JOINT STOCK COMPANY
BANK CENTERCREDIT

Separate Financial Statements
for the year ended 31 December 2018

Contents

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
Қазақстан, 050051, Алматы,
Достық д-лы, 180,
Тел.: +7 (727) 298-08-98

KPMG Audit LLC
180 Dostyk Avenue, Almaty,
050051, Kazakhstan,
E-mail: company@kpmg.kz

Independent Auditors' Report

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

Opinion

We have audited the separate financial statements of Joint Stock Company Bank CenterCredit (the "Bank"), which comprise the separate statement of financial position as at 31 December 2018, the separate 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 separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at 31 December 2018, and its unconsolidated financial performance and its unconsolidated 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 Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Expected credit losses ('ECL') for loans to customers</th></tr>
<tr><td colspan="2">Please refer to Notes 3 (i) and 18 in the separate financial statements.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Loans to customers and banks represent 67% 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.

From 1 January 2018 the Bank implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:

- 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.

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.</td><td>We analysed the key aspects of the Bank'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.

To analyse adequacy of professional judgement and assumptions made by the management in relation to allowance for ECL estimate, we performed the following procedures:

— 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 separate financial statements we tested whether Stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank.
— 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 Bank 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 Bank to assess ECL by comparing the estimates made as at 1 January 2018 with actual results for 2018.

We also assessed whether the separate financial statements disclosures appropriately reflect the Bank's exposure to credit risk.</td></tr>
</table>

Adoption of IFRS 9 'Financial instruments'	
Please refer to Notes 3 and 5 in the separate financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The use of financial instruments is a core business of the Bank and financial assets constitute a majority of Bank's assets. From 1 January 2018 the Bank has adopted a new accounting standard for financials instruments, IFRS 9, which provides significant changes to classification and measurement of financial assets. 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 Bank, this area is a key audit matter.	We analysed the criteria used to determine the business models within which the Bank holds financial assets by making inquiries to responsible employees, reviewing the Bank's internal documentation and analysing internal business processes on selected significant financial assets portfolios. We checked that the Bank 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. We also checked whether the Bank 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. We also assessed whether the separate financial statements provide an appropriate disclosure of key classification and measurement principles for financial instruments as well as the effects of the Bank adoption of IFRS 9.

Other Information

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

Our opinion on the separate 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 separate 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 separate 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 Separate Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate 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 Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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. MФ-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

SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Kazakhstani tenge, unless otherwise stated)

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017*
Interest income calculated using the effective interest method		109,480	109,775
Other interest income		224	862
Interest expense		(65,506)	(62,306)
Net interest income before charge for credit losses on interest-bearing assets	6	**44,198**	**48,331**
Charge for credit losses on interest bearing assets	7	(30,814)	(43,743)
Net interest income		**13,384**	**4,588**
Fee and commission income	8	23,880	21,321
Fee and commission expense		(4,366)	(2,716)
Net commission income		**19,514**	**18,605**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	3,640	(3,131)
Net gain on sale and repayment of financial assets measured at fair value through other comprehensive income		629	-
Net realised gain on available-for-sale investments		-	1,226
Net foreign exchange gain	10	3,121	7,810
(Charge)/recovery of expected credit loss allowance for other financial assets		(1,323)	145
Recovery/(charge) of provision for credit related commitments		32	(288)
Impairment loss on investments in subsidiaries		-	(1,965)
Income from recognition of discount on subordinated bonds	24	-	34,993
Other income		2,163	2,788
Net non-interest income		**27,776**	**60,183**
Operating income		41,160	64,771
Operating expenses	11	(29,145)	(27,271)
Operating income before income tax		**12,015**	**37,500**
Income tax expense	12	(2,392)	(7,199)
Profit for the year		**9,623**	**30,301**

The Bank 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 Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(r)).

These separate financial statements as set out on pages 8 to 104 were approved by the 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 of Management Board**	**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 15 to 104 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Kazakhstani tenge, unless otherwise stated)

	For the year ended 31 December 2018	For the year ended 31 December 2017*
PROFIT FOR THE YEAR	**9,623**	**30,301**
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified subsequently to profit or loss:		
Net (loss)/gain resulting from revaluation of available-for-sale investments during the period (net of tax – KZT Nil)	(1,665)	2,064
Reclassification adjustment relating to investment securities disposed of during the period (net of tax – KZT Nil)	(629)	(1,226)
Total items that are or may be reclassified subsequently to profit or loss	*(2,294)*	*838*
Items that will not be reclassified to profit or loss:		
Revaluation of buildings and constructions	2,880	181
Transfer of revaluation reserve for property and equipment to retained earnings	(2,880)	(181)
Total items that will not be reclassified to profit or loss	-	-
OTHER COMPREHENSIVE (LOSS)/INCOME NET OF INCOME TAX	**(2,294)**	**838**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**7,329**	**31,139**

The Bank 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 Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(r)).

