**	**1,239,155**

(in thousands of tenge)

9. Property and equipment (continued)

Fair value is estimated based on the market-based evidence. See *Note 23* for more details with respect to fair value of buildings.

If the land and buildings were accounted for at historical cost less impairment and accumulated depreciation for buildings, their carrying amount as at 31 December 2018 would be KZT 45,080 thousand and KZT 171,398 thousand, respectively (as at 31 December 2017: KZT 45,080 thousand and KZT 176,296 thousand, respectively).

As at 31 December 2018, the cost of fully amortised property and equipment, including office and computer equipment, vehicles and other fixed assets that are in use by the Bank amounted to KZT 94,775 thousand (at 31 December 2017: KZT 73,691 thousand).

10. Intangible assets

The movements in intangible assets were as follows:

	Licenses and software
Cost	
As at 31 December 2016	211,286
Additions	40,417
Disposals	(8,794)
As at 31 December 2017	242,909
Additions	**29,401**
Disposal	**(15,067)**
As at 31 December 2018	**257,243**
Accumulated amortisation	
As at 31 December 2016	(94,801)
Charge for the year	(30,482)
Disposals	8,581
As at 31 December 2017	(116,702)
Charge for the year	**(36,018)**
Disposals	**15,067**
As at 31 December 2018	**(137,653)**
Net book value	
As at 31 December 2016	116,485
As at 31 December 2017	126,207
As at 31 December 2018	**119,590**

11. Other assets

As at 31 December 2018 and 2017, other assets comprise:

	2018	*2017*
Other debtors on bank activities	**97,408**	28,548
Fees and commissions receivable	**14,034**	15,705
KASE shares	**7,001**	7,001
Spot operations	**3,228**	–
Other financial assets	**121,671**	51,254
Less: allowance for impairment	**(676)**	(650)
Total other financial assets	**120,995**	50,604
Repossessed collateral (*Note 8*)	**4,785,737**	2,058,579
Asset held for sale	**167,098**	167,098
Prepaid taxes other than corporate income tax	**101,572**	95,882
Other	**40,507**	40,406
Total other non-financial assets	**5,094,914**	2,361,965
Other assets	**5,215,909**	2,412,569

As at 31 December 2018 and 2017, repossessed collaterals comprise properties received by the Bank as settlement of loan obligations by borrowers. Although the Bank is currently actively trying to sell these assets, most of them were not sold within a short period of time. The management still intends to sell these assets in the foreseeable future.

In 2017, the Bank entered into an agreement to transfer a land lot in exchange for office premises under construction. The land transfer transaction is to be completed by the end of 2019. As at 31 December 2018, this land lot with a carrying value of KZT 167,098 thousand was classified as an asset held for sale and transferred from property and equipment to other assets.

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2018 is as follows:

As at 1 January 2016	(3,167)
Charge for the year	(70,568)
Amounts written off	73,085
As at 1 January 2017	(650)
Charge for the year	**(15,521)**
Amounts written off	**15,495**
As at 1 January 2018	**(676)**

12. Amounts due to other banks

As at 31 December 2018, amounts due to other banks mainly included short-term deposits of the Parent totalling KZT 9,342,289 thousand (as at 31 December 2017: KZT 9,411,385 thousand and deposits of other banks KZT 495 thousand). Deposits of the Parent are placed in US dollars for a period of 6 months (as at 31 December 2017: 6 months) and have interest rates of 2.50%-6.00% per annum (as at 31 December 2017: 4.20%-4.75% per annum).

13. Amounts due to customers

As at 31 December 2018 and 2017, amounts due to customers comprise:

	2018	*2017*
Time deposits	**20,813,560**	11,088,837
Current accounts	**12,140,426**	10,712,400
Amounts due to customers	**32,953,986**	21,801,237
Held as security against guarantees (*Note 21*)	**350,363**	210,027

(in thousands of tenge)

13. Amounts due to customers (continued)

As at 31 December 2018 the Bank had ten major clients, which accounted for 57% of the gross balance of current accounts and deposits of clients (at 31 December 2017: 52%). The aggregate balance of amounts due to such customers as at 31 December 2018 was KZT 18,785,455 thousand (31 December 2017: KZT 11,328,720 thousand).

	2018	*2017*
Time deposits		
Legal entities	**17,978,712**	8,772,556
Individuals	**2,816,028**	2,316,281
State and public organizations	**18,820**	–
Current accounts		
Legal entities	**8,997,946**	7,799,574
Individuals	**2,997,431**	2,654,323
State and public organisations	**145,049**	258,503
Amounts due to customers	**32,953,986**	21,801,237

In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to its maturity, interest is not paid or paid at considerably at lower interest rate depending on the terms specified in the agreement.

