



CENTERCREDIT

**JOINT STOCK COMPANY
BANK CENTERCREDIT**

**Consolidated Financial Statements
for the year ended 31 December 2018**

JOINT STOCK COMPANY BANK CENTERCREDIT

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Independent Auditors' Report

To the Shareholders and Board of Directors of Joint Stock Company Bank CenterCredit

Opinion

We have audited the consolidated financial statements of Joint Stock Company Bank CenterCredit and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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



Expected credit losses ('ECL') for loans to customers	
Please refer to Notes 3 (n) and 18 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>Loans to customers and banks represent 64% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used.</p> <p>From 1 January 2018 the Group implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:</p> <ul style="list-style-type: none"> - timely identification of significant increase in credit risk and default events related to loans to customers (allocation between stages 1, 2 and 3 in accordance with the IFRS 9); - assessment of probability of default (PD) and loss given default (LGD); - assessment of add-on adjustment to account for forward-looking information and expected cash flows forecast for Stage 3 loans. <p>Due to the significant volume of loans to customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.</p>	<p>We analysed the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9, including involvement of our own specialists in financial risks management.</p> <p>To analyse adequacy of professional judgement and assumptions made by the management in relation to allowance for ECL estimate, we performed the following procedures:</p> <ul style="list-style-type: none"> — For loans to corporate clients we assessed and tested the design and operating effectiveness of the controls over allocation of loans into Stages. — For a sample of loans to corporate clients, for which a potential change in ECL estimate may have a significant impact on the consolidated financial statements we tested whether Stages are correctly assigned by the Group by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. — For a sample of loans to corporate clients, we tested the correctness of data inputs for PD calculation. — For a sample of Stage 3 loans to corporate clients, where ECL are assessed individually we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realisable collateral and their expected disposal terms based on our understanding and publicly available market information. — For loans to individuals we tested the design and operating effectiveness of controls over timely reflection of delinquency events in the underlying systems. — We agreed input data for the model used to assess ECL for loans to individuals to underlying documents and checked whether these loans have been correctly allocated into Stages on a sample basis. — We assessed general predictive capability of the models used by the Group to assess ECL by comparing the estimates made as at 1 January 2018 with actual results for 2018. <p>We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.</p>

Adoption of IFRS 9 'Financial instruments'	
Please refer to Notes 3 and 5 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The use of financial instruments is a core business of the Group and financial assets constitute a majority of Group's assets.</p> <p>From 1 January 2018 the Group has adopted a new accounting standard for financials instruments, IFRS 9, which provides significant changes to classification and measurement of financial assets.</p> <p>Due to adoption of new requirements, which provide significant changes to the accounting principles of financial instruments, and due to a significant impact of the new standard on the financial position and performance of the Group, this area is a key audit matter.</p>	<p>We analysed the criteria used to determine the business models within which the Group holds financial assets by making inquiries to responsible employees, reviewing the Group's internal documentation and analysing internal business processes on selected significant financial assets portfolios.</p> <p>We checked that the Group has performed proper assessment of whether contractual cash flows are solely payments of principal and interest by analysing underlying documents and contractual terms in relation to a sample of financial assets.</p> <p>We also checked whether the Group has correctly identified and accounted for significant modifications of terms of loans to customers and banks as of the date of adoption of IFRS 9, by means of analysis of underlying documents on a sample of loans to customers and banks.</p> <p>We also assessed whether the consolidated financial statements provide an appropriate disclosure of key classification and measurement principles for financial instruments as well as the effects of the Group adoption of IFRS 9.</p>

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group for 2018 but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report of the Group for 2018 is expected to be made available to us after the date of this auditors' report.

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

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

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

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



In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.



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

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

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

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



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

KPMG Audit LLC

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



Sergey Dementyev
General Director of KPMG Audit LLC
acting on the basis of the Charter

25 March 2019

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018 (in millions of Kazakhstani tenge, except for earnings per share which is expressed in tenge)

	Note	Year ended 31 December 2018	Year ended 31 December 2017*
Interest income calculated using the effective interest method		110,110	108,681
Other interest income		1,593	1,257
Interest expense		(65,855)	(62,438)
Net interest income before charge for credit losses on interest-bearing assets	6	45,848	47,500
Charge for credit losses on interest bearing assets	7	(30,814)	(43,743)
Net interest income		15,034	3,757
Fee and commission income	8	24,554	21,698
Fee and commission expense		(4,387)	(2,797)
Net commission income		20,167	18,901
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	9	4,067	(2,447)
Net gain on sale and repayment of financial assets measured at fair value through profit or loss		629	-
Net realised gain on available-for-sale investments		-	1,226
Net foreign exchange gain	10	2,890	7,754
(Charge)/recovery of credit losses on other financial assets		(1,339)	48
Charge of provision for credit related commitments		(23)	(275)
Income from recognition of discount on subordinated bonds	24	-	34,993
Other income		1,368	412
Net non-interest income		27,759	60,612

Explanatory notes as set out on pages 16 to 102 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018 (in millions of Kazakhstani tenge, except for earnings per share which is expressed in tenge)

	Note	Year ended 31 December 2018	Year ended 31 December 2017*
Operating income		42,793	64,369
Operating expenses	11	(31,232)	(28,299)
Operating profit before income tax		11,561	36,070
Income tax expense	12	(2,392)	(7,199)
Profit for the year		9,169	28,871
Attributable to			
Owners of the Parent Bank		9,116	28,800
Non-controlling interest		53	71
		9,169	28,871
Earnings per share			
Basic (KZT)	13	56.55	143.03
Diluted (KZT)		54.07	143.19


*The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(t)).

The consolidated financial statements as set out on pages 8 to 102 were approved by Management Board on 25 March 2019 and were signed on its behalf by:




G.A. Khussainov
Chairman of the Management Board

25 March 2019
Almaty, Kazakhstan



Ye.A. Assylbek
Deputy Chairman of the
Management Board, member

25 March 2019
Almaty, Kazakhstan



A.T. Nurgaliyeva
Chief Accountant

25 March 2019
Almaty, Kazakhstan

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JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Kazakhstani tenge, except for earnings per share which is expressed in tenge)


	Year ended 31 December 2018	Year ended 31 December 2017*
PROFIT FOR THE YEAR	9,169	28,871
OTHER COMPREHENSIVE INCOME		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Net (loos)/gain resulting on revaluation of available-for-sale investments during the period (net of tax – KZT nil)	(1,462)	2,064
Reclassification adjustment relating to available-for-sale investments disposed of in the period (net of tax – KZT nil)	(629)	(1,226)
<i>Total items that may be reclassified subsequently to profit or loss</i>	<i>(2,091)</i>	<i>838</i>
<i>Items that will not be reclassified to profit or loss:</i>		
Revaluation of buildings and constructions	97	181
Transfer of revaluation reserve for property and equipment to retained earnings	(97)	(181)
<i>Total items that will not be reclassified to profit or loss</i>	<i>-</i>	<i>-</i>
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	(2,091)	838
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,078	29,709
Attributable to:		
Owners of the Parent Bank	7,025	29,638
Non-controlling interest	53	71
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,078	29,709

*The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(t)).

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A.T. Nurgaliyeva
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25 March 2019
Almaty, Kazakhstan

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JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

(in millions of Kazakhstani tenge, unless otherwise stated)

	Note	31 December 2018	31 December 2017*
ASSETS:			
Cash and cash equivalents	14	175,413	188,056
Financial instruments at fair value through profit or loss	15	42,676	33,592
Investment securities	16	177,790	150,135
Due from banks	17	31,292	13,140
Loans to customers and banks	18		
<i>Loans to corporate customers</i>		575,531	497,192
<i>Loans to retail customers</i>		393,153	334,059
Current income tax assets		1,211	712
Property, plant and equipment and intangible assets	19	38,583	40,820
Other assets	20	82,111	72,792
TOTAL ASSETS		1,517,760	1,330,498
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial instruments at fair value through profit or loss	15	12,668	9,199
Due to banks and financial institutions	21	125,650	98,791
Customer and bank accounts	22		
<i>Due to corporate customers</i>		490,723	472,342
<i>Due to retail customers</i>		583,807	504,610
Debt securities issued	23	70,147	17,328
Deferred income tax liabilities	12	9,099	9,580
Subordinated bonds	24	71,915	75,454
Other liabilities	25	46,653	14,311
TOTAL LIABILITIES		1,410,662	1,201,615
EQUITY			
Equity attributable to owners of the parent:			
Share capital	26	57,600	69,569
Fair value reserve for securities		(3,506)	(1,101)
Property revaluation reserve		4,347	4,444
Retained earnings		48,280	55,575
Total equity attributable to owners of the Parent Bank		106,721	128,487
Non-controlling interest		377	396
Total equity		107,098	128,883
TOTAL LIABILITIES AND EQUITY		1,517,760	1,330,498
Book value per ordinary share (KZT)	13	626	700
Book value per preference share (KZT)	13	300	300

*The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(t)).

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25 March 2019
Almaty, Kazakhstan

25 March 2019
Almaty, Kazakhstan

25 March 2019
Almaty, Kazakhstan

Explanatory notes as set out on pages 16 to 102 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Kazakhstani tenge, unless otherwise stated)

	Share capital	Investments available for sale revaluation reserve	Property revaluation reserve	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
1 January 2017	69,789	(1,939)	4,625	26,387	98,862	403	99,265
Total comprehensive income							
Profit for the year	-	-	-	28,800	28,800	71	28,871
Other comprehensive income							
<i>Items that are or may be reclassified subsequently to profit or loss:</i>							
Net change in fair value of available-for-sale investments	-	838	-	-	838	-	838
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	838	-	-	838	-	838
<i>Items that will not be reclassified to profit or loss:</i>							
Revaluation of property and equipment, net of deferred tax assets/deferred tax liabilities	-	-	(181)	181	-	-	-
<i>Total items that will not be reclassified to profit or loss:</i>	-	-	(181)	181	-	-	-
Total other comprehensive income	-	838	(181)	181	838	-	838
Total comprehensive income for the year	-	838	(181)	28,981	29,638	71	29,709
Transactions with owners recorded directly in equity							
Treasury shares sold, net	(220)	-	-	-	(220)	-	(220)
Total transactions with owners	(220)	-	-	-	(220)	-	(220)
Liquidation of subsidiary	-	-	-	207	207	(78)	129
31 December 2017	69,569	(1,101)	4,444	55,575	128,487	396	128,883

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Kazakhstani tenge, unless otherwise stated)

	Share capital	Fair value reserve for securities	Property revaluation reserve	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
Balance at 31 December 2017	69,569	(1,101)	4,444	55,575	128,487	396	128,883
Effect from transition to IFRS 9 as at 1 January 2018 (see Note 5)*	-	(314)	-	(16,508)	(16,822)	-	(16,822)
Restated balance as at 1 January 2018	69,569	(1,415)	4,444	39,067	111,665	396	112,061
Total comprehensive income							
Profit for the year	-	-	-	9,116	9,116	53	9,169
Other comprehensive income							
<i>Items that are or may be reclassified subsequently to profit or loss:</i>							
Net change in fair value	-	(2,091)	-	-	(2,091)	-	(2,091)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	(2,091)	-	-	(2,091)	-	(2,091)
<i>Items that will not be reclassified to profit or loss:</i>							
Revaluation of property and equipment, net of deferred tax assets/deferred tax liabilities	-	-	(97)	97	-	-	-
<i>Total items that will not be reclassified to profit or loss:</i>	-	-	(97)	97	-	-	-
Total other comprehensive income	-	(2,091)	(97)	97	(2,091)	-	(2,091)
Total comprehensive income for the year	-	(2,091)	(97)	9,213	7,025	53	7,078
Transactions with owners recorded directly in equity							
Treasury shares sold (Note 26)	(11,969)	-	-	-	(11,969)	-	(11,969)
Total transactions with owners	(11,969)	-	-	-	(11,969)	-	(11,969)
Disposal of subsidiary	-	-	-	-	-	(72)	(72)
31 December 2018	57,600	(3,506)	4,347	48,280	106,721	377	107,098

*The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(i)).

The consolidated financial statements as set out on pages 8 to 102 were approved by Management Board on 25 March 2019 and were signed on its behalf by:


G.A. Khussainov
Chairman of the Management Board


Ye.A. Assylbek
Deputy Chairman of the Management Board, member


A.T. Nurgaliyeva
Chief Accountant

25 March 2019
Almaty, Kazakhstan

25 March 2019
Almaty, Kazakhstan

25 March 2019
Almaty, Kazakhstan

Explanatory notes as set out on pages 16 to 102 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Kazakhstani tenge, unless otherwise stated)

	Year ended 31 December 2018	Year ended 31 December 2017*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	97,247	92,235
Interest paid	(62,448)	(63,573)
Services and fee and commission received	24,554	21,698
Services fee and commission paid	(4,886)	(1,916)
Net payments from other financial instruments	(413)	(918)
Net foreign exchange gain	5,967	4,565
Other income/receipts	(277)	412
Operating expenses paid	(29,140)	(26,990)
Cash inflow from operating activities before changes in operating assets and liabilities	30,604	25,513
Changes in operating assets:		
Financial instruments at FVPL	(4,631)	19,737
Due from banks	(18,199)	(6,388)
Loans to customers and banks	(117,046)	(58,202)
Other assets	(1,956)	(4,502)
Changes in operating liabilities:		
Financial instruments at FVPL	-	(356)
Due to banks and financial institutions	21,719	(10,307)
Customer and bank accounts	29,744	(73,694)
Other liabilities	963	(1,075)
Cash flows used in operating activities before tax	(58,802)	(109,274)
Income tax paid	(461)	(641)
Net cash flows used in operating activities	(59,263)	(109,915)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from repayment and sale of investments at fair value through other comprehensive income	375,717	-
Acquisition of investments at fair value through other comprehensive income	(394,383)	-
Proceeds from repayment and sale of investments available for sale	-	730,083
Acquisition of investments available for sale	-	(747,223)
Proceeds from repayment and sale of investments measured at amortised cost	164,505	-
Acquisition of investments measured at amortised cost	(159,000)	-
Proceeds from repayment and sale of investments held to maturity	-	11,773
Acquisition of investments held to maturity	-	(1,590)
Acquisition of property, plant and equipment and intangible assets	(6,074)	(4,405)
Proceeds from sale of property, plant and equipment	-	275
Net cash flows used in investing activities	(19,235)	(11,087)

JOINT STOCK COMPANY BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Kazakhstani tenge, unless otherwise stated)


	Year ended 31 December 2018	Year ended 31 December 2017*
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of treasury shares, net	(11,969)	(220)
Receipts from debt securities issued	54,230	2,569
Redemption and repayment of debt securities issued	-	(10,000)
Receipts from subordinated bonds	5,507	60,000
Repayment of subordinated bond	(6,000)	(3,000)
Net cash flows from financing activities	41,768	49,349
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents	24,087	922
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,643)	(70,731)
CASH AND CASH EQUIVALENTS, beginning of the year	188,056	258,787
CASH AND CASH EQUIVALENTS, end of the year (Note 14)	175,413	188,056

*The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(t)).

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A.T. Nurgaliyeva
Chief Accountant

25 March 2019
Almaty, Kazakhstan

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Almaty, Kazakhstan

Explanatory notes as set out on pages 16 to 102 form an integral part of these consolidated financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. BACKGROUND

(a) Principal activities

JSC Bank CenterCredit (the “Bank”) is a Joint Stock Company, which has been incorporated and carrying out its operations in the Republic of Kazakhstan since 1988. The Bank is regulated by the legislation of the Republic of Kazakhstan. The National Bank of the Republic of Kazakhstan (the “NBRK”) is a regulatory authority of the Bank. The Bank conducts its business under the license number 1.2.25/195/34, renewed on 28 January 2015.

The Bank's principal activity consists of commercial banking activities, trading with securities, foreign currencies and derivative instruments, loan origination activities and guarantees.

The registered address is 38, Al Farabi Ave., Almaty, Republic of Kazakhstan.

As at 31 December 2018 and 31 December 2017, the Bank had 19 branches in the Republic of Kazakhstan.

The Bank is a member of the Kazakhstan Deposit Insurance Fund.

The Bank is a parent company of a banking group (the “Group”), which consists of the following subsidiaries consolidated in its consolidated financial statements:

Name	Country of operation	Ownership interest		Activity
		31 December 2018	31 December 2017	
LLP BCC-SAOO	Republic of Kazakhstan	100%	100%	Management of distressed assets
JSC BCC Invest	Republic of Kazakhstan	97.63%	95.19%	Brokerage and dealer activity
LLP Center Leasing	Republic of Kazakhstan	90.75%	90.75%	Finance lease

As at 31 December 2018 and 2017, the number of ordinary shares was allocated as follows:

	31 December 2018 %	31 December 2017 %
B.R. Baiseitov	48.07	43.89
V.S. Lee	10.05	-
D.R. Amankulov	5.98	-
Tsesnabank JSC	-	29.56
Other (individually hold less than 5%)	35.90	26.55
	100.00	100.00

On 14 March 2018 the structure of the Bank's shareholders changes as follows: a block of ordinary shares of the Bank owned by Tsesnabank JSC in the amount of 29.56% of the total number of ordinary shares placed by the Bank was sold to the large participants of BankCenterCredit JSC – Mr. Bakhytbek Rymbekovich Baiseitov, Mr. Vladislav Sedinovich Lee and a group of individuals (minority shareholders). As a result of the transaction the interest of Mr. Bakhytbek Rymbekovich Baiseitov, Mr. Vladislav Sedinovich Lee amounted to 48.07% and 10.05% of the total number of ordinary shares placed by the Bank, respectively.

The consolidated financial statements were authorised for issue by the Management Board of JSC Bank CenterCredit on 25 March 2019.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1 BACKGROUND, CONTINUED

(b) Kazakhstan business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

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

This is the first set of the Group's annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and at fair value through other comprehensive income are stated at fair value (2017: financial assets available for sale) and buildings and constructions are measured at fair value, which increase is stated in the revaluation property reserve.