These separate financial statements as set out on pages 8 to 104 were approved by the 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 of Management Board

25 March 2019
Almaty, Kazakhstan

A.T. Nurgaliyeva
Chief Accountant

25 March 2019
Almaty, Kazakhstan

Explanatory notes as set out on pages 15 to 104 form an integral part of these separate financial statements.

JOINT STOCK COMPANY BANK CENTERCREDIT

SEPARATE STATEMENT OF FINANCAL 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	13	175,235	187,913
Financial instruments at fair value through profit or loss	14	27,177	23,024
Investment securities	15	177,787	149,922
Investments in subsidiaries	16	23,251	34,716
Due from banks	17	31,292	13,140
Loans to customers and banks	18		
Loans to corporate customers		*618,060*	*482,854*
Loans to retail customers		*393,153*	*334,059*
Current income tax assets		1,206	695
Property, plant and equipment and intangible assets	19	32,709	40,768
Other assets	20	34,800	62,996
TOTAL ASSETS		**1,514,670**	**1,330,087**
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial instruments at fair value through profit or loss	14	12,668	9,199
Due to banks and financial institutions	21	121,823	97,908
Customer and bank accounts	22		
Due to corporate customers		*494,272*	*472,694*
Due to retail customers		*583,807*	*504,610*
Debt securities issued	23	70,585	17,366
Deferred income tax liabilities	12	8,403	9,580
Subordinated bonds	24	72,054	75,605
Other liabilities	25	43,556	14,444
TOTAL LIABILITIES		**1,407,168**	**1,201,406**
EQUITY:			
Charter capital	26	58,170	69,856
Fair value reserve for securities		(3,708)	(1,100)
Property revaluation reserve		1,564	4,444
Retained earnings		51,476	55,481
Total equity		**107,502**	**128,681**
OTAL LIABILITIES AND EQUITY		**1,514,670**	**1,330,087**

The Bank 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 Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(r)).

These separate financial statements as set out on pages 8 to 104 were approved by the 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 of Management Board

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 15 to 104 form an integral part of these separate financial statements.

SEPARATE 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
1 January 2017	69,856	(1,938)	4,625	24,999	97,542
Total comprehensive income					
Profit for the year	-	-	-	30,301	30,301
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value of available-for-sale investments	-	838	-	-	838
Total items that are or may be reclassified subsequently to profit or loss	-	*838*	-	-	*838*
Items that will not be reclassified to profit or loss:					
Revaluation of property and equipment, net of deferred tax assets/deferred tax liabilities	-	-	(181)	181	-
Total items that will not be reclassified to profit or loss	-	-	*(181)*	*181*	-
Total other comprehensive income	-	838	(181)	181	838
Total comprehensive income for the year	**-**	**838**	**(181)**	**30,482**	**31,139**
31 December 2017	**69,856**	**(1,100)**	**4,444**	**55,481**	**128,681**

JOINT STOCK COMPANY BANK CENTERCREDIT

SEPARATE 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
Balance at 31 December 2017	**69,856**	**(1,100)**	**4,444**	**55,481**	**128,681**
Effect from transition to IFRS 9 as at 1 January 2018 (see Note 5)*	-	(314)	-	(16,508)	(16,822)
Restated balance as at 1 January 2018*	**69,856**	**(1,414)**	**4,444**	**38,973**	**111,859**
Total comprehensive income					
Profit for the year	-	-	-	9,623	9,623
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value	-	(2,294)	-	-	(2,294)
Total items that are or may be reclassified subsequently to profit or loss	-	*(2,294)*	-	-	*(2,294)*
Items that will not be reclassified to profit or loss:					
Revaluation of property and equipment, net of deferred tax assets/deferred tax liabilities	-	-	(2,880)	2,880	-
Total items that will not be reclassified to profit or loss	-	-	*(2,880)*	*2,880*	-
Total other comprehensive income	-	(2,294)	(2,880)	2,880	(2,294)
Total comprehensive income for the year	-	**(2,294)**	**(2,880)**	**12,503**	**7,329**
Transactions with owners recorded directly in equity					
Treasury shares purchased	(11,686)	-	-	-	(11,686)
Total transactions with owners	**(11,686)**	-	-	-	**(11,686)**
31 December 2018	**58,170**	**(3,708)**	**1,564**	**51,476**	**107,502**

The Bank 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 Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(r)).