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

	2018	*2017*
Manufacturing	**8,230,795**	1,374,720
Trade and services	**7,545,710**	6,054,837
Individuals	**5,813,459**	4,970,604
Construction	**3,483,953**	4,651,569
Mining of metal ores	**2,951,684**	353,028
Transport and communications	**2,409,274**	1,951,934
Professional services	**1,229,173**	714,299
Sports and tourism	**178,355**	32,998
State and public organisations	**163,869**	258,503
Other	**947,714**	1,438,745
Amounts due to customers	**32,953,986**	21,801,237

14. Taxation

The corporate income tax expense comprises:

	2018	*2017*
Current corporate income tax charge	**628,109**	590,933
Deferred corporate income tax (benefit)/charge – origination and reversal of temporary differences	**(76,709)**	30,549
Less: deferred tax recognised in other comprehensive income	**–**	(19,479)
Corporate income tax expense	**551,400**	602,003

The Republic of Kazakhstan was only one tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20.0% in 2018 and 2017.

(in thousands of tenge)

14. Taxation (continued)

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax multiplied by the statutory tax rate for 2018 and 2017 is as follows:

	2018	*2017*
Profit before corporate income tax expense	**3,113,960**	2,694,251
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**622,792**	538,850
Non-taxable income from reversal of impairment	**(589)**	–
Non-deductible charges for impairment	**–**	14,118
Non-deductible administrative and other operating expenses	**37,687**	38,362
Allowance for ECL recognized in retained earnings	**(149,878)**	–
Other permanent differences	**41,388**	10,673
Corporate income tax expense	**551,400**	602,003

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

		Origination and decrease of temporary differences			*Origination and decrease of temporary differences*	
	2016	*in profit or loss*	*in other comprehensive income*	*2017*	*in profit or loss*	*2018*
Tax effect of deductible temporary differences						
Other liabilities	16,507	(1,835)	–	14,672	**(7,845)**	**6,827**
Deferred corporate income tax assets	16,507	(1,835)	–	14,672	**(7,845)**	**6,827**
Tax effects of taxable temporary differences						
Loans to customers	(115,647)	–	–	(115,647)	**115,647**	**–**
Property and equipment and intangible assets	(130,033)	(9,235)	(19,479)	(158,747)	**(31,093)**	**(189,840)**
Deferred corporate income tax liabilities	(245,680)	(9,235)	(19,479)	(274,394)	**84,554**	**(189,840)**
Net deferred corporate income tax liability	(229,173)	(11,070)	(19,479)	(259,722)	**76,709**	**(183,013)**

15. Other liabilities

As at 31 December 2018 and 2017, other liabilities comprise:

	2018	*2017*
Obligations on guarantees issued	**21,888**	19,892
Amounts payable on non-operating activities	**18,170**	9,694
ECL on financial guarantees *(Note 21)*	**28,909**	–
Other financial liabilities	**68,967**	29,586
Unused vacations reserve	**34,136**	38,591
Taxes other than corporate income tax payable	**27,196**	30,341
Other liabilities	**2,902**	2,640
Other non-financial liabilities	**64,234**	71,572
Other liabilities	**133,201**	101,158

(in thousands of tenge)

16. Equity

As at 31 December 2018 and 2017, the total amount of authorised, issued and fully paid common shares of the Bank comprised 15,000,000 pieces. The placement value was KZT 1,000 per share. Shareholders have the right to receive dividends and allocate capital in tenge.

In 2018 and 2017, the Bank did not declare or pay dividends based on the performance results for 2017 and 2016, respectively.

Nature and purpose of other reserves

Reserve funds

As at 31 December 2018, the Bank has a general bank reserve for unforeseen expenses and future losses in the amount of KZT 1,177,175 thousand (as at 31 December 2017: KZT 1,177,175 thousand). The funds from the general banking reserve could be allocated only upon the Bank's shareholders' official authorisation.

In accordance with the Resolution of NBRK No. 137 dated 27 May 2013, since 30 September 2013 the Bank calculated the dynamic reserve. This Resolution is no longer in force in accordance with the Decree of the NBRK No. 25 dated 26 February 2018. As at 31 December 2018 the amount of dynamic reserve is nil (as at 31 December 2017: KZT 573,367 thousand).

The general bank reserve and dynamic reserve are included into the item "Reserve capital" in the statement of financial position and the statement of changes in equity.

Property and equipment revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of land and buildings owned by the Bank and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Based on the revaluation of land and buildings performed in 2017, the Bank recognized an increase in value from revaluation within other comprehensive income in the amount of KZT 97,395 thousand, the tax effect was amounted to KZT 19,479 thousand.

In 2017, the Bank entered into an agreement on transfer of a land plot in exchange for office premises, which are under construction. As at 31 December 2017, the Bank classified this land as an asset held for sale and transferred the accumulative positive revaluation of this asset in the amount of KZT 131,722 thousand from the revaluation reserve for property and equipment to retained earnings.