(c) Functional and presentation currency

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

The KZT is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in KZT is rounded to the nearest million.

(d) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgement, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from those estimates.

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

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Applicable to 2018 only:
 - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(g)(i).
 - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. BASIS OF PREPARATION, CONTINUED

(d) Use of estimates and judgments, continued

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Applicable to 2018 only:
 - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.
- Applicable to 2018 and 2017:
 - estimates of impairment of loans to customers and banks – Note 18;
 - estimates of fair values of financial assets and liabilities – Note 34;
 - estimates of financial instruments measured at fair value through profit or loss - Note 15;
 - estimates of fair value of subordinated bonds issued – Note 24.

(e) Changes in accounting policies and presentation

The Group has initially adopted IFRS 9 and IFRS 15 from 1 January 2018. Also, the Group early adopted Prepayment Features with Negative Compensation (Amendments to IFRS 9), issued in October 2017.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

Due to the transition methods chosen by the Group in applying IFRS 9, comparative information throughout these consolidated financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 5);
- additional disclosures related to IFRS 9 (see Notes 4 and 5); and
- additional disclosure related to IFRS 15 (see Note 8).

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 'Presentation of Financial Statements', which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Group disclosed this amount in notes to the consolidated financial statements.

Additionally, the Group has adopted appropriate amendments to IFRS 7 'Financial Instruments: Disclosures' that are applied to disclosures about 2018 but have not been applied to comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. BASIS OF PREPARATION, CONTINUED

(e) Changes in accounting policies and presentation, continued

IFRS 9 Financial Instruments, continued

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 3(g)(i).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

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

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 3(g)(i).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3(n).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

The Group used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and other comprehensive income, the Group has reclassified comparative interest income on non-derivative debt financial assets measured at FVTPL and net investments in finance leases to 'other interest income' and changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. BASIS OF PREPARATION, CONTINUED

(e) Changes in accounting policies and presentation, continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 'Revenue', IAS 11 'Construction Contracts and related interpretations'.

The Group initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note 8).

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) *Subsidiaries*

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) *Funds management*

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(a) Basis of consolidation, continued

(iv) Acquisitions and disposals of non-controlling interests

The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Bank. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statement of profit or loss and other comprehensive income.

(c) Interest

Accounting policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost versus gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Interest, continued

Calculation of interest income and expense, continued

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see section (n).

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

Presentation

Interest income calculated using the effective interest method presented in the consolidated statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI.

Other interest income presented in the consolidated statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

Interest expense presented in the consolidated statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost.

Accounting policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- interest on non-derivative debt financial instruments measured at FVTPL and net investments in finance lease.

Interest expense presented in the consolidated statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost;
- non-derivative financial liabilities measured at FVTPL.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(c)).

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Foreign currency

(i) Foreign currency transactions

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to tenge at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Foreign currency

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2018	31 December 2017
KZT/EUR	439.37	398.23
KZT/USD	384.20	332.33

(f) Cash and cash equivalents

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

(g) Financial instruments

(i) Classification

Financial assets – accounting policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

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

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- 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.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income calculated using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(i) Classification, continued

Financial assets – accounting policy applicable from 1 January 2018, continued

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment whether contractual cash flows are solely payments of principal and interest: policy applicable from 1 January 2018

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

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

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

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

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(i) Classification, continued

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial assets – Subsequent measurement and gains and losses: policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Financial assets – Subsequent measurement and gains and losses: policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
 - held for trading; or
 - designated as at FVTPL.

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(ii) *Modification of financial assets and financial liabilities*

Accounting policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Group due to changes in the NBRK key rate, if the loan agreement entitles the Group to do so.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogises to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- inclusion of conversion feature.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Group further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(d)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 3(c)).

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(ii) *Modification of financial assets and financial liabilities, continued*

Accounting policy applicable from 1 January 2018, continued

Financial liabilities, continued

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Accounting policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value including related transactions costs.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate.

Financial liabilities

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.

Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Accounting policy applicable from 1 January 2018

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(iii) Derecognition

Accounting policy applicable from 1 January 2018, continued

Financial assets, continued

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Examples of such transactions are the contracts of rights of claims to loans signed with "Mortgage organisation "Baspana" JSC (Note 18).

If the Group continues recognising asset to the extent of its continuing involvement, the Group also recognises a related liability. A transferred assets and liability related to it are measured on the basis, which reflects those rights and liabilities, which the Group has retained. An asset-related liability is measured so that the net carrying amount of the transferred asset and liability related to it represent an amortised cost of the rights and liabilities retained by the Group.

The Group continues recognising income arising with regard to the transferred asset to the extent of its continuing involvement in expenses arising with regard to the liability related to the transferred asset.

If the transferred asset is measured at amortised cost, then the liability related to it cannot be classified as measured at fair value through profit or loss.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Fair value measurement principles

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

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

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

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

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

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(v) *Repurchase and reverse repurchase agreements*

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

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

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

(vi) *Offsetting*

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

(h) Loans to customers

Policy applicable from 1 January 2018

'Loans to customers' caption in the consolidated statement of financial position include:

- loans to customers and banks measured at amortised cost (see Note 3(g)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Policy applicable before 1 January 2018

Loans to customers and banks were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Group did not intend to sell immediately or in the near term.

Loans to customers included:

- those classified as loans and receivables.

Loans to customers were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Group chose to designate the loans to customers as measured at FVTPL, they were measured at fair value with fair value changes recognised immediately in profit or loss.

Loans to customers also included finance lease receivables in which the Group was the lessor.

(i) Investment securities

Policy applicable from 1 January 2018

The 'investment securities' caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(i) Investment securities: policy applicable before 1 January 2018, continued

Policy applicable from 1 January 2018, continued

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

Held-to-maturity

Held-to-maturity investments were non-derivative assets with fixed or determinable payments and fixed maturity that the Group had the positive intent and ability to hold to maturity, and which were not designated as at FVTPL or as available-for-sale, or meet the definition of loans and receivables.

Held-to-maturity investments were carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that were so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group had collected substantially all of the asset's original principal; and
- sales or reclassifications that were attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Fair value through profit or loss

- *Trading assets* were those assets that the Group acquired or incurred principally for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together for short-term profit or position taking. Trading assets were initially recognised and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value were recognised as part of net trading income in profit or loss.
- *Designated assets*. The Group designated some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

Available-for-sale

Available-for-sale investments were non-derivative investments that were designated as available-for-sale or were not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value could not be measured reliably were carried at cost. All other available-for-sale investments were measured at fair value after initial recognition.

Interest income was recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the Group became entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, were recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment was sold, the gain or loss accumulated in equity was reclassified to profit or loss.

A non-derivative financial asset might be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(j) Property and equipment and intangible assets

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings and constructions, which are stated at revalued amounts as described below.

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

Buildings and constructions are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

(ii) Intangible assets

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

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

(iii) Depreciation

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

Depreciation is charged at the following annual rates:

Buildings and other constructions	1.25-2.50%
Furniture and computers	5.60-20.00%
Intangible assets	12.00-100.00%

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is initially recognised at the cost of acquisition, including acquisition costs. Subsequently, the investment property is recognised at cost net of accumulated depreciation and impairment loss. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives range from 10 to 40 years.

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

(l) Assets held for sale

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

(m) Deposits, debt securities issued and subordinated bonds

Deposits, debt securities issued and subordinated bonds are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(n) Impairment

See also Note 4.

Policy applicable from 1 January 2018

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 4).

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments, other than purchased or originated credit-impaired assets, for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(n) Impairment, continued

Policy applicable from 1 January 2018, continued

Restructured financial assets, continued

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, the loans that are overdue for 90 days or more are considered credit-impaired.

In making an assessment of whether an investment in sovereign debt (other financial assets) is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.

Credit-impaired financial assets

- the rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the consolidated financial statements

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component (loan issued). Any excess of the loss allowance over the gross amount of the drawn component (loan issued) is presented as a provision; and

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(n) Impairment: policy applicable before 1 January 2018, continued

Presentation of allowance for ECL in the consolidated statement of financial position, continued

- *debt instruments measured at fair value through other comprehensive income*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the consolidated statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a borrower;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers in the Group;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(n) Impairment: policy applicable before 1 January 2018, continued

Financial assets measured at amortised cost	<p>The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.</p> <p>In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.</p> <p>An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.</p>
Available-for-sale financial assets	<p>Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss.</p>

Non-financial assets

Other non-financial assets, other than deferred tax assets, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(o) Provision

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

(p) Financial guarantees and commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(p) Financial guarantees and commitments, continued

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- *from 1 January 2018*: at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- *before 1 January 2018*: at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less, when appropriate, the cumulative amortisation recognised in accordance with the principles of IAS 18.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- *from 1 January 2018*: the Group recognises a loss allowance;
- *before 1 January 2018*: the Group recognised a provision in accordance with IAS 37.

(q) Share capital

(i) Ordinary shares

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

(ii) Preference shares

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

(ii) Repurchase of share capital

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

(iv) Dividends

The ability of the Group to declare and pay dividends is subject to acting legislation of the Republic of Kazakhstan.

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

(r) Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

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3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(r) Taxation, continued

Deferred tax, continued

- initial recognition of goodwill not deductible for tax purposes,
- temporary differences related to the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

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

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

In accordance with the tax legislation of the Republic of Kazakhstan, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

(s) Segment reporting

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

(t) Comparative information

As a result of adoption of IFRS 9 the Group changed presentation of certain captions in the primary forms of consolidated financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the consolidated statement of financial position is disclosed in Note 5.

The effect of main changes in presentation of the consolidated statement of financial position as at 31 December 2017 is as follows:

- “Available-for-sale financial assets” and “Held-to-maturity investments” were presented within “Investment securities” line item;

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED

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(in millions of Kazakhstani tenge, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(t) Comparative information, continued

The effect of the changes above on the consolidated statement of financial position is summarised in the table below:

	As previously reported	Effect of reclassifications	As reclassified
Available-for-sale investments	150,135	(150,135)	-
Investment securities	-	150,135	150,135

Effective from 1 January 2018, on transition to IFRS 9 and due to changes in lending policy, the Group has reviewed the criteria of limits for classification of loans to large corporates and small and medium-sized enterprises as a result of which disclosures for loan portfolio by corporate segment and small and medium-sized enterprises' segment were changed according to the following parameters of the borrower's performance: annual revenue, loans and commitments' payables to the Bank, amount of deposits and balances in current accounts.

The effect of the changes above on the consolidated financial statements as at 31 December 2017 (Note 18) is summarised in the table below:

	As previously reported	Effect of reclassifications	As reclassified
Loans to corporate customers			
Gross amount	511,156	(43,551)	467,605
Impairment allowance	(95,177)	7,952	(87,225)
Carrying amount	415,979	(35,599)	380,380

	As previously reported	Effect of reclassifications	As reclassified
Loans to small and medium-sized enterprises			
Gross amount	65,368	43,551	108,919
Impairment allowance	(2,757)	(7,952)	(10,709)
Carrying amount	62,611	35,599	98,210

The reclassifications above will not affect the performance and equity of the Group.

(u) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 with earlier application permitted. However, the Group has not early adopted them in preparing these consolidated financial statements, with the exception of the amendment to IFRS 9 affecting prepayment features with negative compensation issued in October 2017.

- **IFRS 16 Leases**

The Group is required to adopt IFRS 16 *Leases* from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Group has not yet finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of initial application.

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

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- IFRS 16 *Leases*, continued

Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment.

No significant impact is expected for the Group's finance leases.

Other standards

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

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28);
- *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19);
- *Annual Improvements to IFRSs 2015-2017 Cycle—various standards*;
- *Amendments to References to Conceptual Framework in IFRS Standards*;
- IFRS 17 *Insurance Contracts*.

4. FINANCIAL RISK REVIEW

This note presents information about the Group's exposure to financial risks. For information on the Group's financial risk management framework, see Note 28 to the Group's consolidated financial statements for the year ended 31 December 2018.

Credit risk - Amounts arising from ECL

See accounting policy in Note 3(n).

Significant increase in credit risk

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

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

The Group uses the following criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop of 30 days past due.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

<u>Corporate exposure</u>	<u>All exposures (corporate and retail exposures)</u>
<ul style="list-style-type: none">• Information obtained during periodic review of borrowers' files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.• Data from credit reference agencies, press articles, changes in external credit ratings;• Quoted bond and credit default swap (CDS) prices for the issuer where available• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	<ul style="list-style-type: none">• Payment record – this includes overdue status;• Utilisation of the granted limit• Requests for and granting of forbearance• Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For majority of exposures the key driver would be GDP forecast growth.

The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary depending on different types of lending, in particular between corporate and retail, as well as by portfolio and include both quantitative changes in PDs, including a backstop based on delinquency, and qualitative factors.

Credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling, it is determined that there are the objective factors resulting in deterioration of financial and economic position of the counteragent. When determining whether credit risk has increased significantly, remaining lifetime ECLs are adjusted for changes in maturity.

JOINT STOCK COMPANY BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Determining whether credit risk has increased significantly, continued

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list, restructuring feature that results in transfer to Stage 3. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or, for inter-bank mounts owe and securities, more than 7 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Group determines a probation period during which the financial asset is required to demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement (Stage 1) to credit-impaired (Stage 3); and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (Stage 1) and lifetime ECL measurements (Stage 2).

Modified financial assets

The contractual terms of a loan agreement may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the borrower. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new instrument at fair value in accordance with the accounting policy set out in Note 3(g)(ii).

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

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Modified financial assets, continued

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired and default event occurred (see Note 3(n)). A client needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group;
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether an issuer is in default, the Group considers indicators that are:

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

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

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Group uses expert judgment in assessment of forward-looking information. This assessment is also based on the information from external sources.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key driver is GDP forecasts.

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 years.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD.

Generally, these parameters are derived from internally developed statistical models of the Group and other historical data. They are adjusted to reflect forward-looking information as described above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Measurement of ECL, continued

PD estimates are estimates at a certain date, which are calculated separately for each loan portfolio, based on Roll Rate model (Markov chains) applied to the loan portfolios with similar credit risk characteristics. The probability of transition of loan portfolio's segment from one 'past due' stage to stage 4 (default) is determined with the use of migration matrices based on historical data. Depth of historical data has to be a least 60 periods. Adjustment to average transition matrix will be made, with economic conditions taken into account, by adding standard normal distribution of an average matrix of each segment and z-criterion of macroeconomic factor. A macroeconomic factor is GDP growth. Official statistics data (official websites of regulatory authority, statistics agencies of the Republic of Kazakhstan) are used as inputs for estimates with economic conditions taken into account. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period.

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

- instrument type;
- credit assets segmentation;
- restructuring indicators.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Carrying amount as at 31 December 2018	External benchmarks used	External benchmarks used	
			PD	LGD
Cash and cash equivalents	175,413			70%; 0% - if the Government of the Republic of Kazakhstan acts as a counterparty
Due from banks	31,292	Moody's default study		LGD for investment securities, whose issuers are financial institutions, is equal to 70%, for other companies LGD is based on the history of recovery rates depending on rating; 0% - if the Government of the Republic of Kazakhstan acts as a counterparty
Investment securities	177,790	Moody's default study		

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4. FINANCIAL RISK REVIEW, CONTINUED

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI investment securities as at 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2, Stage 3, and POCI are included in Note 3(n).

	31 December 2018			
	Stage 1 12-month expected credit losses (ECL)	Stage 2 Lifetime ECL of assets not credit- impaired	Stage 3 Lifetime ECL for credit-impaired assets	Total
<i>Cash and cash equivalents</i>				
- rated from AA- to AA+	2,577	-	-	2,577
- rated from A- to A+	9,853	-	-	9,853
- rated from BBB- to BBB+	100,787	-	-	100,787
- rated from BB- to BB+	5,733	-	-	5,733
- rated from B- to B+	4,285	-	-	4,285
- not rated	334	-	-	334
	123,569	-	-	123,569
Credit loss allowance	(73)	-	-	(73)
Total cash and cash equivalents (except cash on hand)	123,496	-	-	123,496
<i>Investment securities at amortised cost</i>				
- rated from BBB- to BBB+	5,908	-	-	5,908
- rated from BB- to BB+	1,009	-	-	1,009
- rated from B- to B+	-	-	-	-
	6,917	-	-	6,917
Credit loss allowance	(6)	-	-	(6)
Total investment securities at amortised cost	6,911	-	-	6,911
<i>Debt investment securities at FVOCI</i>				
- rated from BBB- to BBB+	104,193	-	-	104,193
- rated from BB- to BB+	66,526	-	-	66,526
Total debt investment securities at FVOCI	170,719	-	-	170,719
Impairment allowance	(165)	-	-	(165)
Total carrying amount of investment securities measured at fair value through other comprehensive income - debt	174,313	-	-	174,313
<i>Due from banks</i>				
- rated from BBB- to BBB+	1,826	-	-	1,826
- rated from BB- to BB+	1,014	-	-	1,014
- rated from B- to B+	5,901	19,216	-	25,117
- not rated	3,907	-	-	3,907
	12,648	19,216	-	31,864
Credit loss allowance	(87)	(485)	-	(572)
Total due from banks	12,561	18,731	-	31,292

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4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Measurement of ECL, continued

	31 December 2018				
	Stage 1 12-month expected credit losses (ECL)	Stage 2 Lifetime ECL of assets not credit- impaired	Stage 3 Lifetime ECL for credit- impaired assets	Originated credit-impaired financial assets (or POCI- assets)	Total
Loans to corporate customers at amortised cost					
Not overdue loans	310,755	65,402	48,139	478	424,774
Overdue loans					
- overdue less than 30 days	539	6,908	65,799	2,200	75,446
- overdue 31-60 days	-	163	29,483	-	29,646
- overdue 61-90 days	-	45	17,876	-	17,921
- overdue 91-180 days	-	-	18,094	535	18,629
- overdue more than 180 days	-	-	30,283	-	30,283
	311,294	72,518	209,674	3,213	596,699
Credit loss allowance	(703)	(1,474)	(95,255)	-	(97,432)
Total loans to corporate customers at amortised cost	310,591	71,044	114,419	3,213	499,267
Loans to individuals at amortised cost					
Not overdue loans	246,158	36,209	9,342	-	291,709
Overdue loans					
- overdue less than 30 days	6,954	2,848	19,771	-	29,573
- overdue 31-60 days	-	3,841	279	-	4,120
- overdue 61-90 days	-	3,328	5,711	-	9,039
- overdue 91-180 days	-	-	6,901	-	6,901
- overdue more than 180 days	-	-	45,131	-	45,131
	253,112	46,226	87,135	-	386,473
Credit loss allowance	(821)	(408)	(22,997)	-	(24,226)
Total loans to individuals at amortised cost	252,291	45,818	64,138	-	362,247
Loans provided under reverse REPO agreements					
Reverse REPO	75,071	-	-	-	75,071
Credit loss allowance	-	-	-	-	-
Total loans provided under reverse REPO agreements	75,071	-	-	-	75,071

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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5. TRANSITION TO IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassification	Remeasurement	New carrying amount under IFRS 9
Financial assets							
Cash and cash equivalents	14	Loans and receivables	Amortised cost	188,056	-	-	188,056
Investment securities (a)	16	Available-for-sale	FVOCI	150,135	(10,048)	-	140,087
Investment securities - debt (b)	16	Available-for-sale	Amortised cost	-	10,048	(57)	9,991
Financial instruments at fair value through profit or loss			FVTPL				
	15	FVTPL	(mandatory)	33,592	(3,528)	-	30,064
Investment securities - debt (a)	16	FVTPL	FVOCI	-	1,631	-	1,631
Investment securities - debt (b)	16	FVTPL	Amortised cost	-	1,897	(65)	1,832
Due from banks	17	Loans and receivables	Amortised cost	13,140	-	-	13,140
Loans to customers and banks	18	Loans and receivables	Amortised cost	831,251	-	(20,065)	811,186
Total financial assets				1,216,174	-	(20,187)	1,195,987

As a result of adoption of IFRS 9 there were no reclassification or remeasurement of financial liabilities.

