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

Financial statements

for the year ended 31 December 2019

CONTENTS

Grant Thornton
An instinct for growth™

Grant Thornton LLP

Office 2103
4V BC Nurly Tau, n.p. 21V
15 Al-Farabi ave.
Almaty
050059

T +7 (727) 311 13 40

almaty@kz.gt.com
www.grantthornton.kz

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and management of Associated Bank "Kazakhstan-Ziraat International Bank" JSC

Opinion

We have audited the financial statements of Associated Bank "Kazakhstan-Ziraat International Bank" JSC (hereinafter – the "Bank"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – "IFRSs").

Basis for opinion

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

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 have no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Associated Bank "Kazakhstan-Ziraat International Bank" JSC'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's 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.

Auditor's Responsibility for the Audit of the Financial Statements (continued)

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

Grant Thornton LLP

Evgeny Zhemaletdinov	Yerzhan Dossymbekov
Auditor/Engagement partner	General Director Grant Thornton LLP
Certified Auditor of the Republic of Kazakhstan Qualification certificate №МФ-00000553 dated 20 December 2003 The Republic of Kazakhstan	State license №18015053 (date of initial issue -27 July 2011), for providing audit service on the territory of the Republic of Kazakhstan issued by the Internal Audit Committee of the Ministry of Finance of the Republic of Kazakhstan on 3 August 2018

6 March 2020
Almaty, the Republic of Kazakhstan

ASSOCIATED BANK “KAZAKHSTAN – ZIRAAT INTERNATIONAL BANK” JSC

STATEMENT OF FINANACIAL POSITION AS AT 31 DECEMBER 2019

In thousands of tenge	*Notes*	31 December 2019	31 December 2018*	31 December 2017
ASSETS				
Cash and cash equivalents	6	**10,287,610**	14,643,508	11,175,455
Receivables under reverse repurchase agreements	7	**8,709,833**	4,505,084	6,004,562
Loans to customers	8	**51,266,032**	43,665,051	36,132,728
Property and equipment	9	**1,545,447**	1,239,155	1,211,337
Intangible assets	10	**159,467**	119,590	126,207
Current corporate income tax prepaid	14	–	102,831	12,155
Other assets	11	**5,927,643**	5,215,909	2,412,569
TOTAL ASSETS		**77,896,032**	**69,491,128**	**57,075,013**
LIABILITIES				
Amounts due to other banks	12	**6,718,526**	9,342,289	9,411,880
Amounts due to customers	13	**40,575,143**	32,953,986	21,801,237
Current corporate income tax payable	14	**10,527**	–	–
Deferred corporate income tax liabilities	14	**171,701**	183,013	259,722
Other liabilities	15	**583,472**	133,201	101,158
TOTAL LIABILITIES		**48,059,369**	**42,612,489**	**31,573,997**
EQUITY				
Share capital	16	**15,000,000**	15,000,000	15,000,000
Retained earnings		**13,140,961**	10,158,315	8,207,325
Reserve funds	16	**1,177,175**	1,177,175	1,750,542
Revaluation reserve for property and equipment		**518,527**	543,149	543,149
TOTAL EQUITY		**29,836,663**	**26,878,639**	**25,501,016**
TOTAL LIABILITIES AND EQUITY		**77,896,032**	**69,491,128**	**57,075,013**

The accompanying notes on pages 5 to 55 are an integral part of these financial statements.

* Certain amounts included in these column were restated and do not agree to the financial statements for 2018, detailed information disclosed in *Note 2*.

Signed and authorized for issue on behalf of the Management Board of the Bank:

Canan Ölekli — Chairwoman of the Management Board

Zhumakhanova T.N. — Chief Accountant

6 March 2020

ASSOCIATED BANK "KAZAKHSTAN – ZIRAAT INTERNATIONAL BANK" JSC

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

In thousands of tenge	*Notes*	2019	2018*
Interest income calculated using effective interest rate	17	**5,192,794**	4,370,017
Other interest income	17	**743,095**	227,350
		5,935,889	**4,597,367**
Interest expense	17	**(1,218,093)**	(1,094,276)
Net interest income		**4,717,796**	**3,503,091**
Credit loss expense	18	**(391,750)**	(583,792)
Net interest income after credit loss expense		**4,326,046**	**2,919,299**
Net fee and commission income	19	**669,981**	**605,898**
Net gains from transactions in foreign currencies:			
- dealing		**584,775**	776,941
- translation differences		**4,430**	19,133
Net gain from derecognition of financial assets measured at amortized cost		**16,539**	88,809
Loss on initial recognition of financial assets measured at amortized cost		**(2,107)**	–
Loss from financial assets measured at fair value through profit or loss		**(70,021)**	(30,231)
Other (expenses)/income		**(8,955)**	36,124
Administrative and other operating expenses	20	**(1,756,513)**	(1,810,609)
Profit before corporate income tax expense		**3,764,175**	**2,605,364**
Corporate income tax expense	14	**(806,151)**	(449,736)
Profit for the year		**2,958,024**	**2,155,628**
Other comprehensive income		–	–
Total comprehensive income for the year		**2,958,024**	**2,155,628**
Basic and diluted earnings per share (in tenge)	16	**197.20**	**143.71**

The accompanying notes on pages 5 to 55 are an integral part of these financial statements.

* Certain amounts included in these column were restated and do not agree to the financial statements for 2018, detailed information disclosed in *Note 2*.

Signed and authorized for issue on behalf of the Management Board of the Bank:

Canan Ölekli — Chairwoman of the Management Board

Zhumakhanova T.N. — Chief Accountant

6 March 2020

ASSOCIATED BANK “KAZAKHSTAN – ZIRAAT INTERNATIONAL BANK” JSC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

In thousands of tenge	*Notes*	Share capital	Reserve funds	Revaluation reserve for property and equipment	Retained earnings*	Total equity
As at 31 December 2017		15,000,000	1,750,542	543,149	8,207,325	**25,501,016**
Impact of adopting IFRS 9		–	–	–	(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		–	–	–	2,155,628	**2,155,628**
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	**2,155,628**	**2,155,628**
Transfer from reserve funds		–	(573,367)	–	573,367	
As at 31 December 2018*	16	**15,000,000**	**1,177,175**	**543,149**	**10,158,315**	**26,878,639**
Profit for the year		–	–	–	2,958,024	**2,958,024**
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	**2,958,024**	**2,958,024**
Transfer from revaluation reserve for property and equipment		–	–	(24,622)	24,622	–
As at 31 December 2019	16	**15,000,000**	**1,177,175**	**518,527**	**13,140,961**	**29,836,663**

The accompanying notes on pages 5 to 55 are an integral part of these financial statements.

* Certain amounts included in these column were restated and do not agree to the financial statements for 2018, detailed information disclosed in *Note 2*.