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to common shareholders by the weighted average number of participating shares outstanding during the period. The Bank does not have any share options or convertible debt or equity instruments.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2018	***2017***
Net profit for the year attributable to the shareholder of the Bank	**2,562,560**	2,092,248
Weighted average number of common shares for basic and diluted earnings per share computation	**15,000,000**	15,000,000
Basic and diluted earnings per share (in tenge)	**170.84**	139.48

As at 31 December 2018 and 2017, the Bank did not have any financial instruments diluting earnings per share.

17. Interest income and interest expense

Net interest income comprises the following:

	2018	*2017*
Loans to customers measured at amortized cost	**4,001,194**	3,555,733
Receivables under reverse repurchase agreements	**355,891**	739,504
Amounts due from other banks	**11,842**	6,988
Other	**1,090**	1,125
Interest income calculated using the effective interest rate	**4,370,017**	4,303,350
Loans to customers measured at FVPL	**227,350**	–
Other interest income	**227,350**	–
Interest income	**4,597,367**	4,303,350
Amounts due to other banks	**(584,071)**	(544,297)
Amounts due to customers	**(510,205)**	(441,428)
Interest expense	**(1,094,276)**	(985,725)
Net interest income	**3,503,091**	3,317,625

18. Credit loss expense

The table below shows the ECL charges on financial instruments recorded in the statement of comprehensive income for the year ended 31 December 2018:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	**(213)**	**–**	**–**	**(213)**
Loans to customers measured at amortized cost	8	**(117,880)**	**(411,238)**	**462,051**	**(67,067)**
Other financial assets	11	**(15,521)**	**–**	**–**	**(15,521)**
Financial guarantees	21	**7,605**	**–**	**–**	**7,605**
Total credit loss expense		**(126,009)**	**(411,238)**	**462,051**	**(75,196)**

The table below shows the impairment allowance charges on financial assets recorded in the statement of comprehensive income for the year ended 31 December 2017:

	2017
Loans to customers	(197,591)
Other financial assets	(70,568)
Total impairment allowances	(268,159)

19. Net commission income

Net fee and commission income comprises:

	2018	*2017*
Settlement operations	**318,632**	333,618
Guarantees and letters of credit	**168,033**	150,805
Cash transactions	**145,458**	175,926
Maintenance of bank accounts	**26,482**	25,819
Safe transactions	**4,786**	4,836
Other	**8,665**	11,330
Fee and commission income	**672,056**	702,334
Settlement operations	**(60,012)**	(38,313)
Other	**(6,146)**	(8,766)
Fee and commission expense	**(66,158)**	(47,079)
Net fee and commission income	**605,898**	655,255

(in thousands of tenge)

20. Administrative and other operating expenses

Administrative and other operating expenses comprise the following:

	2018	*2017*
Salaries and bonuses	**812,423**	820,725
Taxes other than income tax	**180,622**	184,906
Leases	**112,937**	87,669
Professional services	**84,399**	55,593
Depreciation of property and equipment *(Note 9)*	**83,301**	81,341
Technical support and software	**81,444**	70,146
Social security contributions	**77,572**	82,238
Security	**67,387**	71,776
Communication and information services	**50,642**	48,468
Amortisation of intangible assets *(Note 10)*	**36,018**	30,482
Travel expenses	**21,561**	27,175
Deposit insurance	**15,777**	17,698
Membership fees	**15,401**	16,655
Maintenance of buildings	**12,601**	8,493
Office supplies	**10,731**	9,260
Encashment	**8,440**	9,180
Insurance	**8,088**	9,481
Transportation	**6,769**	6,561
Repair and maintenance	**4,353**	796
Advertising and marketing	**2,136**	3,837
Fines and penalties	**1,645**	3,888
Sponsorships	**–**	1,626
Other	**116,362**	116,085
Administrative and other operating expenses	**1,810,609**	1,764,079

21. Commitments and contingencies

Political and economic environment

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 of the Republic of Kazakhstan.

The volatility of the exchange rate of tenge to major foreign currencies continue to have a negative impact on the Kazakhstan economy. Interest rates of raised funds in tenge remain high. Combination of these factors resulted in a limited access to capital, high cost of capital, high inflation rate and uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal actions and claims

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

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

Tax contingencies

The various legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of local tax inspectors and officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and profit related to reported and discovered violations of Kazakh laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

(in thousands of tenge)

21. Commitments and contingencies (continued)

Tax contingencies (continued)

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

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

At 31 December the Bank's commitments and contingencies comprised the following:

	2018	*2017*
Credit related commitments		
Undrawn loan commitments	**26,856,016**	22,287,785
Financial guarantees	**9,847,577**	9,694,112
	36,703,593	31,981,897
Operating lease commitments		
Not later than 1 year	**137,877**	98,546
Later than 1 year but not later than 5 years	**179,321**	67,198
Later than 5 years	**57,850**	–
	375,048	165,744
Commitments and contingencies	**37,078,641**	32,147,641
ECL allowance for credit related commitments *(Note 15)*	**(28,909)**	–
Amounts due to customers held as security against guarantees *(Note 13)*	**(350,363)**	(210,027)

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. The undrawn loan commitments stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise. Therefore, allowance for ECL was not recognized on the undrawn loan commitments for the year ended 31 December 2018.