These separate financial statements as set out on pages 8 to 104 were approved by the 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 of Management Board

25 March 2019
Almaty, Kazakhstan

A.T. Nurgaliyeva
Chief Accountant

25 March 2019
Almaty, Kazakhstan

Explanatory notes as set out on pages 15 to 104 form an integral part of these separate financial statements.

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

(in millions of Kazakhstani tenge, unless otherwise stated)

	For the year ended 31 December 2018	For the year ended 31 December 2017*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	95,326	93,034
Interest paid	(62,091)	(63,434)
Services and fee and commission received	23,880	21,321
Services fee and commission paid	(4,755)	(1,834)
Net payments on other financial instruments	(840)	(1,037)
Net foreign exchange gain	5,993	4,852
Other income receipts	1,018	2,788
Operating expenses paid	(27,190)	(25,964)
Cash inflow from operating activities before changes in operating assets and liabilities	**31,341**	**29,726**
Changes in operating assets:		
Financial instruments at fair value through profit or loss	-	23,254
Due from banks	(18,199)	(6,393)
Loans to customers and banks	(144,017)	(61,942)
Other assets	28,218	(2,582)
Changes in operating liabilities:		
Financial instruments at fair value through profit or loss	-	(356)
Due to banks and financial institutions	18,781	(9,250)
Customer and bank accounts	33,505	(75,284)
Other liabilities	(2,278)	(1,117)
Cash flows used in operating activities before tax	**(52,649)**	**(103,944)**
Income tax paid	(1,169)	(688)
Net cash flows used in operating activities	**(53,818)**	**(104,632)**
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	-	731,964
Acquisition of investments available for sale	-	(748,813)
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	-	7,396
Acquisition of investments held to maturity	-	(1,590)
Acquisition of property, plant and equipment and intangible assets	(4,151)	(4,402)
Proceeds from sale of property, plant and equipment	-	(962)
Acquisition of shares issued by subsidiary	(7,686)	-
Net cash flows used in investing activities	**(24,998)**	**(16,407)**

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

(in millions of Kazakhstani tenge, unless otherwise stated)

	For the year ended 31 December 2018	For the year ended 31 December 2017*
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of treasury shares	(11,686)	-
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 bonds	(6,000)	(3,000)
Net cash flows from financing activities	**42,051**	**49,569**
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents	24,087	641
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(12,678)**	**(70,829)**
CASH AND CASH EQUIVALENTS, beginning of the period	187,913	258,742
CASH AND CASH EQUIVALENTS, end of the period (Note 13)	**175,235**	**187,913**

The Bank 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 Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(r)).

These separate financial statements as set out on pages 8 to 104 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 of Management Board**	**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 15 to 104 form an integral part of these separate financial statements.

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 Bank is a member of the Kazakhstan Deposit Insurance Fund.

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.

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 individual (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 separate financial statements were authorised for issue by the Management Board of JSC Bank CenterCredit on 25 March 2019.

(b) Kazakhstan business environment

The Bank's operations are primarily located in Kazakhstan. Consequently, the Bank 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 separate 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 Bank. The future business environment may differ from management's assessment.

2. BASIS OF PREPARATION

(a) Statement of compliance

The accompanying separate financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The Bank also prepares consolidated financial statements for the year ended 31 December 2018 in accordance with IFRS that can be obtained from the Bank's registered office.

This is the first set of the separate 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 separate 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 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 currency in which these separate financial statements are presented.

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

(d) Use of estimates and judgments

In preparing these separate 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 Bank's separate 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.

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 separate financial statements for 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 value of financial assets and liabilities – Note 34
  - estimates of financial instruments measured at fair value through profit or loss - Note 14;
  - estimates of fair value of subordinated bond issued – Note 24.

(e) Changes in accounting policies and presentation

The Bank has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Also, the Bank 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 Bank's separate financial statements.

Due to the transition methods chosen by the Bank in applying IFRS 9 information throughout these separate financial statements has not 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 Bank. 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);
- 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.

2. BASIS OF PREPARATION, CONTINUED

(e) Changes in accounting policies and presentation, continued

IFRS 9 Financial Instruments, continued

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

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

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

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 Bank 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 Bank 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 are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3(l).

2. BASIS OF PREPARATION, CONTINUED

(e) Changes in accounting policies and presentation, continued

IFRS 9 Financial Instruments, continued

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 Bank 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 separate statement of profit or loss and other comprehensive income, the Bank 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 Bank 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.