Signed and authorized for issue on behalf of the Management Board of the Bank:

Canan Ölekli — Chairwoman of the Management Board

Zhumakhanova T.N. — Chief Accountant

6 March 2020

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

In thousands of tenge	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		5,014,269	4,413,633
Interest paid		(1,257,555)	(1,061,878)
Fees and commissions received		751,148	488,982
Fees and commissions paid		(80,741)	(66,158)
Net realized gains from dealing in foreign currencies		584,775	776,941
Other operating income received		(39,005)	6,006
Personnel expenses paid		(828,756)	(885,540)
Administrative and other operating expenses paid		(658,891)	(789,477)
Cash flows from operating activities before changes in operating assets and liabilities		**3,485,244**	**2,882,509**
Net (increase)/decrease in operating assets			
Loans to customers		(7,246,818)	(8,847,890)
Receivables under reverse repurchase agreements		(4,200,003)	1,500,002
Other assets		(707,341)	(29,365)
Net increase/(decrease) in operating liabilities			
Amounts due to other banks		(2,431,062)	(1,479,828)
Amounts due to customers		7,715,484	8,712,733
Other liabilities		80,301	143,637
Net cash flows (used in)/from operating activities before corporate income tax		**(3,304,195)**	**2,881,798**
Corporate income tax paid		(704,105)	(617,121)
Net cash flows (used in)/from operating activities		**(4,008,300)**	**2,264,677**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment and intangible assets	11,12	(126,963)	(138,996)
Proceeds from sale of property and equipment		30,050	30,118
Net cash flows received used in investing activities		**(96,913)**	**(108,878)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities		(119,530)	–
Net cash flows received used in financing activities		**(119,530)**	**–**
Effect of exchange rate changes on cash and cash equivalents	6	(5,339)	(327)
Effect of expected credit losses on cash and cash equivalents		(125,816)	1,312,581
Net (decrease)/increase in cash and cash equivalents		**(4,355,898)**	**3,468,053**
Cash and cash equivalents as at 1 January		14,643,508	11,175,455
Cash and cash equivalents as at 31 December	6	**10,287,610**	**14,643,508**

The accompanying notes on pages 5 to 55 are an integral part of these financial statements.

* Certain amounts included in these column were restated and do not agree to the financial statements for 2018, detailed information disclosed in *Note 2*.

Signed and authorized for issue on behalf of the Management Board of the Bank:

Canan Ölekli — Chairwoman of the Management Board

Zhumakhanova T.N. — Chief Accountant

6 March 2020

ҚАЗАҚСТАН РЕСПУБЛИКАСЫ АЛМАТЫ ҚАЛАСЫ
REPUBLIC OF KAZAKHSTAN ALMATY
АКЦИОНЕРНОЕ ОБЩЕСТВО
ДОЧЕРНИЙ БАНК
KZI BANK
Kazakhstan-Ziraat International Bank
АЛМАТЫ
РЕСПУБЛИКА КАЗАХСТАН

1. PRINCIPAL ACTIVIES

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. On 3 February 2020 the Bank recived the general bank license № 1267/241.

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 2019, the Bank’s branch network comprises 6 branches and 1 central banking office located in the Republic of Kazakhstan (31 December 2018: 5 branches).

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

As at 31 December 2019 and 2018, the Bank’s controlling shareholder is T.C. Ziraat Bankasi A.S (Turkey) (the “Parent” or the “Controlling shareholder”).

As at 31 December 2019 and 2018, the shareholders of the Bank were as follows:

Shareholder	31 December 2019, %	31 December 2018, %
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 are prepared under the historical cost convention except as mentioned in Summary of significant accounting policies. For example, land and buildings within property and equipment were measured at the fair value.

These financial statements are presented in thousands of Kazakhstani tenge (“tenge” or “KZT”), unless otherwise is stated.

2. BASIS OF PREPARATION (CONTINUED)

Restatement of the financial statements

During 2019, the Bank corrected misstatement related to the understatement of the accrual of expected credit losses for 2018 for loans to customers, as follows:

Statement of financial position

In thousands of tenge	31 December 2018 (Before restatement)	Restatement	31 December 2018 (As restated)
Assets			
Loans to customers	44,173,647	(508,596)	43,665,051
Corporate income tax prepaid	1,167	101,664	102,831
Retained earnings	10,565,247	(406,932)	10,158,315

Statement of comprehensive income

In thousands of tenge	2018 (Before restatement)	Restatement	2018 (As restated)
Credit loss expense	(75,196)	(508,596)	(583,792)
Corporate income tax expense	(551,400)	101,664	(449,736)
Profit for the year	**2,562,560**	**(406,932)**	**2,155,628**
Total comprehensive income	**2,562,560**	**(406,932)**	**2,155,628**
Basic and diluted earnings per share (in tenge)	170,84	(27,13)	143,71

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

The Bank applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. 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 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC 15 Operating Leases − Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies (continued)

IFRS 16 Leases (continued)

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

In thousands of tenge	
Assets	
Property and equipment	375,242
Total assets	**375,242**
Liabilities	
Other liabilities	375,242
Total liabilities	**375,242**
Retained earnings	–
Total adjustment on equity	**–**

(a) Nature of the effect of adoption of IFRS 16

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Bank.

Leases previously classified as finance leases

The Bank did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies (continued)

IFRS 16 Leases (continued)

(a) Nature of the effect of adoption of IFRS 16 (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

In thousands of tenge	
Operating lease commitments as at 31 December 2018	**458,767**
Weighted average incremental borrowing rate as at 1 January 2019	8.50%
Discounted operating lease commitments at 1 January 2019	**375,242**

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Bank upon adoption of IFRS 16, which have been applied from the date of initial application:

i. Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below 100 MCI). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies (continued)

IFRS 16 Leases (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has the option, under some of its leases to lease the assets for additional terms of three to five years. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognised in the statement of financial position, income statement and statement of cash flows

Set out below, are the carrying amounts of the Bank’s right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets			Lease
In thousands of tenge	Buildings	Vehicles	Total	liabiltiies
As at 1 January 2019	290,688	84,554	375,242	375,242
Additions	112,828	−	112,828	112,828
Depreciation expense	(103,726)	(34,131)	(137,857)	−
Interest expense	−	−	−	28,335
Payments	−	−	−	(147 865)
As at 31 December 2019	**299,790**	**50,423**	**350,213**	**368,540**

The Bank recognised rent expense from leases of low-value assets of 322 thousand for the year ended 31 December 2019.

The Bank had total cash outflows for leases of 147,865 thousand tenge in 2019 (2018:112,937 thousand tenge).

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It 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.

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank’s tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Bank.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies (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 an 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. These amendments had no impact on the financial statements of the Bank.

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 the 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. An entity is also required to determine the 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 had no impact on the financial statements 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. These amendments had no impact on the financial statements as the Bank does not have long-term interests in its associate and joint venture.

Annual improvements 2015-2017 cycle

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 had no impact on the financial statements of the Bank as there is no transaction where joint control is obtained.

IFRS 11 Joint Arrangements

An entity 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies (continued)

Annual improvements 2015-2017 cycle (continued)

IFRS 11 Joint Arrangements (continued)

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 had no impact on the financial statements of the Bank as there is no transaction where a joint control is obtained.

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 it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the 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, they had no impact on the financial statements of the Bank.

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.

The entity applies the 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, with early application permitted.

Since the Bank's current practice is in line with these amendments, they had no impact on the financial statements of the Bank.

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.

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 fair value through profit or loss (hereinafter – "FVPL"), transaction costs are added to, or subtracted from, this amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

Initial measurement (continued)

Measurement categories of financial assets and liabilities

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;
- Fair value through other comprehensive income (hereinafter – "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

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

Initial measurement (continued)

The SPPI test

As a 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 recognized less cumulative amortisation recognised in the statement of comprehensive income, and – under IAS 37 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9– 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.