Below is an analysis of changes in allowances for ECL for the year ended 31 December 2018:

Financial guarantees	*Stage 1*
Allowance for ECL as at 1 January 2018 *(Note 3)*	(30,375)
Change in ECL during the year	**7,605**
Foreign exchange differences	**(6,139)**
As at 31 December 2018	**(28,909)**

22. Risk management

Introduction

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

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

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

(in thousands of tenge)

22. Risk management (continued)

Introduction (continued)

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

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

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

Bank Treasury

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

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit group 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 Audit Committee.

Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

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 Board of Directors, Management Board, the Assets and Liability Management Committee, the Credit Committee and the head of each business division. The report includes aggregate credit exposure, forecast credit indicators, hold limit exceptions, liquidity ratios, interest rate risk ratios and risk profile changes.

(in thousands of tenge)

22. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

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

A regular meeting is held with the Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

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

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 and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

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

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

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 undertake corrective action.

Credit-related commitments risks

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

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

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in *Note 8* and *Note 22*.

(in thousands of tenge)

22. Risk management (continued)

Credit risk (continued)

Impairment assessment

From 1 January 2018, the Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of default (PD)	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
Exposure at default (EAD)	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
The Loss Given Default (LGD)	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12m ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank recognises an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

(in thousands of tenge)

22. Risk management (continued)

Credit risk (continued)

Definition of default and cure (continued)

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Renegotiation of the loan due to deterioration of financial position of the borrower;
- A material decrease in the underlying collateral value more than 50% during 6 month period;
- The borrower is deceased.
- Loss or unsuitability of the underlying collateral during 6 month period.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. In order for the restructured loan to be reclassified out of Stage 3, impairment indicators should be eliminated and at least three subsequent payments have been made in accordance with the modified payment schedule.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. To assess such relationships the Bank analyzes publicly available information, such as financial statements, and data from other external sources, such as external ratings.

Commercial and small business lending

In case of commercial lending, a special department of credit risks performs an assessment of borrowers. The credit risk assessment is based on a calculation model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles;
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates;
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some less complex loans to small businesses are rated by the Bank using models for retail products.

Consumer and mortgage loans

Consumer lending includes secured and unsecured loans to individuals. These products along with retail mortgages are rated using various criteria primarily driven by days past due. Other basic inputs used in the models are as follows: write-off of amounts due to other banks and state organisations, decrease in value of market value of collateral as a result of revaluation, default on other financial assets from the same borrower and the ratio of the loan amount to the value of the collateral.

22. Risk management (continued)

Credit risk (continued)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default

In case of commercial lending, LGD values are assessed at least quarterly and reviewed and approved by the Bank's Budgeting, Performance Analysis and Risk Management Department.

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics, as well as borrower characteristics.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk if contractual payments are more than 30 days past due since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, for example, transfer of a client/loan to the watch list, or restructuring due to credit event.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets;
- Financial assets with gross amount exceeding 0.2% of total equity.

Asset classes where the Bank calculates ECL on a collective basis include:

- Stage 1 and 2 retail mortgages and consumer lending and Stage 1 and 2 commercial lending portfolio;
- Financial assets with gross amount exceeding 0.2% of total equity.

Forward-looking information and multiple economic scenarios

In it's ECLs calculation models the Bank uses as economic inputs:

- Oil prices;
- Property rental price.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

22. Risk management (continued)

Credit risk (continued)

Forward-looking information and multiple economic scenarios (continued)

The Bank obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2018.

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2019*	*2020*	*2021*	*Subsequent years*
Oil prices, in US dollars per barrel						
	Upside	10.00%	81.68	83.35	85.98	89.21
	Base case	80.00%	74.25	75.77	78.16	81.10
	Downside	10.00%	66.83	68.19	70.34	72.99
Property rental price in tenge per 1 sq. m.						
	Upside	10.00%	854.70	878.05	901.56	933.91
	Base case	80.00%	777.00	798.23	819.60	849.01
	Downside	10.00%	699.30	718.41	737.64	764.11

Below is the geographical concentration of the Bank's financial assets and liabilities as at 31 December 2018:

	Kazakhstan	*OECD countries*	*Non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	**9,714,510**	**4,786,330**	**142,668**	**14,643,508**
Receivables under reverse repurchase agreements	**4,505,084**	**–**	**–**	**4,505,084**
Loans to customers	**40,275,002**	**1,212,991**	**2,685,654**	**44,173,647**
Other financial assets	**120,995**	**–**	**–**	**120,995**
Total financial assets	**54,615,591**	**5,999,321**	**2,828,322**	**63,443,234**
Liabilities				
Amounts due to other banks	**–**	**9,342,289**	**–**	**9,342,289**
Amounts due to customers	**29,360,988**	**3,467,176**	**125,822**	**32,953,986**
Other financial liabilities	**68,967**	**–**	**–**	**68,967**
Total financial liabilities	**29,429,955**	**12,809,465**	**125,822**	**42,365,242**
Net balance sheet position	**25,185,636**	**(6,810,144)**	**2,702,500**	**21,077,992**

Below is the geographical concentration of the Bank's financial assets and liabilities as at 31 December 2017:

	Kazakhstan	*OECD countries*	*Non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	5,012,192	6,078,996	84,267	11,175,455
Receivables under reverse repurchase agreements	6,004,562	–	–	6,004,562
Loans to customers	36,090,519	42,209	–	36,132,728
Other financial assets	48,552	2,052	–	50,604
Total financial assets	47,155,825	6,123,257	84,267	53,363,349
Liabilities				
Amounts due to other banks	495	9,411,385	–	9,411,880
Amounts due to customers	17,953,224	3,786,109	61,904	21,801,237
Other financial liabilities	29,586	–	–	29,586
Total financial liabilities	17,983,305	13,197,494	61,904	31,242,703
Net balance sheet position	29,172,520	(7,074,237)	22,363	22,120,646

(in thousands of tenge)

22. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. In order to limit this risk, the management ensured availability of different funding sources in addition to the existing minimal amount of bank deposits. Management also controls assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank monitors a number of internal liquidity indicators in a daily basis. The Bank's Treasury Department manages short-term liquidity on an on-going basis using cash position and portfolio of highly marketable securities.

The Bank is obliged to comply with liquidity requirements established by the regulators including requirements of the NBRK represented by obligatory norms.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also entered credit line agreements that it can assess to meet liquidity needs.

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 2018	*On demand*	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
Financial liabilities						
Amounts due to other banks	**–**	**4,730,187**	**4,709,162**	**–**	**–**	**9,439,349**
Amounts due to customers	**12,598,789**	**1,057,838**	**19,813,597**	**–**	**18,853**	**33,489,077**
Other liabilities	**–**	**–**	**–**	**68,967**	**–**	**68,967**
Total undiscounted financial liabilities	**12,598,789**	**5,788,025**	**24,522,759**	**68,967**	**18,853**	**42,997,393**

As at 31 December 2017	*On demand*	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
Financial liabilities						
Amounts due to other banks	495	6,461,627	3,062,405	–	–	9,524,527
Amounts due to customers	10,712,400	1,179,665	10,118,043	–	–	22,010,108
Other liabilities	–	–	–	29,586	–	29,586
Total undiscounted financial liabilities	10,712,895	7,641,292	13,180,448	29,586	–	31,564,221

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 on demand in the tables above.

The table below shows the contractual expiry by maturity of the Bank's credit related commitments and contingencies. Each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

(in thousands of tenge)

22. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
2018	**547,484**	**7,344,583**	**20,993,873**	**7,817,653**	**36,703,593**
2017	4,517,722	2,244,545	19,121,123	6,098,507	31,981,897

The Bank expects that not all of the credit related contractual commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank has no non-trading financial assets and financial liabilities with a floating interest rate available at 31 December 2018 and 2017.

Currency risk

Currency risk is the risk of losses due to changes in foreign exchange rates when the Bank performs its ordinary activities. Risk of losses arises due to revaluation of bank's position in foreign currencies in monetary terms. The Bank's management establishes limits with respect to minimum level of accepted risk by currencies and monitors the compliance with those limits on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive certain monetary assets and liabilities). All other parameters are held constant. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income, while a positive amount reflects a net potential increase:

	2018		*2017*	
Currency	***Change in currency rate, in %***	***Effect on profit before tax***	***Change in currency rate, in %***	***Effect on profit before tax***
Russian rouble	**14.0%**	**6,739**	16.0%	3,656
	-9.0%	**(4,332)**	-16.0%	(3,656)
Euro	**14.0%**	**25,142**	13.5%	5,642
	-10.0%	**(17,958)**	-9.5%	(3,970)
US dollar	**14.0%**	**(185,748)**	10.0%	11,697
	-10.0%	**132,677**	-10.0%	(11,697)

During the year currency position had approximately equal values due to the fact that the Bank set limits on open foreign exchange positions and the position was within the set limit.

22. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The currency position of the Bank as at 31 December 2018 is presented below:

	Tenge	*US dollar*	*Russian rouble*	*Euro*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	**2,275,478**	**11,523,454**	**149,027**	**589,088**	**106,461**	**14,643,508**
Receivables under reverse repurchase agreements	**4,505,084**	**–**	**–**	**–**	**–**	**4,505,084**
Loans to customers	**25,452,976**	**17,227,896**	**–**	**1,492,775**	**–**	**44,173,647**
Other financial assets	**117,767**	**3,228**	**–**	**–**	**–**	**120,995**
	32,351,305	**28,754,578**	**149,027**	**2,081,863**	**106,461**	**63,443,234**
Liabilities						
Amounts due to other banks	**–**	**8,899,379**	**–**	**442,910**	**–**	**9,342,289**
Amounts due to customers	**10,193,052**	**21,181,968**	**100,892**	**1,459,369**	**18,705**	**32,953,986**
Other financial liabilities	**68,967**	**–**	**–**	**–**	**–**	**68,967**
	10,262,019	**30,081,347**	**100,892**	**1,902,279**	**18,705**	**42,365,242**
Net balance sheet position	**22,089,286**	**(1,326,769)**	**48,135**	**179,584**	**87,756**	**21,077,992**

The currency position of the Bank as at 31 December 2017 is presented below:

	Tenge	*US dollar*	*Russian rouble*	*Euro*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	2,222,740	8,523,813	84,339	282,131	62,432	11,175,455
Receivables under reverse repurchase agreements	6,004,562	–	–	–	–	6,004,562
Loans to customers	21,119,670	14,137,649	–	875,409	–	36,132,728
Other financial assets	49,452	1,152	–	–	–	50,604
	29,396,424	22,662,614	84,339	1,157,540	62,432	53,363,349
Liabilities						
Amounts due to other banks	495	9,411,385	–	–	–	9,411,880
Amounts due to customers	7,488,730	13,134,257	61,488	1,115,748	1,014	21,801,237
Other financial liabilities	29,586	–	–	–	–	29,586
	7,518,811	22,545,642	61,488	1,115,748	1,014	31,242,703
Net balance sheet position	21,877,613	116,972	22,851	41,792	61,418	22,120,646

Operational risk

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

(in thousands of tenge)

23. Fair value measurement

Fair value measurement procedures

Investment committee of the Bank determines the policies and procedures for recurring measurement of the fair value of real estate owned by the Bank.

External appraisers are engaged to evaluate land and buildings of the Bank. Appraiser selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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 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.

As at 1 November 2017, independent valuation of fair values of the office buildings' and land, within property and equipment, was performed. The valuation was performed by Crowe Horwath Ocenka LLP, an accredited independent appraiser, which has professional qualification and professional experience of valuation of similar property based on place and category.

Based on analysis, performed by the management of the Bank, fair value of office buildings and land has not significantly changed during 2018, therefore as at 31 December 2018 the Bank has not reflected revaluation of office buildings and land in financial statements.

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other models for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

23. Fair value measurement (continued)

Fair value hierarchy (continued)

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

		Fair value measurement with the use of			
2018	***Date of measurement***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value					
Property and equipment – land and buildings	31 December 2018	–	–	**1,118,483**	**1,118,483**
Loans to customers measured at FVPL	31 December 2018	–	–	**3,190,051**	**3,190,051**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2018	**14,643,508**	–	–	**14,643,508**
Receivables under reverse repurchase agreements	31 December 2018	–	**4,505,084**	–	**4,505,084**
Loans to customers	31 December 2018	–	–	**41,464,834**	**41,464,834**
Other financial assets	31 December 2018	–	–	**120,995**	**120,995**
Liabilities whose fair value is disclosed					
Amounts due to other banks	31 December 2018	–	**9,342,289**	–	**9,342,289**
Amounts due to customers	31 December 2018	–	**33,116,227**	–	**33,116,227**
Other financial liabilities	31 December 2018	–	–	**68,967**	**68,967**

		Fair value measurement with the use of			
2017	***Date of measurement***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value					
Property and equipment – land and buildings	1 November 2017	–	–	1,067,154	1,067,154
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2017	11,175,455	–	–	11,175,455
Receivables under reverse repurchase agreements	31 December 2017	–	6,004,562	–	6,004,562
Loans to customers	31 December 2017	–	–	35,352,281	35,352,281
Other financial assets	31 December 2017	–	–	50,604	50,604
Liabilities whose fair value is disclosed					
Amounts due to other banks	31 December 2017	–	9,411,880	–	9,411,880
Amounts due to customers	31 December 2017	–	21,838,384	–	21,838,384
Other financial liabilities	31 December 2017	–	–	29,586	29,586

(in thousands of tenge)

23. Fair value measurement (continued)

Fair value of financial assets and liabilities not carried at fair value

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.