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(g)(i). The application of these policies resulted in the reclassifications set out in the table above and explained below.

- Certain debt securities are held by the Group in separate portfolios to meet everyday liquidity needs. The Group seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Before the adoption of IFRS 9, certain trading assets and investment securities were reclassified out of the FVTPL and available-for-sale categories to loans and receivables at their then fair values. On transition date, securities classified under IAS 39 as held for trading do not meet the criteria of held for trading and are held by the Group to maturity to gain the interest income. On the adoption of IFRS 9, the carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

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5. TRANSITION TO IFRS 9, CONTINUED

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9, continued

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to the fair value reserve and retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 as at 1 January 2018
Fair value reserve of securities - FVOCI debt instruments (31 December 2017 – Fair value reserve – available-for-sale)	
Closing balance under IAS 39 (31 December 2017)	(1,101)
Reclassification of debt investment securities from available-for-sale to amortised cost	(323)
Reclassification of debt investment securities from FVTPL to investment securities at FVOCI	130
Recognition of expected credit losses under IFRS 9 for debt investment securities at FVOCI	(121)
Opening balance under IFRS 9 (1 January 2018)	(1,415)
Retained earnings	
Opening balance under IAS 39 (31 December 2017)	55,575
Remeasurement due to reclassification under IFRS 9	234
Recognition of expected credit losses under IFRS 9 (including ECL on loans to customers, receivables, financial guarantee contracts)	(17,230)
Related tax	2,911
Loss from modification of financial assets terms	(3,031)
Related tax	608
Opening balance under IFRS 9 (1 January 2018)	39,067

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

	Impairment allowance and provisions			
	31 December 2017 (IAS 39/ (IAS 37)	Reclassifi- cation	Change in estimate base	1 January 2018 (IFRS 9)
Loans and held-to-maturity securities under IAS 39/ financial assets measured at amortised cost under IFRS 9 (including loans to customers, accounts receivable and other financial assets)	113,851	-	17,018	130,869
Total measured at amortised cost	113,851	-	17,018	130,869
Debt investment securities available for sale under IAS 39/ debt investment securities measured at fair value through other comprehensive income under IFRS 9	-	-	170	170
Total measured at fair value through other comprehensive income	-	-	170	170
Financial guarantee contracts	115	-	42	157

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6. NET INTEREST INCOME

	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest income calculated using effective interest rate method:		
Interest income on financial assets recorded at amortised cost:		
- interest income on credit-unimpaired assets	77,127	77,179
- interest income on credit-impaired assets	22,736	22,846
Interest income on financial assets recorded at fair value through other comprehensive income	10,247	-
Interest on investments available for sale	-	8,656
Total interest income calculated using effective interest rate method	110,110	108,681
<i>Interest income on financial assets recorded at amortised cost comprise:</i>		
Interest on loans to customers and banks	96,789	97,574
Interest on investment securities measured at amortised cost	1,281	1,137
Penalties on loans to customers and banks	614	625
Interest on due from banks	1,179	689
	99,863	100,025
Interest income on financial assets at fair value through profit or loss and investments in net finance lease	1,593	1,257
Other interest income	1,593	1,257
Total interest income	111,703	109,938
Interest expense:		
Interest expense on financial liabilities recorded at amortised cost	(65,855)	(62,438)
Total interest expense	(65,855)	(62,438)
Interest expense on financial liabilities recorded at amortised cost:		
Interest on customer and bank accounts	(45,366)	(46,640)
Interest on debt securities issued	(4,218)	(2,666)
Interest on due to banks and financial institutions	(8,308)	(7,286)
Interest on subordinated bonds	(7,963)	(5,846)
Total interest expense on financial liabilities recorded at amortised cost	(65,855)	(62,438)
	45,848	47,500

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7. CHARGE OF PROVISIONS FOR CREDIT LOSSES ON INTEREST BEARING ASSETS

	Corporate loans (restated)	Small and medium-sized enterprises (restated)	Mortgage loans	Consumer loans	Business development	Car loans	Loans to banks	Total loans to customers and banks
For the years ended								
31 December 2017 and 2018								
1 January 2017	70,371	9,775	2,585	4,140	6,551	32	13	93,467
Charge/(recovery) of allowance**	28,358	2,269	5,738	7,173	158	60	(13)	43,743
Unwinding of discount*	(10,818)	(1,606)	(2,883)	(3,619)	(2,133)	(47)	-	(21,106)
Write-off of assets	(755)	(107)	(1,539)	(1,353)	(340)	(9)	-	(4,103)
Recovery of assets previously written-off	116	384	550	554	284	24	-	1,912
Foreign exchange difference	(47)	(6)	(1)	(3)	(5)	-	-	(62)
31 December 2017	87,225	10,709	4,450	6,892	4,515	60	-	113,851
1 January 2018	87,225	10,709	4,450	6,892	4,515	60	-	113,851
Effect of transition to IFRS 9 related to expected credit losses	12,779	1,100	2,123	371	621	40	-	17,034
Effect of transition to IFRS 9 related to adjustment of interest income of credit-impaired loans****	16,211	1,996	388	441	613	15	-	19,664
1 January 2018 (restated)	116,215	13,805	6,961	7,704	5,749	115	-	150,549
Charge/(recovery) of allowance**	17,605	101	3,709	2,797	2,967	(2)	25	27,202
New financial assets originated or purchased**	1,900	881	32	792	7	-	-	3,612
Unwinding of discount***	(10,622)	(1,818)	(1,453)	(520)	(642)	(9)	-	(15,064)
Write-off of assets	(39,581)	(3,278)	(2,902)	(2,561)	(306)	(4)	-	(48,632)
Recovery of assets previously written-off	173	74	793	396	62	15	-	1,513
Foreign exchange difference	1,771	206	165	186	173	2	-	2,503
31 December 2018	87,461	9,971	7,305	8,794	8,010	117	25	121,683

Comparative amounts for the twelve months ended 31 December 2017 represent impairment allowance and reflect measurement basis under IAS 39.

*Interest income on impaired loans is recognised using the method of unwinding of discount. The present value of future cash flows increases due to the passage of time thus reducing the allowance for impairment losses.

**Provisions recognised during the twelve months ended 31 December 2018 and 2017 are presented in the consolidated statement of profit or loss in "Charge for credit losses on interest-bearing assets" line item.

***Unwinding of discount on present value of expected credit losses.

**** Before 1 January 2018 for credit-impaired loans the Group ceased accruing contractual interest on credit-impaired loans, and accrued loan interest income in the form of unwinding of discount on impairment allowance (see *). As at transition date the Group recovered the gross carrying amount of loans to customers up to the amount of contractual claim on credit-impaired loans of KZT 19,664 million.

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8. FEE AND COMMISSION INCOME

	For the year ended 31 December 2018	For the year ended 31 December 2017
Payment cards	6,994	5,352
Settlement	6,544	6,166
Cash operations	4,736	4,702
Guarantees issued	3,853	3,088
Internet-banking services	584	123
Foreign exchange operations	408	708
Custodian activities	266	234
Trust operations	181	26
Documentary operations	148	129
Other	840	1,170
	<u>24,554</u>	<u>21,698</u>

Fee and commission income which is not an integral part of effective interest rate for financial asset or liability is recognised based on the type of service or at a time of or in the course of fulfilment by the Group of a performance obligation under a contract:

- fee and commission for settlement operations, cash operations, payment card operations, Internet-banking services, foreign exchange operations is charged for is charged for the execution of payment order in accordance with tariffs depending on the type of the transaction and recognised as income at the moment of the transaction execution;
- commission fee on guarantees and letters of credit issued is paid in advance and is recognised as income over the time of the relevant guarantee or letter of credit.

9. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the year ended 31 December 2018	For the year ended 31 December 2017
Realised gain on trading operations	293	119
Unrealised gain/(loss) on operations with derivative financial instruments	4,068	(694)
Unrealised loss on movement in fair value	(1,036)	(835)
Realised gain/(loss) on operations with derivative financial instruments	742	(1,037)
	<u>4,067</u>	<u>(2,447)</u>

10. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	For the year ended 31 December 2018	For the year ended 31 December 2017
Dealing, net	5,967	5,487
Translation differences, net	(3,077)	2,267
	<u>2,890</u>	<u>7,754</u>

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11. OPERATING EXPENSES

	For the year ended 31 December 2018	For the year ended 31 December 2017
Wages and salaries	13,287	12,662
Taxes other than income tax	3,252	3,141
Administrative expenses	2,579	2,346
Leases expenses	2,759	1,685
Depreciation and amortisation	2,645	2,554
Contributions in Deposit Insurance Fund	2,380	2,229
Security and alarm expenses	875	730
Telecommunications	660	556
Collection expenses	580	614
Equipment repair and maintenance	503	622
Business trip expenses	350	286
Advertising costs	344	293
Professional services	255	368
Representation expenses	39	48
Other expenses	724	165
	31,232	28,299

12. INCOME TAX EXPENSE

	For the year ended 31 December 2018	For the year ended 31 December 2017
Current year tax expense	-	-
Movement in deferred tax liabilities due to origination and reversal of temporary differences and movement in loss allowance	2,392	7,199
Total income tax expense	2,392	7,199

In 2018, the applicable tax rate for current and deferred tax is 20% (2017: 20%).

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

	31 December 2018	%	31 December 2017	%
Profit before income tax	11,561		36,070	
Income tax at the applicable income tax rate	2,312	20.00	7,214	20.00
Non-taxable interest and other income on transactions with state and other qualified securities	-	-	(2,085)	(5.78)
Non-taxable income	(945)	(8.17)	-	-
Change in unrecognised deferred tax assets	-	-	4	0.01
Non-deductible operating and other expenses	1,025	8.87	2,066	5.73
	2,392	20.69	7,199	19.96

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2018 and 2017. These deferred tax assets are recognised in these consolidated financial statements.

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12. INCOME TAX EXPENSE, CONTINUED

(a) Deferred tax assets and liabilities, continued

Movements in temporary differences during the years 2018 and 2017 are presented as follows:

	Balance at 1 January 2018	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2018
2018				
Accrued interest payable	101	22	-	123
Financial assets and liabilities at fair value through profit or loss	113	46	-	159
Tax loss carried forward	171	(909)	1,861	1,123
Other	320	(156)	-	164
Effect of modification of financial assets	-	(204)	609	405
Discount from low-interest customers and banks accounts	-	(240)	-	(240)
Discount on subordinated bonds	(6,987)	(577)	-	(7,564)
Property, plant and equipment and intangible assets	(3,298)	(374)	403	(3,269)
	(9,580)	(2,392)	2,873	(9,099)
	Balance at 1 January 2017	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2017
2017				
Accrued interest payable	133	(32)	-	101
Financial assets and liabilities at fair value through profit or loss	219	(106)	-	113
Tax loss carried forward	125	46	-	171
Other	312	8	-	320
Discount on subordinated bonds	-	(6,987)	-	(6,987)
Property, plant and equipment and intangible assets	(3,170)	(128)	-	(3,298)
	(2,381)	(7,199)	-	(9,580)

As at the year ended 31 December 2017 the Group recognised a deferred tax liability of KZT 6,987 million resulted from recognition of discount on subordinated loans issued (Note 24). Income in the form of recognised discount is not included in taxable income in accordance with Article 84, point 2, sub-point 7 of the Tax Code of the Republic of Kazakhstan.

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13. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income for the period attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the period.

	For the year ended 31 December 2018	For the year ended 31 December 2017
Basic earnings per share		
Net profit attributable to shareholders of the Bank	9,116	28,800
Less: additional dividends payable upon full distributions of profit to the preferred share holders	(17)	(5,645)
Net earnings attributable to ordinary shareholders	9,099	23,155
Weighted average number of ordinary shares for purposes of basic earnings per share	160,889,241	161,885,749
Basic earnings per share (in KZT)	56.55	143.03
Diluted earnings per share		
Net earnings attributable to ordinary shareholders	9,099	23,155
Add: additional dividends payable upon full distributions of profit to the preferred share holders	17	5,645
Earnings used in calculation of diluted earnings per share	9,116	28,800
Weighted average number of ordinary shares	160,889,241	161,885,749
Shares deemed to be issued:		
Weighted average number of common shares that would be issued for the convertible preferred shares	7,698,529	39,249,255
Weighted average number of ordinary shares for purposes of diluted earnings per share	168,587,770	201,135,004
Diluted earnings per share (in KZT)	54.07	143.19

The Group has calculated the book value of one share per each class of shares in accordance with the methodology for computation of the book value of one share provided by KASE.

The book value of one share per each class of shares as at 31 December 2018 and 31 December 2017 is as follows:

Class of shares	31 December 2018			31 December 2017		
	Outstanding shares (number of shares)	Amount for calculation of book value KZT million	Book value of one share, KZT	Outstanding shares (number of shares)	Amount for calculation of book value KZT million	Book value of one share, KZT
Ordinary shares	160,024,977	100,195	626	161,003,835	112,642	700
Preference shares	295,414	89	300	39,249,255	11,775	300
		100,284			124,417	

The book value of one preference share is calculated as the ratio of the amount of equity attributable to preference shares to the outstanding number of preference shares as at the reporting date. The book value of one ordinary share is calculated as the ratio of the amount of net asset value of the Group for ordinary shares to the outstanding number of ordinary shares as at the reporting date. The net asset value of the Group for ordinary shares is calculated as the total equity net of intangible assets and the amount of equity attributable to preference shares as at reporting date. Outstanding number of ordinary and preference shares is calculated as outstanding shares authorised and issued net of repurchased shares by the Group as at the reporting date.

The management believes that the Group fully complies with the requirement of KASE as at the reporting date.

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14. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand	51,917	33,159
Nostro accounts with NBRK	94,388	127,720
Nostro accounts with other banks		
- rated AA- to AA+	2,577	6,314
- rated A- to A+	9,853	8,426
- rated BBB- to BBB+	4,411	3,506
- rated BB- to BB+	5,733	1,077
- rated B- to B+	54	188
- not rated	334	650
Total gross nostro accounts with other banks	22,962	20,161
Credot loss allowance	(18)	-
Total nostro accounts with other banks	22,944	20,161
Term deposits with other banks		
- rated BBB- to BBB+	1,988	-
- rated BB- to BB+	-	3,323
- rated B- to B+	4,231	3,693
Total gross term deposits with other banks	6,219	7,016
Credit loss allowance	(55)	-
Total current accounts and term deposits with other banks	6,164	7,016
Total cash and cash equivalents	175,413	188,056

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

All cash and cash equivalents are categorised into Stage 1 of credit risk grading.

As at 31 December 2018 the Group has 1 bank (31 December 2017: 1 bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KZT 94,388 million (31 December 2017: KZT 127,720 million).

Minimum reserve requirements

As at 31 December 2018 minimum reserve requirements are calculated in accordance with regulations issued by the NBRK. To meet the requirements the Bank places cash in reserve assets, which should be maintained at the level not less than average of cash on hand in the national currency and balances on current account with the NBRK in the national currency for a 4-week period, calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other Bank's liabilities. As at 31 December 2018 the minimum reserve requirements amounted to KZT 12,704 million (31 December 2017: KZT 11,599 million) and reserve asset amounted to KZT 34,866 million (31 December 2017: KZT 23,932 million).