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 Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank'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 separate financial statements, and are applied consistently by the Bank, except as explained in Note 2(e), which addresses changes in accounting policies.

(a) Accounting for investments in subsidiaries in separate financial statements

Subsidiaries are investees controlled by the Bank. The Bank 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. Investments in subsidiaries are stated at cost in the separate financial statements of the Bank.

(b) Funds management

The Bank 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 separate financial statements.

(c) Interest income and expense

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 Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Interest income and expense, continued

Accounting policy applicable from 1 January 2018, continued

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.

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 clause (l).

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 separate 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 separate 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 separate statement of profit or loss and other comprehensive income includes:

- interest expense on financial liabilities measured at amortised cost.

Accounting policy applicable before 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 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 Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Interest income and expense, continued

Accounting policy applicable before 1 January 2018, continued

Presentation

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

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

(d) Fees and commission income and expense

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 Bank's separate 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 Bank 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 currency of the Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Foreign currency, continued

(i) Foreign currency transactions, continued

Foreign currency differences arising on translation to foreign currencies are recognised in profit or loss, except for differences arising on translation of available-for-sale equity instruments, with exception of foreign currency differences arising from impairment of such instruments, in which case foreign currency differences classified as other comprehensive income will be reclassified to profit and loss.

The exchange rates used by the Bank in the preparation of the separate 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 Bank in the management of short-term commitments. Cash equivalents are carried at amortised cost in the separate 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 Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(i) Classification, continued

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank 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.

Business model assessment

The Bank 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 Bank'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 Bank'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 Bank 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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.

Reclassification

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(i) Classification, continued

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

The Bank 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.
Financial assets held to maturity	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 Bank 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.

(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 Bank 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.

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 assets, continued

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 Bank due to changes in the NBRK key rate, if the loan contract entitles the Bank to do so.

The Bank 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. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, 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 Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank 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 Bank 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 Bank 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 Bank 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(l)), 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 Bank 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.

The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

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

- 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 are modified, the Bank evaluates whether the cash flows of the modified asset are 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 is derecognised and a new financial asset is recognised at fair value plus any eligible transaction 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 Bank 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.

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.

(iii) Derecognition

Accounting policy applicable from 1 January 2018

Financial assets

The Bank 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 Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(iii) Derecognition, continued

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 Bank enters into transactions whereby it transfers assets recognised on its separate 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 Bank 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 Bank 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 transaction are the contracts of rights of claims to loans signed with Mortgage organization Baspana" JSC (Note 18).

When the Bank continues to recognise at asset to the extent of its continuing involvement, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained by the Bank.

The Bank continues to recognise income arising on the transferred asset to the extent of its continuing involvement and recognises expense incurred on the associated liability.

If the transferred asset is measured at amortised cost, the associated financial liability may not be designated as at fair value through profit or loss.

Financial liabilities

The Bank 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 Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank 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 Bank 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 Bank 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 Fund measures assets and long positions at the bid price and liabilities and short positions at the ask price.

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 separate 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 to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

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

(vi) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Bank 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 Bank and all counterparties.

(h) Loans to customers

Accounting policy applicable from 1 January 2018

'Loans to customers' caption in the separate statement of financial position includes:

- 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.

Loans to customers and banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans to customers include:

- those classified as loans and receivables.

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

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

(i) Investment securities

Accounting policy applicable from 1 January 2018

The 'investment securities' caption in the separate 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;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(i) Investment securities, continued

Accounting policy applicable from 1 January 2018, continued

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 Bank 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 Bank 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 Bank had collected substantially all of the asset's original principal; and
- sales or reclassifications that were attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

Fair value through profit or loss

- *Trading assets* were those assets that the Bank 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 separate 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 Bank 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 Bank 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 Bank had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(j) Property, plant 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, plant 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	6.50-20.00%
Intangible assets	12.00-60.00%

(k) 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.

(l) Impairment

See also Note 4.

Accounting policy applicable from 1 January 2018

The Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(l) Impairment, continued

Accounting policy applicable from 1 January 2018, continued

The Bank 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) for which credit risk has not increased significantly since initial recognition (see Note 4).

The Bank considers a debt 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 Bank in accordance with the contract and the cash flows that the Bank 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 Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Bank 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.
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(l) Impairment, continued

Accounting policy applicable from 1 January 2018, continued

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried 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 Bank on terms that the Bank would not consider otherwise;
- it is 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 is credit-impaired, the Bank considers the following factors.