Reclassification of financial assets and liabilities

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Renegotiated loans

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

Impairment assessment

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:

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.
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.
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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment assessment (continued)

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 into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. 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 records 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 revenue 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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

Buildings	50 years
Computers and office equipment	2.5 years
Vehicles	4 years
Other	4 – 6.7 years

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2019 and 2018, were KZT 382.59 and KZT 384.20 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 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. In 2019, the Bank will continue to assess the potential effect of IFRS 17 on its financial statements.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Bank' financial statements.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Bank' financial statements.

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*.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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.

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 2019 is set out below:

In thousands of tenge	*Corporate banking*	*Retail banking*	*Total*
Assets			
Cash and cash equivalents	10,287,610	–	**10,287,610**
Receivables under reverse repurchase agreements	8,709,833	–	**8,709,833**
Loans to customers	48,282,928	2,983,104	**51,266,032**
Total assets of reportable segments	**67,280,371**	**2,983,104**	**70,263,475**
Unallocated amounts			**7,632,557**
Total assets			**77,896,032**
Liabilities			
Amounts due to other banks	–	6,718,526	**6,718,526**
Amounts due to customers	33,110,357	7,464,786	**40,575,143**
Total liabilities of reportable segments	**33,110,357**	**14,183,312**	**47,293,669**
Unallocated amounts			**765,700**
Total liabilities			**48,059,369**

In thousands of tenge	*Corporate banking*	*Retail banking*	*Total*
Interest income calculated using effective interest rate	4,758,499	434,295	**5,192,794**
Other interest income	743,095	–	**743,095**
Interest expense	(1,172,137)	(45,956)	**(1,218,093)**
Net interest income	**4,329,457**	**388,339**	**4,717,796**
Credit loss expense	(391,750)	–	**(391,750)**
Net interest income after credit loss expense	**3,937,707**	**388,339**	**4,326,046**
Fee and commission income	570,829	179,893	**750,722**
Fee and commission expense	(80,741)	–	**(80,741)**
Net gains from transactions in foreign currencies:			
- dealing	584,775	–	**584,775**
- translation differences	4,430	–	**4,430**
Net gain from derecognition of financial assets measured at amortized cost	–	16,539	**16,539**
Loss on initial recognition of financial assets measured at amortized cost	–	(2,107)	**(2,107)**
Loss from financial assets measured at fair value through profit or loss	(42,102)	(27,919)	**(70,021)**
Other (expenses)/income	(8,955)	–	**(8,955)**
Administrative and other operating expenses	(1,756,513)	–	**(1,756,513)**
Segment results	**3,209,430**	**554,745**	**3,764,175**
Corporate income tax expense			**(806,151)**
Profit for the year			**2,958,024**

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:

In thousands of tenge	*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	**39,912,039**	3,753,012	**43,665,051**
Total assets of reportable segments	**59,060,631**	**3,753,012**	**62,813,643**
Total assets			**6,677,485**
			69,491,128
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**

In thousands of tenge	*Corporate banking*	*Retail banking*	*Total*
Interest income calculated using 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	(797,396)	213,604	**(583,792)**
Net interest income after credit loss expense	**2,225,082**	**694,217**	**2,919,299**
Fee and commission income	509,965	162,091	**672,056**
Fee and commission expe0nse	(66,158)	–	**(66,158)**
Net gains from transactions in foreign currencies:			
- dealing	776,941	–	**776,941**
- translation differences	19,133	–	**19,133**
Net gain from derecognition of financial assets measured at amortized cost	–	88,809	**88,809**
Loss from financial assets measured at fair value through profit or loss	(30,231)	–	**(30,231)**
Other (expenses)/income	36,124	–	**36,124**
Administrative and other operating expenses	(1,810,609)	–	**(1,810,609)**
Segment results	**1,660,247**	**945,117**	**2,605,364**
Corporate income tax expense			(449,736)
Profit for the year			**2,155,628**

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 2019 and 2018.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

In thousands of tenge	31 December 2019	31 December 2018	31 December 2017
Cash on hand	**1,199,565**	1,304,203	1,473,314
Current accounts with the NBRK	**679,002**	6,249,686	3,202,624
Current accounts with other banks	**894,752**	6,321,452	6,499,517
Time deposits with credit institutions up to 90 days	**7,519,957**	768,494	–
	10,293,276	**14,643,835**	**11,175,455**
Less allowance for impairment	**(5,666)**	(327)	–
Cash and cash equivalents	**10,287,610**	**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:

In thousands of tenge	Stage 1
As at January 2018	(5)
Change in ECL	(213)
Foreign exchange differencies	(109)
As at 31 December 2018	(327)
Change in ECL	**(5,363)**
Foreign exchange differencies	**24**
As at 31 December 2019	**(5,666)**

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 2019, obligatory reserves amounted to KZT 1,278,308 thousand (as at 31 December 2018: KZT 1,376,832 thousand).

7. RECEIVABLES UNDER REVERSE REPURCHASE AGREEMENTS

As at 31 December 2019, the Bank entered into reverse repurchase agreements with KASE with the carrying amount of KZT 8,709,833 thousand (as at 31 December 2018 and 2017: KZT 4,505,084 thousand and KZT 6,004,562 thousand, respectively). The subject of these agreements are bonds of the Ministry of Finance of the Republic of Kazakhstan with the fair value of KZT 9,325,677 thousand as at 31 December 2019 (as at 31 December 2018 and 2017: KZT 4,726,953 thousand and KZT 6,309,312 thousand, respectively).

8. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2019	31 December 2018	31 December 2017
Loans to small and medium businesses	**39,550,916**	37,809,118	30,615,062
Consumer loans	**1,532,487**	2,065,510	1,879,425
Mortgage loans	**1,635,396**	1,914,233	2,408,087
Loans to major customers	**4,690,240**	1,395,253	2,354,128
	47,409,039	**43,184,114**	**37,256,702**
Less allowance for loan impairment	**(3,012,201)**	(2,709,114)	(1,123,974)
Loans to customers at amortised cost	**44,396,838**	**40,475,000**	**36,132,728**
Loans to small and medium businesses	**6,869,194**	3,190,051	–
Loans to customers at FVPL	**6,869,194**	**3,190,051**	**–**
Loans to customers	**51,266,032**	**43,665,051**	**36,132,728**

8. LOANS TO CUSTOMERS (CONTINUED)

As at 31 December 2019 and 2018, 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 2019, the monthly calculation index was equal to KZT 2,525 (31 December 2018 and 2017: KZT 2,405 and KZT 2,269, respectively).