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15. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	Nominal interest rate, %	31 December 2018	Nominal interest rate, %	31 December 2017
ASSETS				
Derivative financial instruments				
Foreign currency contracts		27,177		19,495
		<u>27,177</u>		<u>19,495</u>
Trading securities				
<i>Debt securities</i>				
Government bonds of the Republic of Kazakhstan	2.38-9.6	4,093	3.87-9.60	3,086
Corporate bonds	4.63-15.00	7,736	4.63-15.00	9,278
<i>Equity securities*</i>				
Shares of Kazakhstan corporations		1,036		637
Shares of International corporations		46		22
		<u>12,911</u>		<u>13,023</u>
Pledged under sale and repurchase agreements				
- Government bonds of the Republic of Kazakhstan	3.88-9.20	1,052	9.50-9.70	472
- Corporate bonds	9.00-15.00	1,536	11.20-11.50	602
		<u>42,676</u>		<u>33,592</u>
LIABILITIES				
Derivative financial instruments				
Foreign currency contracts		(12,668)		(9,199)
		<u>(12,668)</u>		<u>(9,199)</u>

* Ownership interest in equity securities is below 1%

The credit quality of debt securities at fair value through profit or loss balances may be summarised based on Standard and Poor's ratings or other international rating agencies as follows at 31 December 2018:

	Corporate bonds	Government bonds of the Republic of Kazakhstan	Total
- rated from BBB- to BBB+	131	5,145	5,276
- rated from BB- to BB+	1,382	-	1,382
- rated from B- to B+	7,759	-	7,759
	<u>9,272</u>	<u>5,145</u>	<u>14,417</u>

The credit quality of debt securities at fair value through profit or loss balances may be summarised based on Standard and Poor's ratings or other international rating agencies as follows at 31 December 2017:

	Corporate bonds	Government bonds of the Republic of Kazakhstan	Total
- rated from BBB- to BBB+	479	3,558	4,037
- rated from BB- to BB+	1,332	-	1,332
- rated from B- to B+	8,069	-	8,069
	<u>9,880</u>	<u>3,558</u>	<u>13,438</u>

None of the financial assets at fair value through profit and loss are past due.

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15. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

Foreign currency contracts

As at 31 December 2018 and 31 December 2017, the Group has the following derivative financial instruments:

Type of financial instrument	Notional amount	Year of maturity	Average-weighted contractual exchange rates	Amounts payable by the Group	Amounts receivable by the Group	Fair value of asset	Fair value of liability
31 December 2018							
Currency swaps with NBRK (up to 1 year)	USD 131,000,000	September - October 2019	181.80	KZT 23,816 million	USD 131,000,000	27,177	-
Currency swaps with other parties (up to 1 year)	KZT 11,111 million	September 2019	182.15	USD 61,000,000	KZT 11,111 million	-	(11,758)
Option	KZT 1,622 million	September 2020	182.05	-	KZT 1,622 million	-	(910)
						27,177	(12,668)

Type of financial instrument	Notional amount	Year of maturity	Average-weighted contractual exchange rates	Amounts payable by the Group	Amounts receivable by the Group	Fair value of asset	Fair value of liability
31 December 2017							
Currency swaps with NBRK (up to 1 year)	USD 131,000,000	September - October 2018	181.80	KZT 23,816 million	USD 131,000,000	19,495	-
Currency swaps with other parties (up to 1 year)	KZT 11,111 million	September 2018	182.15	USD 61,000,000	KZT 11,111 million	-	(8,471)
Option	KZT 1,622 million	September 2019	182.05	-	KZT 1,622 million	-	(728)
						19,495	(9,199)

As at 31 December 2018, included into derivative financial instruments was a currency swap contracts concluded in 2014 with the NBRK, according to which the Group has to provide the sum of KZT 23,816 million in exchange for USD 131,000,000, in 2019. Under the contracts, the Group has recognised interest expense of KZT 1,301 million (31 December 2017: KZT 1,616 million), which equates to 3% p.a. in KZT at inception. The NBRK has a right to terminate the contract at any time prior to the maturity. As at 31 December 2018 the fair value of the swaps amounted to KZT 27,177 million (31 December 2017: KZT 19,495 million).

Approach to derivative transactions

The Group enters into swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions. A swap involves the exchange by the Group with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Group's exposure to long or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the swap positions increases or decreases depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Group's investments.

The Group's ability to meet its objectives in entering into such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Group. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of the counterparty's insolvency.

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16. INVESTMENT SECURITIES

	31 December 2018	31 December 2017
Investment securities at FVOCI	170,879	-
Investment financial assets measured at amortised cost	6,911	-
Available-for-sale investments	-	150,135
Total investment securities	177,790	150,135

Investment securities at FVOCI

	Nominal interest rate, %	31 December 2018
<i>Debt securities</i>		
Government bonds of the Republic of Kazakhstan	2.38- 10.2	42,110
Corporate bonds	3.88-11.5	88,016
NBRK discounted notes		40,593
<i>Equity securities</i>		
Shares of Kazakhstan corporations		138
Shares of International corporations		22
		170,879

All investment securities are categorised into Stage 1 of credit risk grading.

Investment securities measured at amortised cost

	Nominal interest rate, %	31 December 2018
<i>Debt securities</i>		
Government bonds of the Republic of Kazakhstan	5.60-6.70	5,908
Corporate bonds	8.0	1,009
		6,917
Credit loss allowance		(6)
		6,911

Available-for-sale investments

	Nominal interest rate, %	31 December 2017
<i>Debt securities</i>		
Government bonds of the Republic of Kazakhstan	3.87-11.00	31,840
Corporate bonds	3.88-11.00	48,958
NBRK discounted notes		65,393
<i>Equity securities</i>		
Shares of Kazakhstan corporations		131
Shares of International corporations		20
Pledged under sale and repurchase agreements		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	4.00-8.99	3,793
		150,135

The credit quality of debt securities available for sale may be summarised based on Standard and Poor's ratings or other international rating agencies' ratings as follows at 31 December 2017:

	Corporate bonds	NBRK discounted notes	Government bonds of the Republic of Kazakhstan	Total
<i>not overdue</i>				
- NBRK	-	65,393	-	65,393
- rated from BBB- to BBB+	7,313	-	35,633	42,946
- rated from BB- to BB+	38,303	-	-	38,303
- rated from B- to B+	3,342	-	-	3,342
	48,958	65,393	35,633	149,984

No available-for-sale investments are overdue or impaired.

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17 DUE TO BANKS

	31 December 2018	31 December 2017
Term deposits		
- conditional deposit with NBRK	1,826	1,275
- rated A- to A+	-	1,656
- rated BB- to BB+	1,014	1,526
- rated B- to B+	25,117	8,638
- not rated	3,907	49
Gross term deposits	31,864	13,144
Credit loss allowance	(572)	(4)
Total term deposits	31,292	13,140

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

Term deposit in the amount of KZT 19,216 million has been categorised into Stage 2 of credit risk grading, the remainder of due from banks has been categorised into Stage 1 of credit risk grading.

As at 31 December 2018 a conditional deposit with the NBRK consists of funds of KZT 1,183 million (31 December 2017: KZT 717 million) received from the Development Bank of Kazakhstan JSC ("DBK JSC") and KZT 643 million (31 December 2017: KZT 558 million) received from DAMU Entrepreneurship Development Fund JSC ("EDF DAMU JSC") in accordance with the loan agreements with DBK JSC and EDF DAMU JSC. Funds will be distributed to small and medium businesses on preferential terms. These funds may be withdrawn from the conditional deposit only after approval of DBK JSC and EDF DAMU JSC, respectively.

Concentration of accounts and deposits with banks

As at 31 December 2018 the Group has one bank (2017: none) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KZT 19,216 million.

18 LOANS TO CUSTOMERS AND BANKS

	31 December 2018	31 December 2017
Loans to customers	929,588	890,230
Net investment in finance lease	-	4,156
Accrued interest	53,584	36,270
	983,172	930,656
Less credit loss allowance	(121,658)	(113,851)
Total loans to consumers	861,514	816,805
Loans to banks	1,214	3
Accrued interest	4	-
Less: credit loss allowance	(25)	-
Total loans to banks	1,193	3
Continued involvement in asset	30,906	-
Loans under reverse repurchase agreements	75,071	14,443
Total loans to consumers and banks	968,684	831,251

Movement in loss allowance for loans to customers and banks for the twelve month periods ended 31 December 2018 and 31 December 2017 is disclosed in Note 7.

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18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

The following table provides information by types of loan products as at 31 December 2018:

	Gross amount	Credit loss allowance	Carrying amount
Loans to corporate customers			
Corporate loans	472,048	(87,461)	384,587
Small and medium-sized enterprises	124,651	(9,971)	114,680
Loans to retail customers			
Mortgage loans	154,453	(7,305)	147,148
Consumer loans	130,489	(8,794)	121,695
Business development	95,115	(8,010)	87,105
Auto loans	6,416	(117)	6,299
	983,172	(121,658)	861,514

The following table provides information by types of loan products as at 31 December 2017:

	Gross amount	Impairment allowance	Carrying amount
Loans to corporate customers			
Corporate loans (restated)	467,605	(87,225)	380,380
Small and medium-sized enterprises (restated)	108,919	(10,709)	98,210
Net investment in finance lease	4,156	-	4,156
Loans to retail customers			
Mortgage loans	146,468	(4,450)	142,018
Consumer loans	113,905	(6,892)	107,013
Business development	84,533	(4,515)	80,018
Auto loans	5,070	(60)	5,010
	930,656	(113,851)	816,805

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18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(a) Credit quality of corporate loans, loans to small and medium-sized enterprises and loans to retail customers

Analysis by credit quality of loans to customers outstanding as at 31 December 2018 was as follows:

	Corporate loans	Small and medium-sized enterprises	Mortgage loans	Consumer loans	Business development	Auto loans	Total
Loans to customers							
Not overdue	326,833	97,941	122,250	95,701	67,730	6,028	716,483
Overdue:							
- overdue less than 30 days	67,792	7,654	13,150	9,944	6,407	72	105,019
- overdue 31-60 days	29,482	164	2,063	1,551	498	8	33,766
- overdue 61-90 days	16,379	1,542	2,860	5,488	659	32	26,960
- overdue 91-180 days	11,448	7,181	1,473	1,222	4,191	15	25,530
- overdue more than 180 days	20,114	10,169	12,657	16,583	15,630	261	75,414
Gross loans to customers	472,048	124,651	154,453	130,489	95,115	6,416	983,172
Credit loss allowance	(87,461)	(9,971)	(7,305)	(8,794)	(8,010)	(117)	(121,658)
Total loans to customers, net of allowance for credit losses	384,587	114,680	147,148	121,695	87,105	6,299	861,514

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31 DECEMBER 2018

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18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(a) Credit quality of corporate loans, loans to small and medium-sized enterprises and loans to retail customers

Analysis by credit quality of loans to customers outstanding as at 31 December 2017 was as follows:

	Corporate loans (restated)	Small and medium- sized enterprises (restated)	Mortgage loans	Consumer loans	Business development	Auto loans	Total
Loans to customers							
Individually unimpaired loans assessed on a collective basis:							
Not overdue	240,350	77,834	106,549	74,545	59,952	4,624	563,854
Overdue:							
- overdue less than 30 days	3,654	2,303	6,014	4,806	1,420	48	18,245
- overdue 31-60 days	-	491	2,243	868	814	29	4,445
- overdue 61-90 days	-	1,017	894	861	1,162	-	3,957
- overdue 91-180 days	-	728	821	1,621	1,406	23	4,576
- overdue more than 180 days	-	461	-	-	29	-	490
Total individually unimpaired loans assessed on a collective basis	244,004	82,834	116,521	82,701	64,783	4,724	595,567
Impaired loans assessed on a collective basis							
Not overdue	7,849	4,611	6,825	3,898	2,413	5	25,601
Overdue:							
- overdue less than 30 days	198	1,653	4,481	2,705	850	1	9,888
- overdue 31-60 days	-	175	859	304	88	9	1,435
- overdue 61-90 days	-	522	1,592	1,181	621	4	3,920
- overdue 91-180 days	-	1,336	1,129	2,145	2,077	5	6,692
- overdue more than 180 days	6	4,066	11,673	15,681	11,474	322	43,222
Total impaired loans assessed on a collective basis	8,053	12,363	26,559	25,914	17,523	346	90,758
Individually impaired loans							
Not overdue	131,984	7,183	-	-	-	-	139,167
Overdue:							
- overdue less than 30 days	40,544	1,636	2,011	576	-	-	44,767
- overdue 31-60 days	7,687	1,380	749	-	338	-	10,154
- overdue 61-90 days	-	516	-	2,085	1,075	-	3,676
- overdue 91-180 days	13,151	1,096	-	-	-	-	14,247
- overdue more than 180 days	22,182	1,911	628	2,629	814	-	28,164
Total individually impaired loans	215,548	13,722	3,388	5,290	2,227	-	240,175
Total gross loans to customers	467,605	108,919	146,468	113,905	84,533	5,070	926,500
Impairment allowance for loans to customers	(87,225)	(10,709)	(4,450)	(6,892)	(4,515)	(60)	(113,851)
Total loans to customers net of impairment allowance	380,380	98,210	142,018	107,013	80,018	5,010	812,649

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18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(b) Analysis of movement in allowance for ECL

	For the twelve months ended 31 December 2018			Total
	Stage 1 12-month expected credit losses	Stage 2 Life-time expected credit losses for not credit-impaired assets	Stage 3 Life-time expected credit losses for credit impaired assets	
Loans to corporate customers and small and medium-sized enterprises				
Allowance for ECL at the beginning of the period (1 January 2018)	163	1,695	96,076	97,934
Effect of transition to IFRS 9 related to expected credit losses	1,792	(249)	12,336	13,879
Effect of transition to IFRS 9 related to adjustment of interest income of credit-impaired loans	300	530	17,377	18,207
Allowance for ECL at the beginning of the period (1 January 2018) (restated)	2,255	1,976	125,789	130,020
Transition to 12-month expected credit losses	3	(3)	-	-
Transition to lifetime expected credit losses for credit-unimpaired assets	(40)	40	-	-
Transition to life-time expected credit losses for credit-impaired assets	(155)	(1,584)	1,739	-
Charge/(recovery) of allowance	(3,080)	749	20,037	17,706
New financial assets originated or purchased	1,985	796	-	2,781
Unwinding of discount	(279)	(530)	(11,631)	(12,440)
Write-off of assets	-	-	(42,859)	(42,859)
Recovery of assets previously written-off	-	-	247	247
Foreign exchange difference	14	30	1,933	1,977
Allowance for ECL at the end of the period	703	1,474	95,255	97,432

	For the twelve months ended 31 December 2018			Total
	Stage 1 12-month expected credit losses	Stage 2 Life-time expected credit losses for not credit-impaired assets	Stage 3 Life-time expected credit losses for credit impaired assets	
Loans to retail customers				
Allowance for ECL at the beginning of the period (1 January 2018)	285	2,736	12,896	15,917
Effect of transition to IFRS 9 related to expected credit losses	7	(1,806)	4,954	3,155
Effect of transition to IFRS 9 related to adjustment of interest income of credit-impaired	9	472	976	1,457
Allowance for ECL at the beginning of the period (1 January 2018) (restated)	301	1,402	18,826	20,529
Transition to 12-month expected credit losses	2	(1)	(1)	-
Transition to life-time expected credit losses for not credit-impaired assets	(28)	53	(25)	-
Transition to life-time expected credit losses for credit-impaired assets	(1,093)	(493)	1,586	-
Charge/(recovery) of allowance	838	(130)	8,763	9,471
New financial assets originated or purchased	791	40	-	831
Unwinding of discount	(8)	(472)	(2,144)	(2,624)
Write-off of assets	-	-	(5,773)	(5,773)
Recovery of assets previously written-off	-	-	1,266	1,266
Foreign exchange difference	18	9	499	526
Allowance for ECL at the end of the period	821	408	22,997	24,226

(c) Analysis of movement in gross carrying amount

Significant changes in the gross carrying amount of loans to customers during the period that contributed to changes in loss allowance were as follows:

Loans to corporate customers and small and medium-sized enterprises

- A large volume of loans issued to customers during the year caused increase in gross carrying amount of the portfolio of loans to corporate customers and small and medium-sized enterprises by KZT 112,813 million, while respective increase in 12-month loss allowance amounted to KZT 1,985 million.
- A large volume of loans repaid during the year caused decrease in gross carrying amount of the portfolio of loans to corporate customers and small and medium-sized enterprises by KZT 90,714 million, while respective decrease in 12-month loss allowance amounted to KZT 1,844 million.

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18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(c) Analysis of movement in gross carrying amount

Loans to corporate customers and small and medium-sized enterprises, continued

- Write-off of loans with gross carrying amount of KZT 42,859 million resulted in decrease in loss allowance categorised into Stage 3 by the same amount.

(d) Analysis of collateral and other credit enhancements

(i) *Loans to corporate customers*

Loans to corporate customers are secured by various types of collateral depending on the type of transactions. The general creditworthiness of a corporate customer and small and medium-sized customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests corporate borrowers and small and medium-sized customers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

	Carrying amount of loans to customers	Fair value of collateral : for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as at loan inception date	Fair value of collateral not determined
31 December 2018				
<i>Loans to corporate customers</i>				
Cash and deposits	2,257	2,257	-	-
Real estate	276,848	276,848	-	-
Vehicles	492	492	-	-
Equipment	9,753	9,753	-	-
Corporate guarantees	44,230	-	-	44,230
Income from future contracts	5,401	-	-	5,401
Goods in turnover	6,325	-	-	6,325
Mineral rights	3,372	3,372	-	-
Other collateral	12,893	-	12,893	-
No collateral or other credit enhancement	23,016	-	-	23,016
Total loans to corporate customers	384,587	292,722	12,893	78,972
<i>Loans to small and medium-sized enterprises</i>				
Cash and deposits	2,587	2,587	-	-
Real estate	102,618	102,618	-	-
Vehicles	1,058	1,058	-	-
Equipment	856	856	-	-
Corporate guarantees	4,201	-	-	4,201
Goods in turnover	141	-	-	141
Other collateral	1,682	-	1,682	-
No collateral or other credit enhancement	1,537	-	-	1,537
Total loans to small and medium- sized enterprises	114,680	107,119	1,682	5,879
Total loans to corporate customers	499,267	399,841	14,575	84,851

Loans to corporate customers

At 31 December 2018, the net carrying amount of credit-impaired loans to corporate customers amounted to KZT 117,632 million and the value of identifiable collateral (mainly commercial properties) held against those loans amounted to KZT 117,632 million. For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

Loans to retail customers

The following table stratifies credit exposures from credit-impaired loans to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross carrying amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. For credit-impaired loans the value of collateral is based on the most recent appraisals.