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(l) Impairment, continued

Accounting policy applicable from 1 January 2018, continued

Presentation of allowance for ECL in the separate financial statements

Loss allowances for ECL are presented in the separate 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 Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank 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
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the separate 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 Bank 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 separate 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 Bank's procedures for recovery of amounts due.

Accounting 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 Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(l) Impairment, continued

Accounting policy applicable before 1 January 2018, continued

Financial assets at amortised cost	The Bank 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.
	In assessing collective impairment, the Bank 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.
	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 Bank 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.
Available-for-sale financial assets	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.

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. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(m) Provisions

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

(n) Financial guarantees and loan commitments

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

Financial guarantees are contracts that require the Bank 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 Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

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

(o) Share capital

(i) Ordinary shares

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

(ii) Preference shares

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

(iii) 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 Bank to declare and pay dividends is subject to the rules and regulations of Kazakhstan legislation.

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(p) Taxation

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

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:

- initial recognition of goodwill not deductible for tax purposes,
- 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 and
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that where the Bank 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. 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 Bank 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.

(q) Segment reporting

An operating segment is a component of the Bank 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 Bank); 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.

(r) Comparative information

As a result of adoption of IFRS 9 the Bank changed presentation of certain captions in the primary forms of separate 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 separate statement of financial position is disclosed in Note 5.

(in millions of Kazakhstani tenge, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(r) Comparative information, continued

The effect of main changes in presentation of the separate 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;

The effect of the changes above on the separate statement of financial position is summarized in the table below:

	As previously reported	Effect of reclassification	As reclassified
Available-for-sale investments	149,922	(149,922)	-
Investment securities	-	149,922	149,922

Effective from 1 January 2018, on transition to IFRS 9 and due to changes in lending policy, the Bank 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 separate statement of financial position is summarized in the table below:

	As previously reported	Effect of reclassification	As reclassified
Loans to corporate customers			
Gross amount	500,255	(43,551)	456,704
Impairment allowance	(95,177)	7,952	(87,225)
Carrying amount	405,078	(35,599)	369,479

	As previously reported	Effect of reclassification	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 Bank.

(s) New standards and interpretations not yet adopted

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 Bank has not early adopted them in preparing these separate financial statements, with the exception of the amendment to IFRS 9 affecting prepayment features with negative compensation issued in October 2017.

- **IFRS 16**

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

- the Bank 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 Bank presents its first separate 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

- **IFRS 16, continued**

Transition

The Bank plans to apply IFRS 16 initially on 1 January 2019, using a 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 Bank 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 Bank has completed an initial assessment of the potential impact on its separate financial statements but has not yet completed its detailed assessment.

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

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Bank's separate 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 Bank's exposure to financial risks. For information on the Bank's financial risk management framework, see Note 28 to the Bank's separate financial statements for the year ended 31 December 2018.

Credit risk - Amounts arising from ECL

See accounting policy in Note 3(l).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank's historical experience and expert 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).

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Significant increase in credit risk, continued

The Bank uses three 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.

Credit risk grades

The Bank 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.

Corporate exposure	All exposures (corporate and retail exposures)
• 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.	• Payment record – this includes overdue status;
• Data from credit reference agencies, press articles, changes in external credit ratings	• Utilisation of the granted limit • Requests for and granting of forbearance
• Quoted bond and credit default swap (CDS) prices for the issuer where available	• Existing and forecast changes in business, financial and economic conditions
• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	

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 Bank 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 Bank 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 Bank 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 Bank 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 and qualitative factors, including a backstop based on delinquency.

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Significant increase in credit risk, continued

Determining whether credit risk has increased significantly, continued

Credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank'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.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank'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 Bank 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 Bank 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 Bank 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).

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Significant increase in credit risk, continued

Modified financial assets, continued

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

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

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

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(l)). A customer 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 Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank;
- 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 Bank 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 Bank; 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.

Incorporating of forward-looking information

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

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

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Significant increase in credit risk, continued

Measurement of ECLs, continued

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

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 3 (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 Bank 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.

Exposure at default represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation of discounts and premiums. 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 Bank 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 Bank 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 must be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

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

		External benchmarks used	
	Carrying amount as at 31 December 2018	PD	LGD
Cash and cash equivalents	175,235		70%; 0% - if the Government of the Republic of Kazakhstan acts as a counterparty
Due from banks	31,292	Moody's default study	
Investment securities	177,787	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

(in millions of Kazakhstani tenge, unless otherwise stated)

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(l).