Loans to customers at FVPL

Loans to customers at FVPL are mostly represented by project finance loans that are economically or contractually nonrecourse, 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 2019 is as follows:

Loans to small and medium businesses	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2019	**21,451,599**	**3,861,053**	**12,496,466**	**37,809,118**
New assets originated or purchased	20,826,095	–	–	20,826,095
Assets repaid	(16,093,133)	(604,753)	(2,453,074)	(19,150,960)
Transfers to Stage 1	3,405,333	(3,364,992)	(40,341)	–
Transfers to Stage 2	(2,812,719)	3,374,952	(562,233)	–
Transfers to Stage 3	(227,308)	(220,659)	447,967	–
Amounts written off	–	–	(91,625)	(91,625)
Foreign exchange differences	(62,623)	(1,333)	(40,068)	(104,024)
Changes in accrued interest	122,793	1,037,229	897,710	262,312
As at 31 December 2019	**22,636,439**	**4,081,497**	**10,832,980**	**39,550,916**

Loans to small and medium businesses	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**(176,406)**	**(117,212)**	**(2,174,811)**	**(2,468,429)**
New assets originated or purchased	(701,593)	–	–	(701,593)
Assets repaid	258,478	44,162	684,079	986,719
Transfers to Stage 1	(44,878)	30,193	14,685	–
Transfers to Stage 2	97,072	(100,612)	3,540	–
Transfers to Stage 3	359,188	36,698	(395,886)	–
Impact on ECL due to transfers between stages or changes to inputs used	(414,803)	24,034	(327,731)	(718,500)
Amounts written off	–	–	91,625	91,625
Foreign exchange differences	3,079	(120)	2,568	5,527
As at 31 December 2019	**(619,863)**	**(82,857)**	**(2,101,931)**	**(2,804,651)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer lending during the year ended 31 December 2019 is as follows:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2019	**1,569,621**	**277,293**	**218,596**	**2,065,510**
New assets originated or purchased	866,750	–	–	866,750
Assets repaid	(1,368,722)	(103,258)	(26,064)	(1,498,044)
Transfers to Stage 2	(55,655)	87,539	(31,884)	–
Transfers to Stage 3	(54,690)	(18,737)	73,427	–
Amounts written off	–	–	(5,670)	(5,670)
Foreign exchange differences	(32)	(1,060)	(55)	(1,147)
Changes in accrued interest	156,532	(55,814)	4,370	105,088
As at 31 December 2019	**1,113,804**	**185,963**	**232,720**	**1,532,487**

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 2019	**(15,471)**	**(8,547)**	**(68,748)**	**(92,766)**
New assets originated or purchased	(31,573)	–	–	(31,573)
Assets repaid	25,277	14,828	20,380	60,485
Transfers to Stage 2	964	(1,064)	100	–
Transfers to Stage 3	25,188	1,320	(26,508)	–
Impact on ECL due to transfers between stages or changes to inputs used	(38,359)	(10,225)	19,813	(28,771)
Amounts written off	–	–	5,670	5,670
Foreign exchange differences	82	8	33	123
As at 31 December 2019	**(33,892)**	**(3,680)**	**(49,260)**	**(86,832)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage lending during the year ended 31 December 2019 is as follows:

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2019	**1,407,519**	**330,084**	**176,630**	**1,914,233**
New assets originated or purchased	268,521	–	–	268,521
Assets repaid	(380,686)	(109,955)	(30,969)	(521,610)
Transfers to Stage 1	121,956	(121,956)	–	–
Transfers to Stage 2	(149,720)	199,048	(49,328)	–
Transfers to Stage 3	(90,258)	(68,294)	158,552	–
Foreign exchange differences	–	(300)	(251)	(551)
Changes in accrued interest	58,748	26,969	(110,914)	(25,197)
As at 31 December 2019	**1,236,080**	**255,596**	**143,720**	**1,635,396**

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**(20,640)**	**(1,661)**	**(111,664)**	**(133,965)**
New assets originated or purchased	(19,912)	–	–	(19,912)
Assets repaid	1,712	439	14,291	16,442
Transfers to Stage 1	(197)	197	–	–
Transfers to Stage 2	2,332	(2,439)	107	–
Transfers to Stage 3	21,611	16,201	(37,812)	–
Impact on ECL due to transfers between stages or changes to inputs used	(15,596)	(29,563)	84,561	39,402
Foreign exchange differences	–	(1)	87	86
As at 31 December 2019	**(30,690)**	**(16,827)**	**(50,430)**	**(97,947)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to lending to major customers during the year ended 31 December 2019 is as follows:

Loans to major customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2019	**1,373,375**	**21,878**	**–**	**1,395,253**
New assets originated or purchased	3,894,356	–	–	3,894,356
Assets repaid	(708,354)	(2,799)	–	(711,153)
Foreign exchange differences	(3,034)	–	–	(3,034)
Changes in accrued interest	114,840	(22)	–	388,818
As at 31 December 2019	**4,671,183**	**19,057**	**–**	**4,690,240**

Loans to major customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**(13,544)**	**(410)**	**–**	**(13,954)**
New assets originated or purchased	(47,683)	–	–	(47,683)
Assets repaid	8,614	–	–	8,614
Impact on ECL due to transfers between stages or changes to inputs used	30,545	88	–	30,633
Foreign exchange differences	(381)	–	–	(381)
As at 31 December 2019	(22,449)	(322)	–	(22,771)

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 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	**18,533,248**	**11,194,268**	**887,546**	**30,615,062**
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	554,795	629,002	784,110	1,967,907
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	**(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)	(1,356,221)	(2,029,322)
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)**	**(2,174,811)**	**(2,468,429)**

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**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**(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)**

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 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	**(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)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to lending 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
Transfers 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	**(333)**	**–**	**(610,368)**	**(610,701)**
New assets originated or purchased	(4,766)	–	–	(4,766)
Transfers 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)**

8. LOANS TO CUSTOMERS (CONTINUED)

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

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

In thousands of tenge	*Loans to major customers*	*Loans to small and medium businesses*	*Mortgage loans*	*Consumer 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.

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.

In thousands of tenge	**2019**	**2018**
Gross carrying amount of loans modified during the period	**1,233,702**	2,427,252
Amortised cost before modification	**978,773**	1,957,591
Net modification gain	**(7,155)**	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 2019 and 2018 would have been higher by:

In thousands of tenge	**31 December 2019**	**31 December 2018**
Loans to small and medium businesses	**8,731,049**	9,128,388
Consumer loans	**183,460**	84,644
Mortgage loans	**93,290**	30,719
Loans to major customers	**–**	–
	9,007,799	**9,243,751**

8. LOANS TO CUSTOMERS (CONTINUED)

Collateral and other credit enhancements (continued)

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:

In thousands of tenge	31 December 2019	31 December 2018	31 December 2017
Land	**4,034,683**	3,183,208	677,137
Buildings	**1,386,154**	1,602,529	1,381,442
Total repossessed collateral	**5,420,837**	**4,785,737**	**2,058,579**

In 2019, the Bank obtained real estate with the carrying value of KZT 881,543 thousand (2018: KZT 3,685,206 thousand) by taking possession of collateral for loans to customers.

Concentration of loans to customers

As at 31 December 2019, the Bank had ten major borrowers, which accounted for 67% (31 December 2018: 66%) of the total amount of loan to customers before allowance for impairment. The total aggregate amount of these loans was KZT 36,422,878 thousand (at 31 December 2018: KZT 30,467,528 thousand).

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

In thousands of tenge	31 December 2019	31 December 2018	31 December 2017
Trade	**11,906,087**	13,552,734	14,611,963
Construction	**10,171,845**	4,174,663	1,698,604
Leases	**9,235,115**	8,532,624	4,812,122
Manufacturing	**9,782,084**	6,942,199	1,410,968
Hotel and hospitality	**6,725,850**	7,406,690	8,507,976
Individuals	**3,167,882**	3,979,743	4,287,512
Agriculture	**1,233,702**	–	–
Transportation	**17,401**	78,962	67,938
Other	**2,038,267**	1,706,550	1,859,619
Total loans to customers before allowance for impairment	**54,278,233**	**46,374,165**	**37,256,702**

Loans to individuals represented by consumer and mortgage lending.