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18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(d) Analysis of collateral and other credit enhancements, continued

(i) Loans to corporate customers, continued

Loans to retail customers

	2018
Credit-impaired loans	
LTV ratio	
Less than 50%	64,036
51-70%	15
More than 70%	87
Total	64,138

At 31 December 2018, the Group did not hold any financial instruments for which no loss allowance is recognised because of collateral.

During 2018, there was no change in the Group's collateral policies.

	Carrying amount of loans to customers	Fair value of collateral : for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as at loan inception date	Fair value of collateral not determined
31 December 2017				
Unimpaired and collectively impaired loans				
Cash and deposits	3,424	3,424	-	-
Traded securities	6,875	6,875	-	-
Real estate	257,228	257,228	-	-
Vehicles	1,113	1,113	-	-
Equipment	3,706	3,706	-	-
Corporate guarantees	32,441	-	-	32,441
Income from future contracts	23,288	-	-	23,288
Goods in turnover	6,921	-	-	6,921
Other collateral	1,566	-	-	1,566
No collateral or other credit enhancement	7,982	-	-	7,982
Total unimpaired loans	344,544	272,346	-	72,198
Individually impaired loans				
Cash and deposits	74	74	-	-
Traded securities	215	215	-	-
Real estate	95,444	95,444	-	-
Vehicles	415	415	-	-
Equipment	2,508	2,508	-	-
Corporate guarantees	11,598	-	-	11,598
Goods in turnover	741	-	-	741
Mineral rights	7,284	7,284	-	-
Other collateral	1,140	-	1,140	-
No collateral or other credit enhancement	14,627	-	-	14,627
Total impaired loans	134,046	105,940	1,140	26,966
Total loans to corporate customers	478,590	378,286	1,140	99,164

The tables above exclude overcollateralisation. In accordance with the recommendations of NBRK future contract revenues are not considered as sufficient collateral for loan impairment allowance calculation. As at 31 December 2018 the loans to corporate customers with net carrying amount of KZT 5,401 million (31 December 2017: KZT 23,288 million) are secured by income from future contracts.

Amount recorded in the item "No collateral or other credit enhancement" comprises unsecured loans and parts of loans, which are not fully secured.

For majority of loans the fair value of collateral was assessed at the reporting day. The Group also has loans, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which the fair value of collateral is not determined and cannot be determined. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for credit losses assessment is disclosed. Sureties received from individuals, such as shareholders of the company's borrowers, are not considered for credit losses assessment purposes.

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18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(d) Analysis of collateral and other credit enhancements, continued

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Business development loans are secured by real estate. Auto loans are secured by the underlying cars. Consumer loans are usually secured by underlying property and in some cases by assets, including real estate, cash and motor vehicle.

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of KZT 16,310 million (31 December 2017: KZT 20,428 million), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 7,723 million (31 December 2017: KZT 10,089 million).

For mortgage loans with a net carrying amount of KZT 130,838 million (31 December 2017: KZT 121,590 million) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

Business development

Included in the business development portfolio are loans with a net carrying amount of KZT 6,923 million (31 December 2017: KZT 8,957 million), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 3,379 million (31 December 2017: KZT 3,712 million).

Management believes that the fair value of collateral of business development loans with a net carrying amount of KZT 80,182 million (31 December 2017: KZT 71,061 million) is at least equal to the carrying amount of individual loans at the reporting date.

Repossessed collateral

During 2018, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 5,046 million. As at 31 December 2018, the repossessed collateral was KZT 51,375 million (31 December 2017: KZT 49,442 million of repossessed collateral) (Note 20).

(e) Loan portfolio analysis

As at 31 December 2018 the Group has 14 borrowers or groups of related borrowers (31 December 2017: 6), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2018 is KZT 276,797 million (31 December 2017: KZT 114,175 million).

As at 31 December 2018 and 31 December 2017 included in the loans to customers are renegotiated loans that would otherwise be past due or impaired of KZT 76,716 million and KZT 99,468 million, respectively.

As at 31 December 2018 and 31 December 2017, the components of net investment in finance lease are as follows:

	31 December 2017
Not more than one year	990
From one to five years	1,454
More than five years	9,447
Minimum finance lease payments	11,891
Less deferred income	(7,735)
Net investment in finance lease	4,156
Current portion	32
Non-current portion	4,124
Net investments in finance lease before loss allowance	4,156
Less: loss allowance	-
Net investments in finance net of loss allowance	4,156

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18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(e) Loan portfolio analysis, continued

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan who operate in the following economic sectors:

	31 December 2018	31 December 2017
Individuals	386,473	349,976
Trade	125,527	144,662
Rent of real estate	110,107	97,954
Industrial construction	41,906	36,235
Transport and telecommunications	39,715	21,159
Production	39,677	32,730
Transportation and equipment maintenance services	34,881	35,944
Food industry	34,054	38,034
Energy	32,480	60,252
Housing construction	29,278	34,474
Agriculture	21,848	17,932
Oil and gas industry	20,354	5,526
Financial services	5,815	7,076
Other	61,057	48,702
Total	983,172	930,656
Allowance for ECL	(121,658)	(113,851)
	861,514	816,805

Fair value of assets received as collateral and carrying amount of reverse repurchase agreements as at 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018		31 December 2017	
	Loan carrying amount	Collateral fair value	Loan carrying amount	Collateral fair value
Government bonds of the Republic of Kazakhstan	66,116	66,263	11,006	11,169
Other	8,955	13,316	3,437	4,352
	75,071	79,579	14,443	15,521

(f) Loan maturities

The maturity of the loan portfolio is presented in note 28, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that part of the loans will be extended at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the contractually agreed term.

(g) Continuing involvement in asset

To realise the first initiative “New Opportunities for Each Family to Procure Housing”, announced in the Address to the People by President of the Republic of Kazakhstan “Five Social Initiatives of the President”, the Program “7-20-25. New Opportunities for Each Family to Procure Housing” (the “Program”) was approved by Decree of the NBRK dated 31 May 2018. To implement the Program, Mortgage Organisation “Baspana” JSC (the “Operator”) was established.

The Program enables Kazakhstan citizens to procure residential real estate on a primary market under conditions that are more preferential in comparison with those applicable in second-tier banks (“STB”) for mortgage loans.

The Bank issues loans in accordance with the conditions of the Program: includes into bank loan contracts the terms and conditions of obligation and responsibility of a borrower to repay a loan, establishes a repayment schedule and ensures maintaining a loan file containing information and documents in compliance with the requirements of the laws of the RK.

Once a loan has been issued, the Bank should no more frequently than once in 10 business days transfer rights of claim on loans by provision to the Operator of documents in accordance with an agreement.

In accordance with the Program and Trust Management Contract, the Bank acts as a trustee for loans received and ensures trust management of transferred loans and proper maintenance of a loan file. Compensation for trust management is paid in the amount and in timeframe established by the trust management contract and amounted to 4% of the carrying amount of assets at the end of each month. In case of partial repayment of interest by the borrowers, a trust management fee is calculated pro rated to the interest paid.

The Bank is obliged to repurchase rights of claim on transferred mortgage loans when the loan principal amount and interest are overdue more than 90 calendar days.

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18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(g) Continuing involvement in asset, continued

The lending conditions under the Program are as follows:

- Annual nominal interest rate: 7%;
- Loan term: up to 25 years; initial instalment: no less and no more than 20% of cost of collateralised housing real estate;
- Maximum cost of housing real estate acquired: KZT 25 million - for cities of Astana, Almaty, Atyrau, Aktau, Shymkent and KZT 15 million – for other regions of the RK;
- Collateral security: real estate purchased on a primary market;
- Commission for issue and servicing a loan: nil;
- To be eligible for a loan under the Program, an individual must meet the following requirements:
 - be a citizen of the Republic of Kazakhstan;
 - have documentary supported income;
 - no outstanding debt on mortgage loans;
 - no owned housing real estate in the Republic of Kazakhstan, other than: dorm rooms with useful area of no more than 15 square meters per each family member, dilapidated housing which may ruin (breakdown) as certified by a corresponding document by a local executive bod where such housing facility is located.

As at 31 December 2018, 2,733 loans in the amount of more than KZT 32,000 million have been issued under the Program “7-20-25”.

To enhance possibilities for Kazakhstan citizens to purchase housing facilities, on 28 December 2018 the Bank launched a mortgage loan program named “Baspana Hit”.

Under this Program, loans are issued for purchasing real estate on both primary and secondary housing markets.

The lending conditions under “Baspana Hit” Program are as follows:

- Interest rate is calculated with the formula: base rate of the National Bank of the RK + 175 basis points
- Loan term: up to 15 years; initial instalment: at least 20% of cost of acquired housing real estate;
- Maximum cost of housing real estate acquired – KZT 25 million for cities of Astana, Almaty, Atyrau, Aktau, and KZT 15 million – for other regions of the RK;
- To be eligible for a loan under the Program, an individual must meet the following requirements:
 - be a citizen of the Republic of Kazakhstan;
 - have documentary supported income;
 - no outstanding debt on mortgage loans;

As at 31 December 2018, the Bank has issued 4 loans in the amount of more than KZT 22 million.

(h) Transfer of financial assets

During 2018, the Group sold a portfolio of mortgage loans at its carrying amount, the balance of which amounted to KZT 30,906 million at the year end, and issued a customer a guarantee of reverse repurchase or exchange of certain loans, if loans are overdue for more than 90 days. The amount of reverse repurchase or exchange is not limited. Reverse repurchase is performed at the loan nominal value (outstanding principal and interest accrued) as of the purchase date.

The Group has determined that it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset transferred; however, the Group has determined that it retains control over the assets transferred and continues recognising thereof to the extent of continuing involvement in the assets transferred. As the Group’s continuing involvement takes a form of the guarantee on the asset transferred, the extent of the Group’s continuing involvement is determined equal to maximum amount of consideration received that the Group has to return. The Group believes that the value of the guarantee is high enough and this guarantee will prevent the Operator from selling of the asset transferred thereto, as such sale will be impracticable.

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18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(h) Transfer of financial assets, continued

The Group's continuing involvement in said transferred portfolio is recorded in the consolidated statement of financial position within the loans to customers (Note 18) in the amount of KZT 30,906 million, which is equal to the respective liability from continuing involvement, which is included in other liabilities (Note 25).

The Group has determined that the carrying amount of the transferred portfolio of mortgage loans reflects its fair value.

19 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and constructions	Furniture and equipment	Construction in progress	Intangible assets	Total
Cost/revalued amount					
1 January 2017	31,086	13,602	53	6,441	51,182
Additions	175	1,337	68	2,988	4,568
Transfers	-	16	(16)	-	-
Disposals	(251)	(963)	-	(90)	(1,304)
31 December 2017	31,010	13,992	105	9,339	54,446
Additions	2	3,205	245	2,622	6,074
Transfers	(5,745)	5	(92)	-	(5,987)
Disposals	(155)	(1,752)	(11)	(448)	(2,211)
31 December 2018	25,112	15,450	247	11,513	52,322
Accumulated depreciation, amortisation and impairment					
1 January 2017	(60)	(8,552)	-	(3,620)	(12,232)
Charge for the year	(343)	(1,264)	-	(816)	(2,423)
Disposals	10	929	-	90	1,029
31 December 2017	(393)	(8,887)	-	(4,346)	(13,626)
Charge for the year	(269)	(1,376)	-	(801)	(2,446)
Disposals	153	1,733	-	447	2,333
31 December 2018	(509)	(8,530)	-	(4,700)	(13,739)
Net carrying amount					
31 December 2018	24,603	6,920	247	6,813	38,583
31 December 2017	30,617	5,105	105	4,993	40,820

Intangible assets comprise software, patents and licenses.

The Group revalued its buildings and constructions during 2017. Evaluation was performed by independent appraisers. Independent appraisers used two approaches to measure the fair value of property and equipment – comparative approach using the market information to measure fair value of buildings and constructions under active market conditions, and cost approach, when no active market existed for items subject to revaluation.

As at 31 December 2018 and 31 December 2017, the total amount of fair value of buildings and constructions was KZT 24,603 million and KZT 30,617 million, respectively. If buildings and construction of the Group had been valued at cost, their carrying amount would have been KZT 18,164 million and KZT 24,398 million as at 31 December 2018 and 31 December 2017, respectively.

Fair values of buildings and constructions are categorised into Levels 2 and 3 of the fair value hierarchy.

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20 OTHER ASSETS

	31 December 2018	31 December 2017
Other financial assets		
Accounts receivable	3,873	5,118
Accrued commission	8,122	7,698
Western Union and other wireless transfers	164	175
	12,159	12,991
Credit loss allowance	(1,388)	(1,747)
	10,771	11,244
Other non-financial assets		
Repossessed collateral	51,375	49,442
Payment receivable on repossessed collateral	3,688	4,253
Investment property	10,587	5,003
Advances paid	3,323	149
Taxes receivable other than income tax	1,919	1,974
Inventories	40	78
Other assets	408	649
	71,340	61,548
Credit loss allowance	-	-
	71,340	61,548
	82,111	72,792

Repossessed collateral. Repossessed collateral represents real estate accepted by the Group in exchange for from its non-performing borrowers. These assets have been initially recognised at fair value and subsequently measured at the lower of fair value less cost to dispose or the carrying value. The Group's policy is to sell these assets as soon as it is practicable.

Payment receivable on repossessed collateral. Payment on repossessed collateral comprises prepayments for repossessed collateral which is acquired under auction.

Fair value of investment property was measured using the market comparison approach, which reflects the prices of latest transactions on similar real estate items, and as at 31 December 2018 and 31 December 2017 amounted to KZT 12,253 million and KZT 8,374 million, respectively.

The fair values of investment properties are categorised into Level 3 of the fair value hierarchy.

Included into operating lease income is investment property rental income for the years ended 31 December 2018 and 31 December 2017 amounted to KZT 400 million and KZT 234 million, respectively.

Operating expenses related to investment property from which the Group earned rental income for the years ended 31 December 2018 and 31 December 2017 amounted to KZT 179 million and KZT 105 million, respectively.

21 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	Nominal interest rate, %	31 December 2018	Nominal interest rate, %	31 December 2017
Long-term loans due to banks and financial institutions	1.00-9.80	62,577	1.00-9.08	48,776
Perpetual financial instruments	8.34	30,056	7.34	26,064
Loans due to international credit organisations	8.50-10.00	16,920	8.50-10.70	16,151
Correspondent accounts of banks	-	10,201	-	1,440
Loans due to NBRK	5.50	90	5.50	105
Accrued interest		979	-	862
		120,823		93,398
Loans under repurchase agreements	8.50-11.00	4,827	9.30-11.50	5,393
		125,650		98,791

Long-term loans due to banks and financial institutions. Long-term loans from banks and financial institutions comprise long-term loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") and JSC Development Bank of Kazakhstan ("DBK JSC") in the amount of KZT 48,079 million at 1%-9.08% p.a., maturing in 2019-2035, and of KZT 14,498 million at 1%-7.9% p.a. maturing in 2019-2037 as at 31 December 2018, respectively (31 December 2017: KZT 34,604 million and KZT 14,172 million, respectively). During the 2018 and 2017, the Group has been repaying principal and interest according to the repayments schedules.

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21 DUE TO BANKS AND FINANCIAL INSTITUTIONS, CONTINUED

During the year ended 31 December 2018, the Group received additional tranches of long-term loans from DBK JSC in the amount of KZT 445 million (during the year ended 31 December 2017: KZT 377 million) at 2% p.a. maturing in 2034 - 2035, and a long-term loan in the amount of KZT 1,875 million at 1% p.a. maturing in 2037. The loans are intended for further financing of large-sized enterprises ("LSE") operating in processing industry and further financing of retail customers who purchase cars produced in Kazakhstan.

During the year ended 31 December 2018, the Group received long-term loans from DAMU JSC in the amount of KZT 13,289 million at 9.08% p.a. maturing in 2020, KZT 700 million at 4.5% p.a. and KZT 400 at 1% p.a. maturing in 2025.

During the year ended 31 December 2017, the Group received additional tranche of long-term loans from DAMU in the amount of 6,511 million at 9.08% p.a. maturing in 2020, and KZT 321 at 1% p.a. maturing in 2024.

The Group has received loans from DAMU JSC under the Government program ("the Program") to finance small and medium enterprises ("SME") of certain industries. According to the loan agreement between DAMU and the Group, the Group extends loans to SME borrowers, eligible to participate in the Program, at 4% margin with the maturity not exceeding 10 years. The Group's obligation to repay the loan to DAMU is not contingent on collectability of the loans extended to SME borrowers. The Group is obligated to pay 15% penalty on the amounts not extended to SME borrowers within 3-9 months after receiving the money from DAMU.

Management of the Group believes that there are no other financial instruments similar to the loans received from DAMU, DBK JSC at 1-2% p.a. and due to specific nature of SME clients, this product represents a separate market. As a result, the loans from DAMU, DBK JSC at 1-2% p.a. were received in an orderly transaction and as such have been recorded at fair value at the recognition date.

Perpetual financial instruments. The perpetual non-cumulative financial instruments were issued by the Bank in March 2006 with an option to repay in whole, but not in part, on any interest payment date from and including 3 March 2016 at the face value of USD 100 million. Interest payment dates are 3 March, 3 June, 3 September and 3 December in each year.

Loans from international credit organisations. Loans from international credit organisations comprise loans from European Bank for Reconstruction and Development ("EBRD") at 8.5% - 10.7% p.a. maturing in 2019-2021.

During the year ended 31 December 2018 the Group received a loan from European Bank for Reconstruction and Development JSC in the amount of KZT 8,335 million at 8.5% p.a. maturing in 2021. During 2018 the Group has been repaying principal and interest according to the repayments schedules in the amount of KZT 7,940 million.

During the year ended 31 December 2017, the Group has repaid a part of the long-term loan from EBRD ahead of schedule in the amount of KZT 6,750 million at 10.7% p.a. maturing in 2020.

The Group is obligated to comply with financial covenants in relation to funds and loans from banks and financial institutions. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. As at 31 December 2018 and 31 December 2017, the Group has not breached any of these covenants.