	31 December 2018			
	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**	**Total**
Cash and cash equivalents				
-Rated from AA- to AA+	2,577	-	-	2,577
-Rated from A- to A+	9,853	-	-	9,853
- Rated from BBB- to BBB+	100,641	-	-	100,641
-Rated from BB- to BB+	5,733	-	-	5,733
- Rated from B- to B+	4,285	-	-	4,285
- Not rated	302	-	-	302
	123,391	-	-	**123,391**
Credit loss allowance	(73)	-	-	(73)
Total cash and cash equivalents (except for cash on hand)	**123,318**	-	-	**123,318**
Investment securities at amortised cost				
- 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**
Debt investment securities at FVOCI				
- 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**
Credit loss allowance	(165)	-	-	(165)
Gross carrying amount	**170,554**	-	-	**170,554**
Due from banks				
- 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**

(in millions of Kazakhstani tenge, unless otherwise stated)

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Credit quality analysis, continued

	31 December 2018				
	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**	**Originated credit-impaired financial assets (or POCI- assets)**	**Total**
Loans to corporate customers at amortised cost					
Not overdue loans	319,973	65,402	90,480	479	476,334
Overdue loans:					
- overdue less than 30 days	539	6,907	65,800	2,200	75,446
- overdue 31-60 days	-	163	29,482	-	29,645
- 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
	320,512	**72,517**	**252,015**	**3,214**	**648,258**
Credit loss allowance	(703)	(1,474)	(95,255)	-	(97,432)
Total loans to corporate customers at amortised cost	**319,809**	**71,043**	**156,760**	**3,214**	**550,826**
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	66,041	-	-	-	66,041
Credit loss allowance	-	-	-	-	-
Total loans provided under reverse REPO agreements	**66,041**	**-**	**-**	**-**	**66,041**

(in millions of Kazakhstani tenge, unless otherwise stated)

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 Bank's financial assets and financial liabilities as at 1 January 2018.

	Note	Initial classification under IAS 39	New classification under IFRS 9	Initial carrying amount under IAS 39	Reclassification	Change in estimate base	New carrying amount under IFRS 9
Financial assets							
Cash and cash equivalents	13	Loans and receivables	Amortised cost	187,913	-	-	187,913
Investment securities (a)	15	Available-for-sale	FVOCI	149,922	(10,048)	-	139,874
Investment securities - debt (b)	15	Available-for-sale	Amortised cost	-	10,048	(57)	9,991
Financial instruments at fair value through profit or loss	14	FVPL	FVPL (mandatory)	23,024	(3,528)	-	19,496
Investment securities - debt (a)	15	FVPL	FVOCI	-	1,631	-	1,631
Investment securities - debt (b)	15	FVPL	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	816,913	-	(20,065)	796,848
Total financial assets				**1,190,912**	**-**	**(20,187)**	**1,170,725**

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

The Bank'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:

a) Certain debt securities are held by the Bank in a separate portfolio to meet everyday liquidity needs. The Bank 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 Bank 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.

b) 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 Bank 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.

(in millions of Kazakhstani tenge, unless otherwise stated)

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. It effects the fair value reserves and retained earnings. There is no impact on other components of equity.

	Effect from transition to 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)	(1,100)
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 measured at fair value through other comprehensive income	(121)
Opening balance under IFRS 9 (1 January 2018)	**(1,414)**
Retained earnings	
Opening balance under IAS 39 (31 December 2017)	55,481
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)	**38,973**

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)	Reclassification	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

(in millions of Kazakhstani tenge, unless otherwise stated)

6. NET INTEREST INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income calculated using the effective interest method:		
Interest income on financial assets recorded at amortised cost:		
- interest income on credit-unimpaired assets	76,497	78,824
- 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	-	8,105
Total interest income calculated using effective interest rate method	**109,480**	**109,775**
Interest income on financial assets recorded at amortised cost comprise:		
Interest on loans to customers and banks	96,159	99,219
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
	99,233	**101,670**
Interest income on financial assets at fair value through profit or loss	224	862
Other interest income	**224**	**862**
Total interest income	**109,704**	**110,637**
Interest expense:		
Interest expense on financial liabilities recorded at amortised cost	(65,506)	(62,306)
Total interest expense	**(65,506)**	**(62,306)**
Interest expense on financial liabilities recorded at amortised cost:		
Interest on customer and bank accounts	(45,374)	(46,508)
Interest on debt securities issued	(4,218)	(2,666)
Interest on due to banks and financial institutions	(7,951)	(7,286)
Interest on subordinated bonds	(7,963)	(5,846)
Total interest expense on financial liabilities recorded at amortised cost	**(65,506)**	**(62,306)**
	44,198	**48,331**

(in millions of Kazakhstani tenge, unless otherwise stated)

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

For the years ended 31 December 2017 and 2018	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
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 as related to expected credit losses	12,779	1,100	2,123	371	621	40	-	17,034
Effect of transition to IFRS 9 as 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 separate 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 Bank 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 Bank 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.