	2018			*2017*		
	Carrying value	*Fair value*	*Unrecog-nised gain/ (loss)*	*Carrying value*	*Fair value*	*Unrecog-nised gain/ (loss)*
Financial assets						
Cash and cash equivalents	**14,643,508**	**14,643,508**	**–**	11,175,455	11,175,455	–
Receivables under reverse repurchase agreements	**4,505,084**	**4,505,084**	**–**	6,004,562	6,004,562	–
Loans to customers	**40,983,596**	**41,464,834**	**481,238**	36,132,728	35,352,281	(780,447)
Other financial assets	**120,995**	**120,995**	**–**	50,604	50,604	–
Financial liabilities						
Amounts due to other banks	**9,342,289**	**9,342,289**	**–**	9,411,880	9,411,880	–
Amounts due to customers	**32,953,986**	**33,116,227**	**(162,241)**	21,801,237	21,838,384	(37,147)
Other financial liabilities	**68,967**	**68,967**	**–**	29,586	29,586	–
Total unrecognised change in fair value			**318,997**			(817,594)

Valuation techniques and assumptions

The following describes the techniques and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed.

Property and equipment – land and buildings

Fair value of the properties was determined by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property.

Assets for which fair value approximates to carrying value

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

Loans at fair value through profit or loss

Loans at fair value through profit or loss are valued using a combination of approaches. Where appropriate, loans are valued with reference to observable prices of debt securities issued by the borrower or by comparable entities. In other cases, valuation is performed using internal models based on present value techniques or, in some circumstances (for example, in respect of cash flow from assets held as collateral), external valuation reports. The non-observable inputs to the models include adjustments for credit, market and liquidity risks associated with the expected cash flows from the borrower's operations or in respect of collateral valuation.

Financial assets and financial liabilities accounted for at amortised cost

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

(in thousands of tenge)

23. Fair value measurement (continued)

Movements in level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

	At 31 December 2017	*Transfers at adoption of IFRS 9*	*At 1 January 2018*	*Total gain/ (loss) recorded in profit or loss*	*Issuance*	*Repayment*	*At 31 December 2018*
Financial assets							
Loans to customers at FVPL	–	310,145	310,145	**196,347**	**2,927,502**	**(243,943)**	**3,190,051**
Total level 3 financial assets	–	310,145	310,145	**196,347**	**2,927,502**	**(243,943)**	**3,190,051**

During the year ended 31 December 2018, the Bank has not transferred financial instruments measured at fair value between levels of the fair value hierarchy.

Significant unobservable inputs and sensitivity of level 3 financial instruments measured at fair value to changes to key assumptions

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

31 December 2018	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*
Loans to customers at FVPL	3,190,053	Discounted cash flows	Probability of default	0.07%-0.32% (0.20%)

Significant unobservable inputs and sensitivity of level 3 non-financial instruments measured at fair value to changes to key assumptions

The following table summarises the sensitivity of the fair value measurement of Bank's buildings and land categorised within Level 3 of the fair value hierarchy to changes in unobservable inputs as at 31 December 2017:

Unobservable input	*Range (weighted average)*	*Description of sensitivity*
Trade discount	0.0%-10.0%	Increase/decrease in trade discount input might lead to decrease/increase in the fair value of the Bank's buildings and land
Adjustment for size	-27.0%-9.0%	Increase/decrease in trade discount input might lead to increase/decrease in the fair value of the Bank's buildings and land
Adjustment for intended purpose	3.7%-6.2%	Increase/decrease in trade discount input might lead to increase/decrease in the fair value of the Bank's buildings and land

24. Offsetting of financial instruments

Disclosures in the tables below include information on financial assets and financial liabilities, which are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar financial instruments comprise reverse repurchase agreements, which are recorded in the statement of financial position at amortised cost.

(in thousands of tenge)

24. Offsetting of financial instruments (continued)

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received can be pledged or sold during the term of the transaction but must be returned before maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral. The table below shows financial assets subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017 and 2018.

				Related amounts not offset in the statement of financial position		
As at 31 December 2018	***Gross amount of recognised financial assets***	***Gross amount of recognised financial liabilities set off in the statement of financial position***	***Net amount of financial assets presented in the statement of financial position***	***Financial instruments***	***Cash collateral received***	***Net amount***
Receivables under reverse repurchase agreements	**4,505,084**	**–**	**4,505,084**	**(4,726,953)**	**–**	**(221,869)**
Total	**4,505,084**	**–**	**4,505,084**	**(4,726,953)**	**–**	**(221,869)**
As at 31 December 2017						
Receivables under reverse repurchase agreements	6,004,562	–	6,004,562	(6,309,312)	–	(304,750)
Total	6,004,562	–	6,004,562	(6,309,312)	–	(304,750)

25. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 22* for the Company's contractual undiscounted repayment obligations.