9. PROPERTY AND EQUIPMENT

The movements in property and equipment were as follows:

In thousands of tenge	**Land**	**Buildings**	**Office and computer equipment**	**Vehicles**	**Other**	**Right-of-use assets**	**Total**
Cost							
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
Impact of adopting IFRS 16 (*Note 3*)	–	–	–	–	–	375,242	375,242
As at 1 January 2019	558,716	602,393	18,227	1,525	213,485	375,242	1,769,588
Additions	–	7,446	6,518	–	61,665	112,828	188,457
Disposals	–	(31,020)		–	(48,348)		(79,368)
As at 31 December 2019	**558,716**	**578,819**	**24,745**	**1,525**	**226,802**	**488,070**	**1,878,677**
Accumulated depreciation							
As at 31 December 2017	–	20,431	15,475	25,864	91,198	–	152,968
Depreciation charge	–	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
Depreciation charge	–	37,202	8,618	–	43,744	137,857	227,388
Disposals	–	(1,123)		–	(48,226)	–	(49,349)
As at 31 December 2019	**–**	**78,705**	**15,214**	**–**	**101,454**	**137,857**	**333,230**
Net book value							
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
As at 31 December 2019	**558,716**	**500,114**	**9,531**	**1,525**	**125,348**	**350,213**	**1,545,447**

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 2019 would be KZT 45,080 thousand and KZT 165,939, respectively (as at 31 December 2018: KZT 45,080 thousand and KZT 171,398 thousand, respectively).

As at 31 December 2019, 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 137,335 thousand (at 31 December 2018: KZT 94,775 thousand).

10. INTANGIBLE ASSETS

The movements in intangible assets were as follows:

In thousands of tenge	**Licenses and software**
Cost	
As at 31 December 2017	242,909
Additions	29,401
Disposals	(15,067)
As at 31 December 2018	257,243
Additions	81,355
Disposals	(11,499)
As at 31 December 2019	**327,099**
Accumulated amortisation	
As at 31 December 2017	(116,702)
Depreciation charge	(36,018)
Disposals	15,067
As at 31 December 2018	(137,653)
Depreciation charge	(41,478)
Disposals	11,499
As at 31 December 2019	**(167,632)**
Net book value	
As at 31 December 2017	126,207
As at 31 December 2018	119,590
As at 31 December 2019	**159,467**

11. OTHER ASSETS

As at 31 December 2019, 2018 and 2017, other assets comprise:

In thousands of tenge	**31 December 2019**	**31 December 2018**	**31 December 2017**
Other debtors on banking activities	**99,046**	97,408	28,548
Fees and commissions receivable	**13,403**	14,034	15,705
KASE shares	**7,001**	7,001	7,001
Spot operations	–	3,228	–
	119,450	**121,671**	**51,254**
Less: allowance for impairmenr	**(663)**	(676)	(650)
Other financial assets	**118,787**	**120,995**	**50,604**
Repossessed collateral	**5,420,837**	4,785,737	2,058,579
Assets held for sale	**167,098**	167,098	167,098
Prepaid taxes, other than corporate income tax	**104,758**	101,572	95,882
Other	**116,163**	40,507	40,406
Other non-financial assets	**5,808,856**	**5,094,914**	**2,361,965**
Other assets	**5,927,643**	**5,215,909**	**2,412,569**

As at 31 December 2019, 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 2020. As at 31 December 2019, 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.

11. OTHER ASSETS (CONTINUED)

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2019 is as follows:

In thousands of tenge	**Stage 1**
As at 31 December 2017	(650)
Charge for the year	(15,521)
Amounts written off	15,495
As at 31 December 2018	**(676)**
Charge for the year	**(16,365)**
Amounts written off	**16,378**
As at December 2019	**(663)**

12. AMOUNTS DUE TO OTHER BANKS

As at 31 December 2019, 2018 and 2017, amounts due to other banks comprise:

In thousands of tenge	**31 December 2019**	**31 December 2018**	**31 December 2017**
Deposits of the Parent	**429,060**	9,342,289	9,411,385
Deposits of other banks	**6,289,466**	–	495
Amounts due to other banks	**6,718,526**	**9,342,289**	**9,411,880**

Deposits of the Parent are placed in euro for a period of 1 month (as at31 December 2018: in US dollars for a period of 6 months) and have interest rates of 1.00% (as at 31 December 2018: 2.50%-6.00%). Deposits of other banks are placed for a period from 1 to 6 months and have interest rates of 6.00% in tenge and 1.25% in euro.

13. AMOUNTS DUE TO CUSTOMERS

As at 31 December 2019, 2018 and 2017, amounts due to customers comprise:

In thousands of tenge	**31 December 2019**	**31 December 2018**	**31 December 2017**
Time deposits	**23,310,622**	20,813,560	11,088,837
Current accounts	**17,264,521**	12,140,426	10,712,400
Amounts due to customers	**40,575,143**	**32,953,986**	**21,801,237**
Held as security against guarantees	**224,834**	350,363	210,027

As at 31 December 2019, the Bank had ten major clients, which accounted for 49% of the gross balance of current accounts
and deposits of clients (at 31 December 2017: 57%). The aggregate balance of amounts due to such customers as at 31 December 2019 was KZT 20,084,037 thousand (31 December 2018: KZT 18,785,455 thousand).

In thousands of tenge	**31 December 2019**	**31 December 2018**	**31 December 2017**
Time deposits			
Legal entities	**18,167,252**	17,978,712	8,772,556
Individuals	**3,006,242**	2,816,028	2,316,281
State and public organizations	**2,137,128**	18,820	–
Current accounts			
Legal entities	**12,640,433**	8,997,946	7,799,574
Individuals	**4,459,504**	2,997,431	2,654,323
State and public organizations	**164,584**	145,049	258,503
Amounts due to customers	**40,575,143**	**32,953,986**	**21,801,237**

13. AMOUNTS DUE TO CUSTOMERS (CONTINUED)

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:

In thousands of tenge	31 December 2019	31 December 2018	31 December 2017
Legal entities:			
Trade and services	**10,475,604**	7,545,710	6,054,837
Manufacturing	**5,855,878**	8,230,795	1,374,720
Construction	**3,864,485**	3,483,953	4,651,569
Professional services	**2,856,981**	1,229,173	714,299
Mining of metal ores	**2,109,639**	2,951,684	353,028
Transport and communications	**1,616,731**	2,409,274	1,951,934
Sports and tourism	**179,291**	178,355	32,998
Other	**3,849,074**	947,714	1,438,745
State and public organizations	**2,301,714**	163,869	258,503
Individuals	**7,465,746**	5,813,459	4,970,604
Amounts due to customers	**40,575,143**	**32,953,986**	**21,801,237**

14. TAXATION

The corporate income tax expense comprises:

In thousands of tenge	2019	2018
Current corporate income tax charge	**817,463**	526,445
Deferred corporate income tax benefit – origination and reversal of temporary differences	**(11,312)**	(76,709)
Corporate income tax expense	**806,151**	**449,736**

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 2019 and 2018.