(in millions of Kazakhstani tenge, unless otherwise stated)

8. FEE AND COMMISSION INCOME

	For the year ended 31 December 2018	For the year ended 31 December 2017
Payment cards	6,994	5,351
Settlement	6,552	6,166
Cash operations	4,736	4,702
Guarantees issued	3,853	3,085
Internet-banking services	584	123
Foreign exchange operations	408	708
Custody activities	266	234
Trust operations	181	26
Documentary operations	148	129
Other	158	797
	23,880	**21,321**

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 Bank 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/(LOSS) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2018	Year ended 31 December 2017
Unrealised gain/(loss) on operations with derivative financial instruments	4,068	(694)
Unrealised loss on movement in fair value	(1,170)	(1,400)
Realised gain/(loss) on operations with derivative financial instruments	742	(1,037)
	3,640	**(3,131)**

10. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	For the year ended 31 December 2018	For the year ended 31 December 2017
Dealing operations, net	5,993	5,493
Translation differences, net	(2,872)	2,317
	3,121	**7,810**

(in millions of Kazakhstani tenge, unless otherwise stated)

11. OPERATING EXPENSES

	For the year ended 31 December 2018	For the year ended 31 December 2017
Wages and salaries	12,523	11,786
Taxes other than income tax	2,835	2,946
Leases expenses	2,651	1,699
Administrative expenses	2,405	2,197
Contributions to Deposit Insurance Fund	2,380	2,229
Depreciation and amortisation	2,380	2,412
Security and alarm expenses	705	685
Telecommunications	654	551
Collection expenses	580	614
Equipment repair and maintenance	481	612
Advertising costs	335	288
Business trip expenses	325	277
Professional services	226	332
Representation expenses	33	42
Other expenses	632	601
	29,145	**27,271**

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 assets 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	**12,015**		**37,500**	
Income tax at the applicable tax rate	2,403	20.00	7,500	20.00
Non-taxable interest and other income on transactions with government and other qualified securities	-	-	(1,783)	(4.75)
Non-taxable income	(945)	(7.87)	-	-
Non-deductible operating and other expenses	934	7.77	1,482	3.95
	2,392	**19.90**	**7,199**	**19.20**

(in millions of Kazakhstani tenge, unless otherwise stated)

12. INCOME TAX EXPENSE, CONTINUED

(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 31 December 2017. These deferred tax assets are recognised in these separate financial statements.

Movements in temporary differences during the years ended 31 December 2018 and 2017 are presented as follows.

2018

	Balance at 1 January 2018	Recognised in profit or loss	Recorded in equity	Balance at 31 December 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 terms	-	(204)	609	405
Discount on low-interest deposits from customers and banks	-	(240)	-	(240)
Discount on subordinated bonds	(6,987)	(577)	-	(7,564)
Property, plant and equipment and intangible assets	(3,298)	(374)	1,099	(2,573)
	(9,580)	**(2,392)**	**3,569**	**(8,403)**

2017

	Balance at 1 January 2017	Recognised in profit or loss	Recognised directly in equity	Balance at 31 December 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 31 December 2017 the Bank recognised deferred tax liability in the amount of KZT 6,987 thousand related to gain on recognition of discount on subordinated bonds issued (Note 24). Income in the form of recognised discount is not included in taxable income in accordance with Article 84, para. 2, subpara.7 of the Tax Code of the Republic of Kazakhstan.

(in millions of Kazakhstani tenge, unless otherwise stated)

13. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand	**51,917**	**33,159**
Nostro accounts with the NBRK	**94,388**	**127,720**
Nostro accounts with other banks		
- rated from AA- to AA+	2,577	6,314
- rated from A- to A+	9,853	8,426
- rated from BBB- to BBB+	4,265	3,506
- rated from BB- to BB+	5,733	1,001
- rated from B- to B+	54	175
- not rated	302	596
Total nostro accounts with other banks (gross)	**22,784**	**20,018**
Loss allowance	(18)	-
Total nostro accounts with other banks	**22,766**	**20,018**
Term deposits with other banks		
- rated from BBB- to BBB+	1,988	-
- rated from BB- to BB+	-	3,323
- rated from B- to B+	4,231	3,693
Total current accounts and term deposits with other banks (gross)	**6,219**	**7,016**
Credit loss allowance	(55)	-
Total current accounts and term deposits with banks	**6,164**	**7,016**
Total cash and cash equivalents	**175,235**	**187,913**

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 gradings.