As at 31 December 2018 and 31 December 2017, due to banks and financial institutions included loans received under repurchase agreements of KZT 4,827 million and KZT 5,393 million that were repaid in January 2019 and 2018, respectively. The fair value of assets pledged under repurchase agreements amounted to KZT 5,409 million and KZT 4,867 million, respectively, as at 31 December 2018 and 31 December 2017.

22. CUSTOMER AND BANK ACCOUNTS

	31 December 2018	31 December 2017
Due to customers		
- Retail	583,807	504,610
- Corporate	490,723	470,679
Due to banks	-	1,663
	<u>1,074,530</u>	<u>976,952</u>

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22. CUSTOMER AND BANK ACCOUNTS, CONTINUED

	31 December 2018	31 December 2017
Term deposits	767,528	696,445
Demand deposits	302,280	274,321
	1,069,808	970,766
Accrued interest	4,722	4,523
	1,074,530	975,289

As at 31 December 2018, the Group has 8 customers (31 December 2017: 5 customers), whose balances exceed 10% of equity. The gross balances of the above mentioned customers as at 31 December 2018 are KZT 116,040 million (31 December 2017: KZT 221,119 million).

	31 December 2018	31 December 2017
Analysis by sectors:		
Individuals	583,807	504,610
Social services	118,562	133,800
Construction	99,784	84,357
Trade	54,068	48,636
Education and health care	28,032	34,260
Transportation and communication	27,161	30,164
Manufacturing	25,457	14,728
Insurance and pension fund activities	23,476	7,256
Agriculture	14,042	7,430
Metallurgy	10,586	4,577
Oil and gas sector	8,627	2,950
Fuel	6,396	5,743
Energy	6,045	19,670
Chemical production	5,186	3,801
Research and engineering	4,582	2,981
Entertainment services	4,548	3,841
Machinery	3,117	3,806
Public administration	794	1,024
Other	50,260	61,655
Total due to customers	1,074,530	975,289

23 DEBT SECURITIES ISSUED

	Currency	Date date	Maturity date	Interest rate, %	31 December 2018	Interest rate, %	31 December 2017
Kazakhstani bonds	KZT	26/04/2014- 27/12/2018	26/04/2019- 05/02/2028	8.00-12.00	68,825	8.00-9.00	17,048
					68,825		17,048
Accrued interest					1,322		280
					70,147		17,328

During the twelve months ended 31 December 2018, the Group issued debt securities with a nominal value of KZT 54,230 million.

Coupons on debt securities issued are repayable semi-annually; principal is repayable at maturity.

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24 SUBORDINATED BONDS

	Currency	Issue date	Maturity date	Interest rate, %	31 December 2018	Interest rate, %	31 December 2017
Fixed rate	KZT	21/11/2013- 16/04/2018	27/11/2024- 03/11/2032	4.00-11.00	50,555	4.00-11.00	54,439
Floating rate	KZT	31/12/2007 - 02/05/2013	27/11/2019- 11/11/2023	7.00-7.50	20,217	8.70-8.80	20,193
Accrued interest					70,772		74,632
					1,143		822
					71,915		75,454

Coupons on subordinated bonds are repayable semi-annually; principal is repayable at maturity.

Participation in the Program of Strengthening of the Banking Sector Financial Stability

Resolution of the NBRK No.191 dated 10 October 2017 approved the Bank's participation in the Program of Strengthening Financial Stability of Banking Sector of the Republic of Kazakhstan (the "Program").

In accordance with the terms of the Program, the Bank received cash from the NBRK subsidiary – Kazakhstan Sustainability Fund JSC by means of issue of registered coupon subordinated bonds of the Bank (the "Bonds") convertible into the Bank's ordinary shares on the terms provided for in the Issue Prospectus.

The Bank accepts the following covenants in its operations, which are valid during 5 years from the Bonds placement date; breach of any covenant results in enforcement of the Bonds holders' rights to convert the Bonds into ordinary shares of the Bank:

- The Bank commits itself to comply with the capital adequacy ratios set by the authorised body for the second tier banks of the RK;
- The Bank commits itself not to take actions aimed at withdrawal of the Bank's assets; in this regard a list of cases that would be treated as the asset withdrawal are specified in the Prospectus for Bond Issue.

Within the framework of the Bank's participation in the Program, on 3 November 2017, the Bank placed the Bonds at Kazakhstan Stock Exchange in the amount of KZT 60,000 million with 15-year maturity and coupon rate of 4.00% per year. The unwinding of discount of the Bonds using the market interest rate of 13%, which was recognised as income in the statement of profit or loss at initial recognition of the Bonds, is KZT 34,993 million.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities		Total
	Debt securities issued	Subordinated bonds	
Balance at 1 January 2017.	24,809	53,333	78,142
Changes from financing cash flows			
Receipts from debt securities issued	2,569	-	2,569
Repayment of debt securities issued	(10,000)	-	(10,000)
Proceeds from subordinated bonds	-	60,000	60,000
Repayment of subordinated bonds	-	(3,000)	(3,000)
Total changes from financing cash flows	(7,431)	57,000	49,569
Changes in carrying amount from recognition of discount	-	(34,993)	(34,993)
Other changed	118	327	445
Interest expense	(2,666)	(5,846)	(8,512)
Interest paid	2,498	5,633	8,131
Balance at 31 December 2017	17,328	75,454	92,782

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24. SUBORDINATED BONDS, CONTINUED

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities		Total
	Debt securities issued	Subordinated bonds	
Balance at 1 January 2018	17,328	75,454	92,782
Changes from financing cash flows			
Receipts from debt securities issued	54,230	-	54,230
Proceeds from subordinated bonds	-	5,507	5,507
Repayment of subordinated bonds	-	(6,000)	(6,000)
Total changes from financing cash flows	54,230	(493)	53,737
Changes in fair value	(1,554)	(3,193)	(4,747)
Other changes	209	441	650
Interest expense	(4,218)	(7,963)	(12,181)
Interest paid	4,152	7,669	11,821
Balance at 31 December 2018	70,147	71,915	142,062

25. OTHER LIABILITIES

	31 December 2018	31 December 2017
Other financial liabilities:		
Liability arising from continuing involvement (Note 18 (h))	30,904	
Settlements on other liabilities	6,253	3,717
Liabilities in guarantees issued	7,933	7,413
Accrued commission expenses	499	769
Provisions for guarantees and letters of credit	125	115
	45,714	12,014
Other non-financial liabilities:		
Taxes payable other than income tax	740	1,093
Other non-financial liabilities	199	1,204
Total other liabilities	46,653	14,311

26. SHARE CAPITAL

As at 31 December 2018 the Bank's share capital is presented as follows:

	Authorised share capital	Share capital authorised and not issued	Repurchased share capital from shareholders	Total share capital
Ordinary shares	995,876,753	(833,419,953)	(2,431,823)	160,024,977
Preference shares	39,249,255	-	(38,953,841)	295,414

On 13 February 2018, Bank CenterCredit JSC announces repurchase of 100% of the placed preference shares convertible into ordinary shares of Bank CenterCredit JSC. As at 26 December 2018 the procedure of repurchase of the Bank's preference shares was completed: 38,953,841 preference shares were repurchased, including 8,366,560 preference shares repurchased from Tsesnabank JSC and 27,067,109 preference shares repurchased from Financial Holding "Tsesna" JSC.

As at 31 December 2018 the Bank's share capital comprised the following number of shares:

	Authorised and issued share capital	Repurchased shares	Total
Ordinary shares	57,794	(283)	57,511
Preference shares	11,775	(11,686)	89
	69,569	(11,969)	57,600

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26. SHARE CAPITAL, CONTINUED

As at 31 December 2017 the Bank's share capital is presented as follows:

	Authorised share capital	Share capital authorised and not issued	Repurchased share capital from shareholders	Total share capital
Ordinary shares	995,876,753	(833,419,953)	(1,452,965)	161,003,835
Preference shares	39,249,255	-	-	39,249,255

As at 31 December 2017 the Bank's share capital comprised the following number of shares:

	Authorised and issued share capital	Repurchased shares	Total
Ordinary shares	58,014	(220)	57,794
Preference shares	11,775	-	11,775
	69,789	(220)	69,569

All ordinary shares are ranked equally, carry one vote, and have no par value.

Preference shares are cumulative and convertible into ordinary shares according to the decision of the Board of Directors, one preferred share can be exchanged for one ordinary share. According to the legislation of the Republic of Kazakhstan and Bank's incorporation documents, dividends are payable on ordinary shares in the form of cash or securities of the Bank, on condition that the decision was made at the annual meeting of shareholders of the Bank. In accordance with the Bank's Charter, dividend payments are made on the basis of financial results for the year. Distributable reserves are subject to rules and regulations of the Republic of Kazakhstan.

Terms and conditions of preferred shares provide for the Group to pay nominal value of dividends of KZT 0.01 per share to comply with Kazakhstani legislation. This legislation envisages that joint stock companies pay the fixed guaranteed amount of the dividend on the preference shares. According to Kazakhstan law on joint stock companies, the amount of the dividend paid on the ordinary shares may not exceed the amount of the dividends paid on preference shares. In addition, dividends on ordinary shares may not be paid until dividends on preference shares have been paid in full.

	For the year ended 31 December 2018 Quantity (in thousands)	For the year ended 31 December 2017 Quantity (in thousands)
Preference shares, beginning of the year	39,249	39,249
Repurchase of preference shares	(38,954)	-
Preference shares, end of the period	295	39,249
Ordinary shares, beginning of the year	161,004	162,057
Treasury shares purchased	(2,344)	(2,355)
Treasury shares sold	1,365	1,302
Ordinary shares, end of the year	160,025	161,004

Until 2013, in accordance with amendments to the Resolution No. 196 "On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks" issued by the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA") introduced on 31 January 2011 (that became invalid in 2013), the Bank had to establish reserve capital by transferring an amount from retained earnings to provision for future expected losses.

As at 31 December 2018, reserve for general banking risks of the Bank included in retained earnings in the consolidated statement of financial position of the Group amounts to KZT 4,981 million (31 December 2017: KZT 16,896 million). During the twelve months ended 31 December 2018, the Group utilised the accumulated reserve to recognise the effect of transition to IFRS 9.

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27 SEGMENT REPORTING

The segment information below is presented on the basis used by the Group's chief operating decision maker to evaluate performance in accordance with IFRS 8 and in accordance with the segment reporting presented in the consolidated financial statements for the year ended 31 December 2018 and 2017. The Group's reporting segments under IFRS 8 are as follows:

- Corporate banking – maintenance of settlement accounts, deposit taking, provisions of overdrafts, loan and other credit facilities.
- Retail banking – provisions of private banking services, private customer current accounts, taking of savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Investment banking – financial instruments trading, money market operations, repo agreements, foreign currency and derivative products, structured financing, corporate lease and asset management services, merger and acquisitions advice, provision of Group's funding through issue of debt securities and attracting loans. This segment is responsible for redistribution of funds attracted by other segments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies, of these consolidated financial statements. The Board of Directors reviews discrete financial information for each of its segments, including measures of operating income, assets and liabilities. The segments are managed primarily on the basis of their results, which do not include the effects of intercompany eliminations.

Segment assets and liabilities comprise all assets and liabilities, which account for the major portion of the statement of financial position but excluding income tax assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. All revenues and expenses are attributable only to external customers, and there are no transactions between business segments.

The Group presents its business on the basis of three main segments. Segment information about these businesses is presented below:

	Retail banking	Corporate banking	Investment banking	For the year ended 31 December 2018
Interest income calculated using the effective interest method*	49,845	42,526	17,739	110,110
Other interest income	-	-	1,593	1,593
Interest expense*	(27,291)	(32,210)	(6,354)	(65,855)
Provision for expected credit losses on interest bearing assets	(10,302)	(20,512)	-	(30,814)
Net non-interest income	6,649	17,597	3,513	27,759
Operating expenses	(14,993)	(15,291)	(948)	(31,232)
Profit/(loss) before income tax	3,908	(7,890)	15,543	11,561
Segment assets**	394,465	924,387	197,697	1,516,549
Segment liabilities**	602,230	589,073	210,260	1,401,563
Other segment items				
Depreciation charge on property, equipment and intangible assets	(1,270)	(1,296)	(79)	(2,645)
Loans to customers and banks	393,153	575,531	-	968,684
Customer and bank accounts	583,807	490,723	-	1,074,530
Financial guarantees and loan commitments	-	154,019	-	-

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27. SEGMENT REPORTING, CONTINUED

	Retail banking	Corporate banking	Investment banking	For the year ended 31 December 2017
Interest income calculated using the effective interest method*	43,625	54,134	11,072	108,831
Other interest income	-	-	1,257	1,257
Interest expense*	(27,481)	(33,273)	(1,834)	(62,588)
Provision for impairment losses on interest bearing assets	(13,129)	(30,614)	-	(43,743)
Net non-interest income	6,073	55,663	(1,124)	60,612
Operating expenses	(13,757)	(14,064)	(478)	(28,299)
(Loss)/profit before income tax	(4,669)	31,846	8,893	36,070
Segment assets**	335,193	833,280	161,313	1,329,786
Segment liabilities**	525,712	514,988	151,335	1,192,035
Other segment items				
Depreciation charge on property, equipment and intangible assets	(1,240)	(1,271)	(43)	(2,554)
Loans to customers and banks	334,059	497,192	-	831,251
Customer and bank accounts	504,610	472,342	-	976,952
Financial guarantees and loan commitments	-	146,913	-	146,913

* - interest income and interest expense include non-eliminated intercompany transactions in the amount of KZT 150 million, KZT (150) million.

** - net of current income tax assets and deferred tax liabilities. Income tax expense is not allocated.

The majority of the Group's assets are located in the Republic of Kazakhstan and the Group generates income from operations conducted within the Republic of Kazakhstan.

Information on large customers

For the year ended 31 December 2018 the reporting segments have five customers (for the year ended 31 December 2017: five customers), whose income from transactions individually exceed 10% of the total income of the Group.

28. RISK MANAGEMENT POLICY

(a) Corporate governance structure

The Bank was established as an open joint-stock company in accordance with the requirements of the legislation of the Republic of Kazakhstan. The Bank's highest body is the general meeting of the shareholders, which is convened to hold the annual and extraordinary meetings. The general meeting of shareholders makes strategic decisions related to the Bank's operations.

The general meeting of shareholders determines the structure of the Board of Directors. The Board of Directors has overall responsibility for the general management of the Bank's activity.

The legislation of the Republic of Kazakhstan and Bank's Charter determine the lists of decisions, which are exclusively approved by the general shareholders' meeting and that are approved by the Board of Directors.

The Board of Directors meeting elects the Chairman of Management Board, determines the structure of the Management Board. The Bank's executive bodies are responsible for implementation of the decision made by the general meeting of shareholders and Board of Directors. The Bank's executive bodies are subordinated to the Board of Directors and general meeting of shareholders.

(b) Risk management policies and procedures

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk and operating risk, legal risk and reputational risk.

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28. RISK MANAGEMENT POLICY, CONTINUED

(b) Risk management policies and procedures, continued

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

As at 31 December 2018, the Group's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Bank's significant risks, was approved by the authorised management bodies of the Group in accordance with regulations and recommendations issued by the NBRK.

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

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. Risk Management function (Risk Department and Department of Credit Risks) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. Risk Management function reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees, Finance and Risk Management Committee (FRMC) and Risk Management Committee (FMC). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees, depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures.

(c) Market risk

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

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

FRMC, FMC manage interest rate risk and market risk thus ensuring a positive interest margin for the Group. The Department of Planning and Finance exercises monitoring of the current financial position of the Group, assesses the Group's sensitivity to changes in the interest rates and their impact on the Group's profitability.