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 2019 and 2018 is as follows:

In thousands of tenge	2019	2018
Profit before corporate income tax expense	**3,764,175**	2,605,364
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**752,835**	**521,073**
Non-taxable income from reversal of impairment	**–**	(589)
Non-deductible administrative and other operating expenses	**27,302**	37,687
Allowance for ECL recognized in retained earnings	**12,164**	(149,878)
Other permanent differences	**13,850**	41,443
Corporate income tax expense	**806,151**	**449,736**

14. TAXATION (CONTINUED)

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

In thousands of tenge	31 December 2017	Origination and decrease of temporary difference in profit or loss	31 December 2018	Origination and decrease of temporary difference in profit or loss	31 December 2019
Tax effect of deductible temporary differences					
Other liabilities	14,672	(7,845)	6,827	**2,635**	**9,462**
Deferred corporate income tax assets	**14,672**	**(7,845)**	**6,827**	**2,635**	**9,462**
Tax effect of taxable temporary differences					
Loans to customers	(115,647)	115,647	–	–	–
Property and equipment and intangible assets	(158,747)	(31,093)	(189,840)	**8,677**	**(181,163)**
Deferred corporate income tax liabilities	**(274,394)**	**84,554**	**(189,840)**	**8,677**	**(181,163)**
Net deferred corporate income tax liability	**(259,722)**	**76,709**	**(183,013)**	**11,312**	**(171,701)**

15. OTHER LIABILITIES

As at 31 December 2019, 2018 and 2017, other liabilities comprise:

In thousands of tenge	31 December 2019	31 December 2018	31 December 2017
Financial lease liabilities	**368,540**	–	–
Obligations on guarantees issued	**63,476**	21,888	19,892
Amounts payable on non-operating activities	**2,619**	18,170	9,694
ECL on financial guarantees	**23,929**	28,909	–
Other financial liabilities	**458,564**	**68,967**	**29,586**
Unused vacations reserve	**87,844**	27,196	30,341
Taxes other than corporate income tax payable	**34,355**	34,136	38,591
Other liabilities	**2,709**	2,902	2,640
Other non-financial liabilities	**124,908**	**64,234**	**71,572**
Other liabilities	**583,472**	**133,201**	**101,158**

16. EQUITY

As at 31 December 2019, 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 2019, 2018 and 2017, the Bank did not declare or pay dividends.

Nature and purpose of other reserves

Reserve funds

As at 31 December 2019, 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 2018 and 2017: KZT 1,177,175 thousand and KZT 1,750,542 thousand, respectively). The funds from the general banking reserve could be allocated only upon the Bank's shareholders' official authorisation.

16. EQUITY (CONTINUED)

Nature and purpose of other reserves (continued)

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.

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:

In thousands of tenge	**2019**	**2018**
Net profit for the year attributable to the shareholder of the Bank	**2,958,024**	2,155,628
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)	**197.20**	143.71

As at 31 December 2019 and 2018, the Bank did not have any financial instruments diluting earnings per share.

17. INTEREST INCOME AND INTEREST EXPENSE

Net interest income comprises the following:

In thousands of tenge	**2019**	**2018**
Loans to customers	**4,872,343**	4,001,194
Receivables under reverse repurchase agreements	**168,042**	355,891
Amounts due from other banks	**152,409**	11,842
Other	**–**	1,090
Interest income calculated using the effective interest rate	**5,192,794**	**4,370,017**
Loans to customers measured at FVPL	**743,095**	227,350
Other interest income	**743,095**	227,350
Interest income	**5,935,889**	**4,597,367**
Amounts due to other banks	**(164,257)**	(584,071)
Amounts due to customers	**(1,053,836)**	(510,205)
Interest expense	**(1,218,093)**	**(1,094,276)**
Net interest income	**4,717,796**	**3,503,091**

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 2019:

In thousands of tenge	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Cash and cash equivalents	(5,363)	–	–	**(5,363)**
Loans to customers measured at amortized cost	30,531	48,223	(453,616)	**(374,862)**
Other financial assets	(16,365)	–	–	**(16,365)**
Financial guarantees	4,840	–	–	**4,840**
Credit loss expense	**13,643**	**48,223**	**(453,616)**	**(391,750)**

18. CREDIT LOSS EXPENSE (CONTINUED)

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

In thousands of tenge	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	(213)	–	–	**(213)**
Loans to customers measured at amortized cost	(117,880)	(411,238)	(46,545)	**(575,663)**
Other financial assets	(15,521)	–	–	**(15,521)**
Financial guarantees	7,605	–	–	**7,605**
Credit loss expense	**(126,009)**	**(411,238)**	**(46,545)**	**(583,792)**

19. NET COMMISSION INCOME

Net fee and commission income comprises:

In thousands of tenge	2019	2018
Settlement transactions	**345,795**	318,632
Guarantees and letters of credit	**191,926**	168,033
Cash transactions	**170,241**	145,458
Maintenance of bank accounts	**28,703**	26,482
Safe transactions	**5,009**	4,786
Other	**9,048**	8,665
Fee and commission income	**750,722**	**672,056**
Settlement operations	**(75,067)**	(60,012)
Other	**(5,674)**	(6,146)
Fee and commission expense	**(80,741)**	**(66,158)**
Net fee and commission income	**669,981**	**605,898**

20. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses comprise:

In thousands of tenge	2019	2018
Salaries and bonuses	**756,550**	812,423
Depreciation of property and equipment (Note 9)	**227,388**	83,301
Technical support and software	**183,875**	81,444
Taxes, other than corporate income tax	**166,471**	180,622
Social security contributions	**72,206**	77,572
Security	**69,904**	67,387
Amortisation of intangible assets (Note 10)	**41,478**	36,018
Communication and information services	**39,449**	50,642
Deposit insurance	**19,055**	15,777
Fines and penalties	**17,297**	1,645
Professional services	**16,861**	84,399
Travel expenses	**16,145**	21,561
Membership fees	**14,405**	15,401
Maintenance of buildings	**11,967**	12,601
Encashment	**11,226**	8,440
Office supplies	**5,794**	10,731
Insurance	**5,377**	8,088
Vehicles	**5,087**	6,769
Advertising and marketing	**4,432**	2,136
Repair and maintenance	**1,325**	4,353
Other	**70,221**	229,299
Administrative and other operating expenses	**1,756,513**	**1,810,609**

21. COMMITMENTS AND CONTINGENCIES

Political and economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Republic of 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 crude oil prices and tenge's exchange rate against major foreign currencies continue to have a negative impact on the Kazakhstan economy. Interest rates of attracted financing 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

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

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 provisions 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 2019. 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.

Commitments and contingencies

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

In thousands of tenge	31 December 2019	31 December 2018
Credit related commitments		
Undrawn loan facilities	**13,935,072**	26,856,016
Guarantees	**8,690,032**	9,847,577
Undrawn loan facilities	**706,267**	–
	23,331,371	**36,703,593**
ECL allowance for credit related commitments (*Note 15*)	**(23,929)**	(28,909)
Amounts due to customers held as security against guarantees (*Note 13*)	**(224,834)**	(350,363)

21. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 2019.