	2018			***2017***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	**14,643,508**	**–**	**14,643,508**	11,175,455	–	11,175,455
Receivables under reverse repurchase agreements	**4,505,084**	**–**	**4,505,084**	6,004,562	–	6,004,562
Loans to customers	**10,514,657**	**33,658,990**	**44,173,647**	5,494,846	30,637,882	36,132,728
Property and equipment	**–**	**1,239,155**	**1,239,155**	–	1,211,337	1,211,337
Intangible assets	**–**	**119,590**	**119,590**	–	126,207	126,207
Current corporate income tax assets	**1,167**	**–**	**1,167**	12,155	–	12,155
Other assets	**5,215,909**	**–**	**5,215,909**	2,410,511	2,058	2,412,569
Total	**34,880,325**	**35,017,735**	**69,898,060**	25,097,529	31,977,484	57,075,013
Amounts due to other banks	**9,342,289**	**–**	**9,342,289**	9,411,880	–	9,411,880
Amounts due to customers	**32,935,166**	**18,820**	**32,953,986**	21,801,237	–	21,801,237
Deferred corporate income tax liabilities	**–**	**183,013**	**183,013**	–	259,722	259,722
Other liabilities	**111,313**	**21,888**	**133,201**	78,455	22,703	101,158
Total	**42,388,768**	**223,721**	**42,612,489**	31,291,572	282,425	31,573,997
Net position	**(7,508,443)**	**34,794,014**	**27,285,571**	(6,194,043)	31,695,059	25,501,016

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As at 31 December 2018 the Bank has a negative liquidity gap of KZT 7,508,443 thousand within a year (at 31 December 2017: KZT 6,194,043 thousand).

Repayments which are subject to notice are treated in the table above 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 history of retention of amounts due to customers.

(in thousands of tenge)

26. 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. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The amount of related party transactions and balances as of 31 December 2018 and 2017, as well as the respective amounts of income and expenses for the years than ended are as follows:

	2018				*2017*			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*	*Controlling shareholder*	*Key management personnel*	*Entities under common control*	*Total*
Assets								
Cash and cash equivalents	**130,646**	**–**	**11,174**	**141,820**	390,375	–	34,067	424,442
Loans to customers	**–**	**145,762**	**–**	**145,762**	–	140,486	–	140,486
Liabilities								
Amounts due to other banks	**9,342,289**	**–**	**–**	**9,342,289**	9,411,385	–	–	9,411,385
Amounts due to customers	**–**	**6,423**	**–**	**6,423**	–	3,519	–	3,519

The income and expense items on transactions with related parties for the years ended 31 December 2018 and 2017 were as follows:

	2018				*2017*			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*	*Controlling shareholder*	*Key management personnel*	*Entities under common control*	*Total*
Interest income	**–**	**13,972**	**–**	**13,972**	–	15,577	–	15,577
Interest expense	**(458,972)**	**–**	**–**	**(458,972)**	(544,297)	–	–	(544,297)

Details regarding the terms of attraction of funds from the Controlling shareholder are disclosed in *Note 12*. As at 31 December 2018, loans to the key management personnel have interest rates of 8-17% per annum (at 31 December 2017: 8-17% per annum) with maturity in 2021-2026 (at 31 December 2017: in 2018-2027).

Below is the information for 2018 about remuneration to 11 members (2017: 11 members) of key management personnel:

	2018	*2017*
Salaries and other short-term benefits	**115,246**	122,178
Social security contributions	**9,834**	11,616
Total compensation to the key management personnel	**125,080**	133,794

27. Capital adequacy

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

During 2018 and 2017 the Bank had complied in full with all its externally imposed capital requirements.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

(in thousands of tenge)

27. Capital adequacy (continued)

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

- a ratio of basic capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities and (k1);
- a ratio of tier 1 capital less investments to the sum of credit risk-weighted assets and contingent liabilities, market risk and a quantitative measure of operational risk weighted assets, contingent assets and liabilities (k1-2);
- a ratio of own capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities and (k2).

Investments for the purposes of calculation of the above ratios represent investments into share capital (interest in the share capital) of a legal entity and subordinated debt of a legal entity if their total exceeds 10% of the total of tier 1 and tier 2 capital of the Bank.

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2018 and 2017:

	2018	*2017*
Tier 1 capital	**27,142,802**	25,432,592
Tier 2 capital	**–**	–
Deduction of positive difference with regulatory reserves	**(245,275)**	(134,483)
Total capital	**26,897,527**	25,298,109
Risk weighted assets, contingencies and commitments, possible claims and liabilities	**74,599,156**	57,993,901
Capital adequacy ratio k1 (at least 5.5%)	**36%**	44%
Capital adequacy ratio k1-2 (at least 6.5%)	**36%**	44%
Capital adequacy ratio k2 (at least 8.0%)	**36%**	44%