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

(i) Interest rate risk

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

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 2017, is as follows:

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28. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(i) Interest rate risk, continued

	2018		2017	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel fall	1,212	1,212	795	795
100 bp parallel rise	(1,212)	(1,212)	(795)	(795)

An analysis of the sensitivity of net profit or loss and equity as a result of changes in the fair value of financial assets measured at fair value through profit or loss (2017: available-for-sale) due to changes in the interest rates, based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 150 bp symmetrical fall or rise in all yield curves, is as follows:

	2018		2017	
	Profit or loss	Equity	Profit or loss	Equity
150 bp parallel rise	(850)	(7,741)	(434)	(3,744)
150 bp parallel fall	1,093	8,548	505	4,073

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The Treasury Department performs currency risk management through management of open currency position, which enables the Group to minimize losses from significant fluctuations of exchange rates of national and foreign currencies. The Risk Department determines limits on open currency positions and stop-loss. All limits and restrictions are approved by the Management and the Board of Directors. The Treasury Department performs monitoring of the Group's currency position with the aim to match the requirements of the NBRK.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2018:

	KZT	USD	EUR	Other Currency	31 December
		1 USD = KZT 384.2	1 EUR = KZT 439.37		2018 Total
Financial assets:					
Cash and cash equivalents	38,464	124,564	7,141	5,244	175,413
Financial instruments at fair value through profit or loss	9,547	5,394	219	339	15,499
Investment financial assets at FVOCI	61,321	109,099	459	-	170,879
Investment financial assets at amortised cost	6,911	-	-	-	6,911
Due from banks	1,853	27,011	2,428	-	31,292
Loans to customers and banks	752,604	204,650	11,008	422	968,684
Other financial assets	4,685	5,944	113	29	10,771
Total financial assets	875,385	476,662	21,368	6,034	1,379,449
Financial liabilities:					
Due to banks and financial institutions	82,212	43,436	-	2	125,650
Customer and banks accounts	585,590	462,187	21,026	5,727	1,074,530
Debt securities issued	70,147	-	-	-	70,147
Subordinated bonds	71,915	-	-	-	71,915
Other financial liabilities	39,660	5,966	60	28	45,714
Total financial liabilities	849,524	511,589	21,086	5,757	1,387,956
Open position	25,861	(34,927)	282	277	

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28. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(ii) Currency risk, continued

Derivative financial instruments and spot contracts

The currency risk analysis by types of derivative financial instruments and spot contracts as at 31 December 2018 is presented in the following table:

	KZT	USD 1 USD = KZT 384.2	EUR 1 EUR = KZT 439.37	Other Currency	31 December 2018 Total
Accounts receivable on spot and derivative contracts	11,111	50,330	-	-	61,441
Accounts payable on spot and derivative contracts	(23,496)	(23,436)	-	-	(46,932)
Net spot and derivative financial instruments position	(12,385)	26,894	-	-	14,509
Open position	13,476	(8,033)	282	277	

The Group's exposure to foreign currency exchange rate risk as at 31 December 2017 is presented in the table below:

	KZT	USD 1 USD = KZT 332.33	EUR 1 EUR = KZT 398.23	Other Currency	31 December 2017 Total
Financial assets:					
Cash and cash equivalents	24,373	147,087	9,859	6,737	188,056
Financial instruments at fair value through profit or loss	10,949	3,148	-	-	14,097
Available-for-sale investments	98,961	51,154	20	-	150,135
Due from banks	1,278	11,862	-	-	13,140
Loans to customers and banks	644,016	177,128	10,107	-	831,251
Other financial assets	6,625	4,525	35	59	11,244
Total financial assets	786,202	394,904	20,021	6,796	1,207,923
Financial liabilities:					
Due to banks and financial institutions	71,162	27,629	-	-	98,791
Customer and banks accounts	570,600	381,058	19,763	5,531	976,952
Debt securities issued	17,328	-	-	-	17,328
Subordinated bonds	75,454	-	-	-	75,454
Other financial liabilities	6,849	5,053	49	63	12,014
Total financial liabilities	741,393	413,740	19,812	5,594	1,180,539
Open position	44,809	(18,836)	209	1,202	

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28. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(ii) Currency risk, continued

Derivative financial instruments and spot contracts, continued

The currency risk analysis by types of derivative financial instruments and spot contracts as at 31 December 2017 is presented in the following table:

	KZT	USD 1 USD = KZT 332.33	EUR 1 EUR = KZT 398.23	Other Currency	31 December 2017 Total
Accounts receivable on spot and derivative contracts	11,111	43,535	-	-	54,646
Accounts payable on spot and derivative contracts	(24,078)	(20,272)	-	-	(44,350)
Net spot and derivative financial instruments position	(12,967)	23,263	-	-	10,296
Open position	31,842	4,427	209	1,202	

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2018 and 2017, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2018	2017
10% appreciation of USD against KZT	(643)	354
10% appreciation of EUR against KZT	23	17
10% appreciation of other currencies against KZT	22	96

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in a financial instrument.

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VAR model used by the Group is based on a 95 percent confidence level and assumes a 60-day holding period depending on the type of positions. The VAR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential market price movements are determined with reference to market data from at least the most recent 12 months.

Although VAR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature;
- a 60-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases, but may not be the case in situations in which there is severe market illiquidity for an extended period;
- the use of a 95% confidence level does not take into account losses that may occur beyond this level. There is a five percent probability that the loss could exceed the VAR estimate;
- VAR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day.
- The VAR measure is dependent upon the position and the volatility of market prices. The VAR of an unchanged position reduces if market volatility declines and vice versa.

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28. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(iii) Other price risk, continued

The Group does not solely rely on its VAR calculations in its market risk measurement due to inherent risk of usage of VAR as described above. The limitations of the VAR methodology are recognised by supplementing VAR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

A summary of the VAR estimates of losses that could occur in respect of the portfolio of financial instruments at fair value as at 31 December is as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Foreign exchange risk	2,070	4,754
	<u>2,070</u>	<u>4,754</u>

(d) Credit risk

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

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Credit applications from the corporate customers are originated by the relevant credit managers. On-site visit and financial analysis can be made either with or without participation of the credit risk department employees, depending on the authority level and borrower's rating. To comply with the statutory procedures of the regulator for generating a credit file and ensuring internal risk control, the related departments (legal department, security department and credit analysis department) provide their opinions on the project. A credit decision is made by the authorised Credit committees represented by the Credit committees at the levels of branches, regions and the Head Office. In case of review of the credit applications, which are outside of the authority and limits of the branches at the Head Office Credit committees, the Credit Risk Department prepares additionally its opinion.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to ratings of international rating agencies. These models include rating models for corporate customers and scoring models for individuals and small business. The Group uses these instruments for initial measurement of credit risk and pricing of the loans issued.

Scoring models

Scoring is an automated system of customer evaluation, which processes applications from different sales channels, treats these applications and uses the strategies to make accurate decisions on loan granting. The system produces online decision, which allows to standardise and automate the process of making decisions on loan granting and reduce the operating expenses and operating risks.

The system sets the lending strategies comprising the Credit Rules, scoring models and antifraud strategies, which use the customer initial parameters and the product parameters. The input parameters for decision-making are the social and demographic, financial indicators of the customers, as well as data from external sources, such as credit bureau. Telecommunication and transaction data, etc.

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28. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Credit Rules serve as an instrument for automated check of the applicants against the credit policy. These are a set of conditions, upon passing of which a subject receives a positive decision; or if there are negative indicators arise, a negative decision is made with regard to a customer. Credit Rules are developed and updated on the basis of statistical analyses and customers' behaviour in the market.

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A scoring models as a statistical model used for quantitative assessment of future creditworthiness of new and existing borrowers of the Group. When scoring is used, each of the parameters inserted into scoring model has a numeric value, the sum of which represents the borrower's internal credit score (rating). The assigned score reflects the probability of default of the borrower. Quality of scoring models is checked on the continuous basis for their compliance with international standards by assessing their effectiveness and accuracy.

Antifraud strategy includes a number of checks to prevent the fraud risks on the part of the applicant.

The scoring methodologies are tailor-made for specific products and are applied during the stage of making decision on loan issuance.

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

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28. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

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

	2018	2017
ASSETS		
Cash and cash equivalents	123,496	154,897
Financial instruments at fair value through profit or loss	41,594	32,933
Investment financial assets at FVOCI - debt financial instruments	170,719	-
Investment financial assets at amortised cost	6,911	-
Available-for-sale investments	-	149,984
Due from banks	31,292	13,140
Loans to customers and banks	968,684	831,251
Other financial assets	10,771	11,244
Total maximum exposure	1,353,467	1,193,449

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see note 18.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 30.

The Bank calculates and monitors, on the ongoing basis, the mandatory norm of the maximum risk per one borrower or group of related borrowers, which regulates the Bank's credit risk with regard to a single borrower or group of related borrowers and determines the maximum ratio of the total liabilities of a borrower (borrowers included in the group of related borrowers) to the Bank to the Bank's equity.

As at 31 December 2018 and 31 December 2017 the maximum allowable value of k-3 norm established by NBRK was 25%. The value of k-3 norm calculated by the Bank as at 31 December 2018 and 31 December 2017 was in compliance with the statutory norm. As at 31 December 2018 the Group has 14 debtors or groups of connected debtors (31 December 2017: 6 debtors or groups of related debtors), credit risk exposure to whom exceeds 10 percent maximum credit risk exposure. The credit risk exposure for these customers as at 31 December 2018 is KZT 276,797 million (31 December 2017: KZT 114,175 million).

Offsetting financial assets and financial liabilities

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

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

Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements.

The Group conducts derivative transactions that are not transacted on the exchange through a central counterparty. Management believes that such settlements are, in effect, equivalent to net settlement and that, the Group meets the net settlement criterion as this gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that the Group will process receivables and payables in a single settlement process or cycle.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, reverse sale and repurchase agreements, and
- securities lending and borrowing.

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28. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

Such collateral is subject to the standard industry terms of the International Swaps and Derivatives Association (“ISDA”) Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on 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 and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Loans to customers and banks	59,641	-	59,641	-	(7,725)	51,916
Loans under reverse repurchase agreements	75,071	-	75,071	(75,071)	-	-
Total financial assets	134,712	-	134,712	(75,071)	(7,725)	51,916
Current accounts and deposits from customers	7,725	-	7,725	(7,725)	-	-
Due to banks and financial institutions (loans under REPO agreements)	4,827	-	4,827	(4,827)	-	-
Total financial liabilities	12,552	-	12,552	(12,552)	-	-

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28. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Loans to customers and banks	19,467	-	19,467	-	(8,437)	11,030
Loans under reverse repurchase agreements	14,443	-	14,443	(14,443)	-	-
Total financial assets	33,910	-	33,910	(14,443)	(8,437)	11,030
Current accounts and deposits from customers	8,437	-	8,437	(8,437)	-	-
Due to banks and financial institutions (loans under REPO agreements)	5,393	-	5,393	(4,867)	-	526
Total financial liabilities	13,830	-	13,830	(13,304)	-	526

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

The securities lent under agreements to repurchase (Note 15) represent the transferred financial assets, which are not completely derecognised. The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

Geographical concentration

The Finance and Risk Management Committee (“FRMC”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group’s activity. This approach allows the Group to minimise potential losses from the investment climate fluctuations in the Republic of Kazakhstan.

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28. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Geographical concentration, continued

The geographical concentration of assets and liabilities is set out below:

	Kazakhstan	Non-OECD countries	OECD countries	31 December 2018 Total
Financial assets:				
Cash and cash equivalents	155,689	4,995	14,729	175,413
Financial instruments at FVTPL	42,478	-	198	42,676
Investment financial assets at FVOCI	148,777	18,121	3,981	170,879
Investment financial assets at amortised cost	6,911	-	-	6,911
Due from banks	27,415	-	3,877	31,292
Loans to customers and banks	954,092	14,591	1	968,684
Other financial assets	10,771	-	-	10,771
Total financial assets	1,346,133	37,707	22,786	1,406,626
Financial liabilities:				
Financial instruments at FVTPL	12,668	-	-	12,668
Due to banks and financial institutions	68,954	8,326	48,370	125,650
Customer and banks accounts	1,074,530	-	-	1,074,530
Debt securities issued	70,147	-	-	70,147
Subordinated bonds	71,915	-	-	71,915
Other financial liabilities	45,714	-	-	45,714
Total financial liabilities	1,343,928	8,326	48,370	1,400,624
Open position	2,205	29,381	(25,584)	
	Kazakhstan	Non-OECD countries	OECD countries	31 December 2017 Total
Financial assets:				
Cash and cash equivalents	164,963	5,474	17,619	188,056
Financial instruments at FVTPL	33,570	-	22	33,592
Available-for-sale investments	131,749	14,715	3,671	150,135
Due from banks	11,481	19	1,640	13,140
Loans to customers and banks	831,222	15	14	831,251
Other financial assets	11,244	-	-	11,244
Total financial assets	1,184,229	20,223	22,966	1,227,418
Financial liabilities:				
Financial instruments at FVTPL	9,199	-	-	9,199
Due to banks and financial institutions	55,280	235	43,276	98,791
Customer and banks accounts	976,952	-	-	976,952
Debt securities issued	17,328	-	-	17,328
Subordinated bonds	75,454	-	-	75,454
Other financial liabilities	12,014	-	-	12,014
Total financial liabilities	1,146,227	235	43,276	1,189,738
Open position	38,002	19,988	(20,310)	

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28. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk

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

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

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

The Treasury Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimisation. The Department of Planning and Finance determines the optimum structure of balance and limits on liquidity ratios. Gap-positions are approved by the FRMC. The Risk Department performs monitoring of liquidity ratios.

The liquidity management policy requires:

- liquidity risk identification and measurement;
- monitoring of liquidity risk and liquidity positions, establishment of reporting system, including prudential and management reporting;
- liquidity risk limitation, formation of the system of limits (restrictions) and early warning indicators;
- stress-testing;
- development of alternative options of liquidity planning, maintaining liquidity and funding contingency plans and their regular review;
- organisation of internal controls over liquidity risk and liquidity risk management, exercise of internal audit;
- disclosure of respective information on liquidity risk and liquidity position.

The following tables show analysis of financial assets and liabilities grouped according to the principle of period remaining from the balance sheet date till maturity date, except for the financial assets through profit or loss and available-for-sale investments, which are based on the expected maturities as at 31 December 2018 and 31 December 2017.

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28. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

31 December 2018	Weighted average effective interest rate	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2018 Total
Financial assets							
Cash and cash equivalents	2.84%	3,910	2,254	-	-	-	6,164
Financial instruments at fair value through profit or loss	8.77%	41,594	-	-	-	-	41,594
Investment financial assets at FVOCI	4.15%	170,719	-	-	-	-	170,719
Investment financial assets at amortised cost	6.37%	-	-	4,436	2,475	-	6,911
Due from banks	2.60%	7,978	19,610	-	-	-	27,588
Loans to customers and banks	11.84%	113,498	43,060	201,614	373,464	237,048	968,684
Total interest bearing financial assets		337,699	64,924	206,050	375,939	237,048	1,221,660
Cash and cash equivalents		169,249	-	-	-	-	169,249
Financial instruments at fair value through profit or loss		1,082	-	-	-	-	1,082
Investment financial assets at FVOCI		160	-	-	-	-	160
Due from banks		3,704	-	-	-	-	3,704
Other financial assets		10,771	-	-	-	-	10,771
Total financial assets		522,665	64,924	206,050	375,939	237,048	1,406,626
Financial liabilities							
Financial instruments at fair value through profit or loss	3.00%	12,668	-	-	-	-	12,668
Due to banks and financial institutions	6.42%	32,335	1,567	19,360	42,786	19,401	115,449
Customer and banks accounts	5.83%	84,025	54,701	296,309	308,430	20,266	763,731
Debt securities issued	8.62%	-	1,107	21,271	22,632	25,137	70,147
Subordinated bonds	11.09%	-	550	12,463	8,346	50,556	71,915
Other financial liabilities	3.00%	166	216	655	4,125	25,742	30,904
Total interest bearing liabilities		129,194	58,141	350,058	386,319	141,102	1,064,814
Due to banks and financial institutions		10,201	-	-	-	-	10,201
Customer and banks accounts		302,945	7	5,420	524	1,903	310,799
Other financial liabilities		14,810	-	-	-	-	14,810
Total financial liabilities		457,150	58,148	355,478	386,843	143,005	1,400,624
Liquidity gap		65,515	6,776	(149,428)	(10,904)	94,043	
Interest sensitivity gap		208,505	6,783	(144,008)	(10,380)	95,946	
Cumulative interest sensitivity gap		208,505	215,288	71,280	60,900	156,846	
Cumulative interest sensitivity gap as a percentage of total financial assets		17.07%	17.62%	5.83%	4.99%		

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28. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

31 December 2017	Weighted average effective interest rate	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
Financial assets							
Cash and cash equivalents	6.43%	-	-	342	-	-	342
Financial instruments at fair value through profit or loss	8.52%	32,933	-	-	-	-	32,933
Available-for-sale investments	6.34%	149,984	-	-	-	-	149,984
Due from banks	2.88%	1,328	5,650	2,991	-	-	9,969
Loans to customers and banks	11.60%	78,711	52,423	179,325	318,921	201,871	831,251
Total interest bearing financial assets		262,956	58,073	182,658	318,921	201,871	1,024,479
Cash and cash equivalents		187,714	-	-	-	-	187,714
Financial instruments at fair value through profit or loss		659	-	-	-	-	659
Available-for-sale investments		151	-	-	-	-	151
Due from banks		3,171	-	-	-	-	3,171
Other financial assets		11,244	-	-	-	-	11,244
Total financial assets		465,895	58,073	182,658	318,921	201,871	1,227,418
Financial liabilities							
Financial instruments at fair value through profit or loss	3.00%	9,199	-	-	-	-	9,199
Due to banks and financial institutions	6.25%	36,023	127	9,041	33,643	18,497	97,331
Customer and banks accounts	6.09%	77,820	50,662	274,428	285,654	18,769	707,333
Debt securities issued	8.07%	67	213	-	17,048	-	17,328
Subordinated bonds	10.93%	-	409	6,407	16,870	51,768	75,454
Total interest bearing liabilities		123,109	51,411	289,876	353,215	89,034	906,645
Due to banks and financial institutions		1,441	-	-	-	19	1,460
Customer and banks accounts		261,345	-	8,274	-	-	269,619
Other financial liabilities		12,014	-	-	-	-	12,014
Total financial liabilities		397,909	51,411	298,150	353,215	89,053	1,189,738
Liquidity gap		67,986	6,662	(115,492)	(34,294)	112,818	
Interest sensitivity gap		139,847	6,662	(107,218)	(34,294)	112,837	
Cumulative interest sensitivity gap		139,847	146,509	39,291	4,997	117,834	
Cumulative interest sensitivity gap as a percentage of total financial assets		11.39%	11.94%	3.20%	0.41%	9.60%	

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28. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms, either because management has the discretionary ability to manage the cash flows, or because past experience indicates that cash flows will differ from contractual terms.

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognised in the statement of financial position under the effective interest rate method.

To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curves at the end of the reporting period.