Below is an analysis of changes in allowances for ECL for the year ended 31 December 2019 and 2018:

In thousands of tenge	**2019**	**2018**
Financial guarantees	***Stage 1***	***Stage 1***
Allowance for ECL as at 1 January	(28,909)	(30,375)
Change in ECL during the year	4,840	7,605
Foreign exchange differences	140	(6,139)
As at 31 December	(23,929)	(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. It is also subject to operating risks.

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

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

Risk management structure

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

Board of Directors

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

Management Board

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

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.

22. RISK MANAGEMENT (CONTINUED)

Introduction (continued)

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 function discusses the results of all assessments with management, and reports its findings and recommendations to the Bank Board of Directors.

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

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 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.

22. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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.

Treasury and interbank relationships

The Bank’s treasury and interbank relationships and counterparties comprise financial services institutions, banks, brokerdealers, 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.

22. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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:
- GDP growth;
- growth in nominal cash income;
- unemployment rate;
- inflation;
- nominal prices in the housing market.

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.

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 2019.

Key drivers	ECL scenario	Assigned probabilities, %	2020	2021	2022	Subsequent years
GDP growth, %						
	Upside	10%	5.33%	5.59%	5.72%	5.59%
	Base case	80%	4.10%	4.30%	4.40%	4.30%
	Downside	10%	3.08%	3.23%	3.30%	3.23%
Growth in nominal cash income, %						
	Upside	10%	6.23%	7.16%	7.62%	7.61%
	Base case	80%	5.50%	6.30%	6.70%	6.70%
	Downside	10%	3.13%	3.58%	3.80%	3.80%
Unemployment rate, %						
	Upside	10%	4.08%	4.17%	4.17%	4.17%
	Base case	80%	4.80%	4.90%	4.90%	4.90%
	Downside	10%	5.76%	5.88%	5.88%	5.88%
Inflation, %						
	Upside	10%	4.00%	4.80%	5.20%	5.20%
	Base case	80%	5.00%	6.00%	6.50%	6.50%
	Downside	10%	6.25%	7.50%	8.13%	8.13%
Nominal prices in the housing market, tenge thousand/sq.m.						
	Upside	10%	309.33	324.51	341.55	359.10
	Base case	80%	290.00	301.60	316.08	332.51
	Downside	10%	285.54	296.74	310.86	327.15

Below is the geographical concentration of the Bank's financial assets and liabilities as at 31 December 2019:

In thousands of tenge	Kazakhstan	OECD countries	Non-OECD countries	Total
Assets				
Cash and cash equivalents	5,183,261	4,051,772	1,052,577	**10,287,610**
Receivables under reverse repurchase agreements	8,709,833	–	–	**8,709,833**
Loans to customers	43,402,231	5,496,933	2,366,868	**51,266,032**
Other financial assets	118,787	–	–	**118,787**
Total financial assets	**57,414,112**	**9,548,705**	**3,419,445**	**70,382,262**
Liabilities				
Amounts due to other banks	–	5,859,900	858,626	**6,718,526**
Amounts due to customers	39,695,617	757,246	122,280	**40,575,143**
Other financial liabilities	458,564	–	–	**458,564**
Total financial liabilities	**40,154,181**	**6,617,146**	**980,906**	**47,752,233**
Net balance sheet position	**17,259,931**	**2,931,559**	**2,438,539**	**22,630,029**

22. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

In thousands of tenge	**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	39,766,406	1,212,991	2,685,654	**43,665,051**
Other financial assets	120,995	–	–	**120,995**
Total financial assets	**54,106,995**	**5,999,321**	**2,828,322**	**62,934,638**
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	**24,677,040**	**(6,810,144)**	**2,702,500**	**20,569,396**

Liquidity risk and funding management

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

The Banks 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.

Analysis of financial liabilities by remaining contractual maturities

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

As at 31 December 2019	**On demand**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities						
Amounts due to other banks	–	5,889,566	864,037	–	–	6,753,603
Amounts due to customers	17,393,304	8,135,050	15,456,362	–	169,646	41,154,362
Other financial liabilities	–	–	–	458,464	–	458,464
Total undiscounted financial liabilities	**17,393,304**	**14,024,616**	**16,320,399**	**458,564**	**169,646**	**48,366,529**

22. RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

As at 31 December 2018	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 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 financial 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**

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	Less than 3 months	From 3 months to 1 year	1 to 5 years	Over 5 years	Total
2019	**987,756**	**2,257,890**	**15,467,444**	**4,618,281**	**23,331,371**
2018	547,484	7,344,583	20,993,873	7,817,653	36,703,593

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. 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 2019 and 2018.

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.

22. RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Currency risk (continued)

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:

In thousands of tenge	2019		2018	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
Russian rouble	**2.0%**	**238**	14.0%	6,739
	–12.0%	**(1,428)**	–9.0%	(4,332)
Euro	**4.0%**	**2,174**	14.0%	25,142
	–2.0%	**(1,087)**	–10.0%	(17,958)
US dollars	**4.0%**	**(59,615)**	14.0%	(256,951)
	–2.0%	**29,808**	–10.0%	183,537

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.
The currency position of the Bank as at 31 December 2019 is presented below:

In thousands of tenge	*Tenge*	*US Dollar*	*Russian Rouble*	*Euro*	*Other currency*	*Total*
Assets						
Cash and cash equivalents	1,184,806	8,048,299	102,362	915,155	36,988	10,287,610
Receivables under reverse repurchase agreements	8,709,833	–	–	–	–	8,709,833
Loans to customers	32,955,682	16,612,827	–	1,697,523	–	51,266,032
Other financial assets	118,538	249	–	–	–	118,787
Total financial assets	**42,968,859**	**24,661,375**	**102,362**	**2,612,678**	**36,988**	**70,382,262**
Liabilities						
Amounts due to other banks	5,430,841	-	-	1,287,685	-	6,718,526
Amounts due to customers	13,060,685	26,145,237	90,442	1,270,522	8,257	40,575,143
Other financial liabilities	451,918	6,512	21	113	-	458,564
Total financial liabilities	**18,943,444**	**26,151,749**	**90,463**	**2,558,320**	**8,257**	**47,752,233**
Net balance sheet position	**24,025,415**	**(1,490,374)**	**11,899**	**54,358**	**28,731**	**22,630,029**

23. FAIR VALUE MEASURMENT

Market risk (continued)

Currency risk (continued)

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

In thousands of tenge	*Tenge*	*US Dollar*	*Russian Rouble*	*Euro*	*Other currency*	*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	16,719,300	–	1,492,775	–	43,665,051
Other financial assets	117,767	3,228	–	–	–	120,995
Total financial assets	**32,351,305**	**28,245,982**	**149,027**	**2,081,863**	**106,461**	**62,934,638**
Liabilities						
Amounts due to other banks	–	8,899,379	–	442,91	–	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
Total financial liabilities	**10,262,019**	**30,081,347**	**100,892**	**1,902,279**	**18,705**	**42,365,242**
Net balance sheet position	**22,089,286**	**(1,835,365)**	**48,135**	**179,584**	**87,756**	**20,569,396**

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 can 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, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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 buildings and land of the Bank. 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 2019, therefore as at 31 December 2019 the Bank has not reflected revaluation of office buildings and land in financial statements.

23. FAIR VALUE MEASUREMENT (CONTINUED)

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.

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			
2019	***Date of measurement***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value					
Property and equipment	31 December 2019	–	–	1,058,830	**1,058,830**
Loans to customers measured at FVPL	31 December 2019	–	–	6,869,194	**6,869,194**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2019	10,287,610	–	–	**10,287,610**
Receivables under reverse repurchase agreements	31 December 2019	–	8,709,833	–	**8,709,833**
Loans to customers	31 December 2019	–	–	44,864,051	**44,864,051**
Other financial assets	31 December 2019	–	–	118,787	**118,787**
Liabilties for which fair values are disclosed					
Amounts due to other banks	31 December 2019	–	6,718,526	–	**6,718,526**
Amounts due to customers	31 December 2019	–	40,409,445	–	**40,409,445**
Other financial liabilities	31 December 2019	–	–	458,564	**458,564**

		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	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	–	–	40,956,238	**40,956,238**
Other financial assets	31 December 2018	–	–	120,995	**120,995**
Liabilties for which fair values are 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**

23. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

	2019			*2018*		
In thousands of tenge	*Carrying amount*	*Fair value*	*Unrecognised gain*	*Carrying amount*	*Fair value*	*Unrecognised gain*
Financial assets						
Cash and cash equivalents	10,287,610	10,287,610	–	14,643,508	14,643,508	–
Receivables under reverse repurchase agreements	8,709,833	8,709,833	–	4,505,084	4,505,084	–
Loans to customers	44,396,838	44,864,051	467,213	40,475,000	40,956,238	481,238
Other financial assets	118,787	118,787	–	120,995	120,995	–
Financial liabilities						
Amounts due to other banks	6,718,525	6,718,525	–	9,342,289	9,342,289	–
Amounts due to customers	40,575,143	40,409,445	(165,698)	32,953,986	33,116,227	(162,241)
Other financial liabilities	458,564	458,564	–	68,967	68,967	–
Total unrecognised change in unrealised fair value			**301,515**			**318,997**

Methods of measurement and assumptions

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

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.

23. FAIR VALUE MEASUREMENT (CONTINUED)

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:

As at 31 December 2019	Carrying amount	Valiation techniques	Unobservable input	Range (weighted-average)
Loans to customers measured at FVPL	6,869,194	Discounted cash flows	Probability of default	0.07%–0.32% (0.20%)

As at 31 December 2018	Carrying amount	Valiation techniques	Unobservable input	Range (weighted-average)
Loans to customers measured at FVPL	3,190,051	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 2019:

Unobservable inputs	Range	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 intented 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.

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 2019 and 2018.

24. OFFSETTING OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2019	*Gross amount of recognized financial assets*	*Gross amount of recognised financial liabilities offset in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position* – *Financial instruments*	*Net amount*
Receivables under reverse repurchase agreements	**8,709,833**	–	**8,709,833**	**(9,325,677)**	**(615,844)**
Total	**8,709,833**	–	**8,709,833**	**(9,325,677)**	**(615,844)**
As at 31 December 2018					
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)

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 Bank's contractual undiscounted repayment obligations.

	2019			**2018**		
In thousands of tenge	**Within one year**	**More than one year**	**Total**	**Within one year**	**More than one year**	**Total**
Cash and cash equivalents	10,287,610	–	**10,287,610**	14,643,508	–	**14,643,508**
Receivables under reverse repurchase agreements	8,709,833	–	**8,709,833**	4,505,084	–	**4,505,084**
Loans to customers	13,643,669	37,622,363	**51,266,032**	10,514,657	33,150,394	**43,665,051**
Property and equipment	–	1,545,447	**1,545,447**	–	1,239,155	**1,239,155**
Intangible assets	–	159,467	**159,467**	–	119,590	**119,590**
Current corporate income tax prepaid	–	–	–	102,831	–	**102,831**
Other assets	5,927,643	–	**5,927,643**	5,215,909	–	**5,215,909**
Total assets	**38,568,755**	**39,327,277**	**77,896,032**	**34,981,989**	**34,509,139**	**69,491,128**
Amounts due to other banks	6,718,526	–	**6,718,526**	9,342,289	–	**9,342,289**
Amounts due to customers	39,379,003	1,196,140	**40,575,143**	32,935,166	18,820	**32,953,986**
Current corporate income tax payable	10,527	–	**10,527**	–	–	–
Deferred corporate income tax liabilities	–	171,701	**171701**	–	183,013	**183,013**
Other liabilities	151,456	432,016	**583,472**	111,313	21,888	**133,201**
Total liabilities	**46,259,512**	**1,799,857**	**48,059,369**	**42,388,768**	**223,721**	**42,612,489**
Net position	**(7,690,757)**	**37,527,420**	**29,836,663**	**(7,406,779)**	**34,285,418**	**26,878,639**

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 2019 the Bank has a negative liquidity gap of KZT 7,690,757 thousand within a year (at 31 December 2018: KZT 7,406,779 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.

26. RELATED PARTIES DISCLOSURE

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 2019 and 2018, as well as the respective amounts of income and expenses for the years than ended are as follows:

	2019				2018			
In thousands of tenge	**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	**127,795**	**4,317**	**957,591**	**1,089,703**	130,646	–	11,174	141,820
Loans to customers	**–**	**126,023**	**–**	**126,023**	–	145,762	–	145,762
Liabilities								
Amounts due to other banks	**429,060**	**–**	**–**	**429,060**	9,342,289	–	–	9,342,289
Amounts due to customers	**–**	**31,395**	**–**	**31,395**	–	6,423	–	6,423

The income and expense items on transactions with related parties for the years ended 31 December 2019 and 2018 were as follows:

	2019				2018			
In thousands of tenge	**Controlling shareholder**	**Key management personnel**	**Entities under common control**	**Total**	**Controlling shareholder**	**Key management personnel**	**Entities under common control**	**Total**
Interest income	**70,029**	**7,639**	**16,114**	**93,782**	–	13,972	–	13,972
Interest expense	**(36,433)**	**(78,801)**	–	**(115,234)**	(458,972)	–	–	(458,972)

Details regarding the terms of attraction of funds from the Controlling shareholder are disclosed in *Note 12*. As at 31 December 2019, loans to the key management personnel have interest rates of 8-17% per annum (at 31 December 2018: 8-17% per annum) with maturity in 2021-2026 (at 31 December 2018: in 2018-2027).

Below is the information for 2019 about remuneration to 11 members (2018: 11 members) of key management personnel:

In thousands of tenge	**2019**	**2018**
Salaries and other short-term benefits	**93,915**	115,246
Social security contributions	**8,825**	9,834
Total	**102,740**	125,080

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 2019 and 2018, the Bank had complied in full with 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.

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 2019 and 2018:

In thousands of tenge	**2019**	**2018**
Tier 1 capital	**29,675,245**	27,142,802
Tier 2 capital	**–**	–
Deduction of positive difference with regulatory reserves	**(618,901)**	(245,275)
Total statutory capital	**29,056,344**	26,897,527
Risk weighted assets, contingencies and commitments, possible claims and liabilities	**84,729,116**	74,599,156
Capital adequacy ratio k1 (at least 5.5%)	**35%**	36%
Capital adequacy ratio k1-2 (at least 6.5%)	**35%**	36%
Capital adequacy ratio k2 (at least 8%)	**35%**	36%