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 month to 5 years	Over 5 years	31 December 2018 Total
Financial liabilities:						
Due to banks and financial institutions	32,413	2,136	22,686	49,035	25,137	131,407
Customer and banks accounts	86,295	56,179	304,313	316,761	20,813	784,361
Debt securities issued	-	1,681	25,441	42,204	33,691	103,017
Subordinated bonds	-	1,088	17,677	29,608	80,491	128,864
Other financial liabilities	244	370	1,334	7,467	33,295	42,710
Total interest bearing liabilities	118,952	61,454	371,451	445,075	193,427	1,190,359
Due to banks and financial institutions	10,201	-	-	-	-	10,201
Customer and banks accounts	302,945	7	5,420	524	1,903	310,799
Other financial liabilities	14,810	-	-	-	-	14,810
Total financial liabilities	446,908	61,461	376,871	445,599	195,330	1,526,169
Financial guarantees and commitments	154,019	-	-	-	-	154,019
Financial derivative liabilities						
<i>Gross settled derivatives</i>						
- Inflow	-	-	23,816	-	-	23,816
- Outflow	-	-	(11,111)	-	-	(11,111)

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28. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 month to 5 years	Over 5 years	31 December 2017 Total
Financial liabilities:						
Due to banks and financial institutions	34,522	1,886	9,692	33,773	30,455	110,328
Customer and banks accounts	81,000	56,734	286,867	288,222	19,941	732,764
Debt securities issued	280	358	1,094	18,181	6	19,919
Subordinated bonds	1,417	1,188	11,438	45,773	82,083	141,899
Total interest bearing liabilities	117,219	60,166	309,091	385,949	132,485	1,004,910
Due to banks and financial institutions	1,441	-	-	-	19	1,460
Customer and banks accounts	261,345	-	8,274	-	-	269,619
Other financial liabilities	12,014	-	-	-	-	12,014
Total financial liabilities	392,019	60,166	317,365	385,949	132,504	1,288,003
Financial guarantees and commitments	146,913	-	-	-	-	146,913
Derivative financial liabilities						
<i>Gross settled derivatives</i>						
- Inflow	-	24,973	-	-	-	24,973
- Outflow	-	(11,569)	-	-	-	(11,569)

The timing of cash outflows has been prepared on the following basis:

Derivative financial instruments

Contractual payments for derivative financial instruments are determined based on gross settlements due to initial and final exchange of notional amounts and applicable interest rates in accordance with the terms of these financial instruments.

Prepaid liabilities

Where a financial liability can be prepaid by the counterparty, the cash outflow has been included at the earliest date on which the counterparty can require repayment regardless whether or not such early repayment results in a penalty. If the repayment of financial liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, it is included at the earliest possible date that the conditions could be fulfilled without considering probability of the conditions being met.

The financial guarantees and commitments are included in the "On demand" category because payments can be required upon request.

(f) Operational risk

Definition of operational risk

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

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

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29. CAPITAL MANAGEMENT

NBRK sets and monitors capital requirements for the Bank as a whole.

Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

- Tier 1 capital is a total of basic and additional capital. Basic capital comprises paid-in ordinary share capital, share premium, current and prior periods' retained earnings and reserves created thereof, less treasury share capital, intangible assets including goodwill, and current and prior periods losses, deferred tax asset net of deferred tax liability, excluding deferred tax assets recognised in relation to deductible temporary differences, other revaluation reserves, gains from sales related to asset securitisation transactions, gains or losses from revaluation of financial liabilities at fair value related to change in own credit risk, regulatory adjustments to be deducted from the additional capital, but due to insufficient levels of it deducted from basic capital, and investments in financial instruments of investees not consolidated in the Group with certain limitations. Additional capital comprises of perpetual contracts and paid-in preference share capital less adjustments for the Bank's investment in its own perpetual financial instruments, treasury preference shares, investments in financial instruments of investees not consolidated in the Group with certain limitations and regulatory adjustments to be deducted from the tier 2 capital, but due to insufficient levels of it deducted from additional capital.
- Tier 2 capital comprises subordinated debt in KZT less investments in subordinated debt of financial institutions the Bank holds 10% and more shares in.

Total capital is the sum of tier 1 and tier 2 capital less positive difference between retail deposits and statutory capital multiplied by 5.5, and less 33.33% of the positive difference between regulatory impairment provisions and IFRS impairment provision as at 31 December 2018 (total capital is the sum of tier 1 and tier 2 capital less positive difference between retail deposits and statutory capital multiplied by 5.5, and less 33.33% of the positive difference between regulatory impairment provisions and IFRS impairment provision as at 31 December 2017).

There are a set of different limitations and classification criteria applied to the above listed total capital elements.

In accordance with the regulations set by the NBRK the Bank has to maintain total capital adequacy within the following coefficients:

- a ratio of basic capital to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k1-2);
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k2).

As at 31 December 2018 the minimum level of ratios as applicable to the Bank are as follows:

- k1 – not less than 0.055 (31 December 2017: 0.055)
- k1-2 – not less than 0.065 (31 December 2017: 0.065)
- k2 – not less than 0.080 (31 December 2017: 0.080).

The Bank complied with all externally imposed capital requirements as at 31 December 2018 and 31 December 2017. As at 31 December 2018 the Bank's coefficients are as follows: k1 – 0.088, k1-2 – 0.101 and k2 – 0.172 (31 December 2017: k1 – 0.104, k1-2 – 0.133 and k2 – 0.214).

The following table shows the composition of the capital position as at 31 December 2018 calculated in accordance with the requirements established by the resolution of Board of National Bank of the Republic of Kazakhstan of the resolution of Board of National Bank of the Republic of Kazakhstan of September 13, 2018 No. 170 "On establishment of normative values and techniques of calculations of prudential standard rates and other regulations, obligatory to observance, and limits of the size of the capital of bank for the certain date and Rules of calculation and limits of the open foreign exchange position of bank" with amendments and additions.

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29. CAPITAL MANAGEMENT, CONTINUED

	31 December 2018	31 December 2017
Tier 1 capital		
Basic capital:	103,305	111,582
Share capital	57,977	57,977
Statutory retained earnings of prior years	33,104	8,181
Retained earnings of current period	13,215	30,174
Reserves formed from statutory retained earnings of prior years	4,981	16,896
Revaluation surplus for buildings	4,347	4,444
Revaluation reserve of investment securities	(3,506)	(1,100)
Statutory adjustments:		
Intangible assets including goodwill	(6,813)	(4,990)
Total basic capital	103,305	111,582
Additional capital		
Paid-in preference share capital not satisfying basic capital requirements	5,887	9,420
Bank's treasury preference shares	(5,843)	-
Bank investments in perpetual financial instruments of financial institutions in which the Bank has ten (10) percent or more issued shares (stake in the share capital) to be deducted from additional capital	15,531	21,494
Tier 1 capital	118,880	142,496
Tier 2 capital		
Subordinated debt	81,754	76,246
Subordinated debt placed before 1 January 2015 denominated in KZT	12,670	22,676
Total tier 2 capital	94,424	98,922
Statutory adjustments:		
33.33 (2017: 16.67%) of the positive difference between regulatory credit loss allowance and IFRS credit loss allowance	(11,511)	(11,999)
Total capital	201,793	229,419
Risk-weighted assets, contingent liabilities and derivative financial instruments and operational risk		
Credit risk-weighted assets	993,520	913,521
Credit risk-weighted contingent liabilities	114,948	113,138
Market risk-weighted assets, contingent assets and liabilities	19,777	11,208
Operational risk	44,136	32,689
Risk-weighted assets, contingent liabilities and derivative financial instruments and operational risk	1,172,381	1,070,556
k1	0.088	0.104
k1-2	0.101	0.133
k2	0.172	0.214

30. CREDIT RELATED COMMITMENTS

The Group has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

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30. CREDIT RELATED COMMITMENTS, CONTINUED

As at 31 December 2018 and 31 December 2017, the nominal values or contractual values and risk-weighted amounts are as follows:

	31 December 2018		31 December 2017	
	Nominal value	Risk-weighted value	Nominal value	Risk-weighted value
Guarantees issued and other similar liabilities	145,936	138,490	138,445	132,700
Letters of credit and other contingent liabilities related to other transaction	8,083	1,617	8,468	1,694
	<u>154,019</u>	<u>140,107</u>	<u>146,913</u>	<u>134,394</u>

Management expects that loans and liabilities under credit facilities will be financed as required at the expense of the amounts received from repayment of the current loan portfolio according to the payment schedules.

The following tables shows the guarantees issued and other similar liabilities secured by different types of collaterals and not the fair value of the collateral itself.

	31 December 2018	31 December 2017
Real estate	52,407	16,039
Unsecured	27,675	64,189
Movable property	14,373	21,334
Receivables	10,371	11,682
Cash	7,446	5,746
Corporate guarantees	12,255	2,921
Goods in turnover	421	660
Land	42	231
Other	20,946	15,643
Total	<u>145,936</u>	<u>138,445</u>

The following table shows the letters of credit issued and other contingent liabilities secured by different types of collaterals and not the fair value of the collateral itself.

	31 December 2018	31 December 2017
Cash	8,083	8,370
Unsecured letters of credit	-	98
Total	<u>8,083</u>	<u>8,468</u>

These commitments do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

31. OPERATING LEASE

Leases as lessee

Non-cancellable operating lease rentals as at 31 December 2018 and 31 December 2017 are payable as follows:

	31 December 2018 KZT million	31 December 2017 KZT million
Less than 1 year	1,456	1,674

The Group leases a number of premises under operating leases. The leases typically run for an initial period of one to three years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals. During the reporting period KZT 1,588 million were recognised as expense in the consolidated statement of profit or loss under the operating leases (31 December 2017: KZT 1,685 million).

The Group also leases office premise under operating leases. The lease typically run for an initial period of 8 years with cancellable option at any time during the lease period. Lease payments are usually increased annually to reflect market rentals.

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31. OPERATING LEASE, CONTINUED

Leases as lessee

The ownership for office premise does not pass to the Group. The rent paid is increased to market rent at regular intervals and the Group does not participate in the residual value, it was determined that substantially all the risks and rewards of the leased premises are with the landlord. As such, the Group determined that the leases are operating leases. During 2018, rentals of KZT 1,303 million were recognised as an expense in administrative expenses in respect of operating leases.

32. FUNDS MANAGEMENT AND TRUST ACTIVITIES

The Group provides custodian services to individuals, trusts, retirement benefit plans and other institutions, whereby it accounts and holds assets or make settlements on the customers' transactions with different financial instruments at the direction of the customer.

The Group receives fee income for providing these services. Assets received under custodian management are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk related to such activities, as it does not guarantee these investments.

Fiduciary assets are categorised as follows based on their nominal value:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Securities	227,078	572,366
Investments in buildings, machinery, equipment, transport and other property	19,791	765
Unit investment funds	23	185,747
Bank deposits	-	71,580
Other assets	688	170
Total fiduciary assets	<u>247,580</u>	<u>830,628</u>

The Bank keeps accounting and prepares reporting for assets and investment funds, asset management and other legal entities and transactions with assets and makes reconciliation with the management company with regard to the assets being served, in accordance with the requirements of the legislation of the Republic of Kazakhstan and NBRK rules.

33. CONTINGENCIES

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies in Kazakhstan

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

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

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34. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

(a) Accounting classification and fair value

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	175,413	175,413	175,413
Financial instruments at fair value through profit or loss	42,676	-	-	42,676	42,676
Investment financial assets at FVOCI	-	170,879	-	170,879	170,879
Investment financial assets at amortised cost	-	-	6,911	6,911	6,803
Due from banks	-	-	31,292	31,292	31,292
Loans to customers and banks	-	-	968,199	968,199	957,551
Other financial assets	-	-	10,771	10,771	10,771
	42,676	170,879	1,192,586	1,406,141	1,395,385
Financial instruments at fair value through profit or loss	12,668	-	-	12,668	12,668
Due to banks and financial institutions	-	-	125,650	125,650	125,650
Customer and banks accounts	-	-	1,074,530	1,074,530	1,073,112
Debt securities issued	-	-	70,147	70,147	68,482
Subordinated bonds	-	-	71,915	71,915	64,549
Other financial liabilities	-	-	45,714	45,714	45,714
	12,668	-	1,387,956	1,400,624	1,390,175

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34. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(a) Accounting classifications and fair values, continued

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

	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	188,056	-	-	188,056	188,056
Financial instruments at fair value through profit or loss	33,592	-	-	-	33,592	33,592
Available-for-sale investments	-	-	150,135	-	150,135	150,135
Due from banks	-	13,140	-	-	13,140	13,140
Loans to customers and banks	-	831,251	-	-	831,251	822,665
Other financial assets	-	11,244	-	-	11,244	11,244
	33,592	1,043,691	150,135	-	1,227,418	1,218,832
Financial instruments at fair value through profit or loss	9,199	-	-	-	9,199	9,199
Due to banks and financial institutions	-	-	-	98,791	98,791	98,791
Customer and banks accounts	-	-	-	976,952	976,952	975,414
Debt securities issued	-	-	-	17,328	17,328	15,902
Subordinated bonds	-	-	-	75,454	75,454	69,131
Other financial liabilities	-	-	-	12,014	12,014	12,014
	9,199	-	-	1,180,539	1,189,738	1,180,451

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34. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

However, given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

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

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

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

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

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

- discount rates of 5.2 – 14.7% and 9.5 – 17.2% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively;
- discount rates of 1.1% – 7.2% and 1.7 – 11.1% are used to calculate expected future cash flows from current accounts and deposits of corporate and retail customers;
- quoted market value is used to measure the fair value of debt securities issued.

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

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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34. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(b) Fair value hierarchy, continued

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuations. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss				
- Derivative assets	-	-	27,177	27,177
- Derivative liabilities	-	-	(12,668)	(12,668)
Non-derivative financial instruments at fair value through profit or loss - debt securities	8,076	6,341	-	14,417
Investment financial assets at FVOCI - debt financial instruments	170,879	-	-	170,879
	178,955	6,341	14,509	199,805

The table below analyses financial instruments measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 3	Total
Financial instruments at fair value through profit or loss			
- Derivative assets	-	19,495	19,495
- Derivative liabilities	-	(9,199)	(9,199)
Non-derivative financial instruments at fair value through profit or loss - debt securities	13,438	-	13,438
Available-for-sale investments	150,135	-	150,135
	163,573	10,296	173,869

During the period ended 31 December 2018 and 31 December 2017 there were no transfers between the Level 1 and Level 3.

Unobservable valuation differences on initial recognition

Transaction price in the market, in which swaps transaction are entered into with NBRK may differ from the fair value of swap instruments in primary markets (Note 15). Upon initial recognition the Group measures fair value of swap transactions entered into with NBRK using the valuation technique.

In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the currency market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Group uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlying, expectations of termination periods. When fair value at initial recognition is not evidenced by a quoted price in an active market or based on a valuation technique that uses data only from observable markets, any difference between the fair value at initial recognition and the transaction price is not recognised in profit or loss immediately, but is deferred (see note 3).

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:

	Derivative financial assets	Derivative financial liabilities
1 January 2017	41,953	(9,227)
Total (losses)/gain recognised in profit or loss:	(2,386)	328
Settlements	(20,072)	(300)
31 December 2017	19,495	(9,199)
Total gains (losses) recognised in profit or loss:	7,682	(3,469)
Settlements	-	-
31 December 2018	27,177	(12,668)

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34. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition, continued

To determine the fair value of the swaps, management assumed interest rates in KZT within the range of 10.69% to 10.79% and of 2.52% to 2.53% in USD.

Management believes that the NBRK does not use its right of early termination of transactions before their maturity.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2018:

	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	175,413	-	175,413	175,413
Due from banks	31,292	-	31,292	31,292
Loans to customers and banks	784,238	173,313	957,551	968,684
Other financial assets	10,771	-	10,771	10,771
Liabilities				
Customer and banks accounts	1,073,112	-	1,073,112	1,074,530
Due to banks and financial institutions	125,650	-	125,650	125,650
Debt securities issued	68,482	-	68,482	70,147
Subordinated bonds	64,549	-	64,549	71,915
Other financial liabilities	45,714	-	45,714	45,714

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

	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	188,056	-	188,056	188,056
Due from banks	13,140	-	13,140	13,140
Loans to customers and banks	679,069	143,596	822,665	831,251
Other financial assets	12,471	-	12,471	12,471
Liabilities				
Customer and banks accounts	975,414	-	975,414	976,952
Due to banks and financial institutions	98,791	-	98,791	98,791
Debt securities issued	15,902	-	15,902	17,328
Subordinated bonds	69,131	-	69,131	75,454
Other financial liabilities	12,014	-	12,014	12,014

35. RELATED PARTY TRANSACTIONS

Mr. B.R. Baiseitov is an ultimate controlling party of the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

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35. RELATED PARTY TRANSACTIONS, CONTINUED

	31 December 2018		31 December 2017	
	Related party transactions	Average effective interest rate	Related party transactions	Average effective interest rate
Cash and cash equivalents	-	-	3,323	-
- Shareholders with significant influence	-	-	3,323	2.20%
Loans to customers and banks, gross	205		5,349	
- key management personnel of the Group or its parent Bank	56	3.66%	-	-
- close relatives of key management personnel	81	12.83%	315	8.45%
- other	68	16.26%	5,034	7.89%
Provision for losses on loans to customers and banks	-		10	
- key management personnel of the Group or its parent Bank	-		-	-
- close relatives of key management personnel	-		9	-
- other	-		1	-
Due to banks and financial institutions	-		11	
- Shareholders with significant influence	-		11	-
Customer and banks accounts	11,910		18,370	
- key management personnel of the Group or its parent Bank	861	3.92%	6,911	3.29%
- close relatives of key management personnel	10,472	3.24%	6,696	3.91%
- other	577	5.30%	4,763	7.11%

Secured and unsecured loans and guarantees are issued to key management personnel and other related parties in the ordinary course of business. These loans are issued mostly on the same terms, including interest rates, that are used in other similar transactions with the persons of similar status or, if applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Amounts deposited by the Parent Bank and other related parties earn interest at the same rates as those offered to the market or on the same terms and conditions applicable to other employees within the Group.

Included in the consolidated statement of profit or loss for the year ended 31 December 2018 and 2017 are the following amounts, which arose due to transactions with related parties:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest income	19	685
- key management personnel of the Group or its parent Bank	2	2
- close relatives of key management personnel	7	32
- other	10	651
Interest expense	(532)	(924)
- key management personnel of the Group or its parent Bank	(166)	(64)
- close relatives of key management personnel	(324)	(187)
- other	(42)	(673)
Operating expenses	(389)	(406)
- key management personnel of the Group or its parent Bank	(389)	(406)

Key management personnel remuneration for the years ended 31 December 2018 and 2017 represent short-term employee benefits. Total remuneration of members of the Board of Directors and the Management Board amounted to KZT 389 million and KZT 406 million, for the years ended 31 December 2018 and 2017, respectively.

36. SUBSEQUENT EVENTS

On 5 March 2019 the Bank repurchased from B.R. Baiseitov 161,822,900 ordinary shares of subsidiary BCC Invest JSC, thus having increased its interest in the subsidiary up to 100%.