As at 31 December 2018 the Bank has 1 bank (31 December 2017: 1 bank), whose balance exceeds 10% of equity. The gross value of this balance 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).

(in millions of Kazakhstani tenge, unless otherwise stated)

14. 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
		27,177		19,495
Trading securities				
Debt securities				
Government bonds of the Republic of Kazakhstan	-	-	5.60-6.00	1,631
Corporate bonds	-	-	7.50	1,898
		-		3,529
		27,177		23,024
LIABILITIES				
Derivative financial instruments				
Foreign currency contracts	-	(12,668)	-	(9,199)
		(12,668)		(9,199)

* 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+	-	1,631	1,631
- rated from B- to B+	1,898	-	1,898
	1,898	1,631	3,529

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

Foreign currency contracts

As at 31 December 2018 and 31 December 2017, the Bank had the following derivative financial instruments:

Type of instrument	Notional amount	Year of maturity	Average-weighted contractual exchange rates	Amounts payable by the Bank	Amounts receivable by the Bank	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)

(in millions of Kazakhstani tenge, unless otherwise stated)

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

Foreign currency contracts, continued

Type of instrument	Notional amount	Year of maturity	Average-weighted contractual exchange rates	Amounts payable by the Bank	Amounts receivable by the Bank	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 1,111 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 Bank has to provide the sum of KZT 23,816 million in exchange for USD 131,000,000, in 2019. Under the contracts, the Bank has recognised interest expense of KZT 1,301 million (31 December 2017: KZT 1,616 million), which equals 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, unaudited (31 December 2017: KZT 19,495 million).

The Bank's approach to derivative transactions

The Bank 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 Bank 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 Bank's exposure to long-term 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 would increase or decrease 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 Bank's investments.

The Bank's ability to realise a profit from such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Bank. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. In case of a default of the other party to such transaction, the Bank 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.

15. INVESTMENT SECURITIES

	31 December 2018	31 December 2017
Investment securities at FVOCI	170,876	-
Investment financial assets measured at amortised cost	6,911	-
Available-for-sale investments	-	149,922
Total investment securities	**177,787**	**149,922**

(in millions of Kazakhstani tenge, unless otherwise stated)

15. INVESTMENT SECURITIES, CONTINUED

Investment securities at FVOCI

	Nominal interest rate %	31 December 2018
Debt securities		
Government bonds of the Republic of Kazakhstan	2.38- 10.2	42,110
Corporate bonds	3.88-11.5	88,016
Discounted NBRK notes		40,593
Equity securities		
Shares of Kazakhstan corporations		135
Shares of international corporations		22
		170,876

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

Investment securities measured at amortised cost

	Nominal interest rate, %	31 December 2018
Debt securities		
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
Debt securities		
Government bonds of the Republic of Kazakhstan	3.87-11.00	31,681
Corporate bonds	3.88-11.00	48,958
Discounted NBRK notes	-	65,393
Equity securities		
Shares of Kazakhstan corporations	-	128
Shares of international corporations	-	20
Pledged under repurchase agreements		
Government bonds of the Republic of Kazakhstan	4.00-8.99	3,742
		149,922

The credit quality of available-for-sale 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	Discounted NBRK notes	Government bonds of the Republic of Kazakhstan	Total
Not past due loans				
- NBRK	-	65,393	-	65,393
- rated from BBB- to BBB+	7,313	-	35,423	42,736
- rated from BB- to BB+	38,303	-	-	38,303
- rated from BB- to BB+	3,342	-	-	3,342
	48,958	**65,393**	**35,423**	**149,774**

None of available-for-sale investments are overdue or credit-impaired.

(in millions of Kazakhstani tenge, unless otherwise stated)

16. INVESTMENTS IN SUBSIDIARIES

The Bank is the parent company of the banking group, which consists of the following subsidiaries that are not consolidated for the purpose of these separate financial statements:

Name	Country of operation	Type of activity
BCC-SAOO LLP	Republic of Kazakhstan	Management of distressed assets
JSC BCC Invest	Republic of Kazakhstan	Brokerage and dealer activity
Center Leasing LLP	Republic of Kazakhstan	Finance lease

	31 December 2018		31 December 2017	
	Ownership interest, %	Amount	Ownership interest, %	Amount
BCC-SAOO LLP	100.00	9,640	100.00	32,751
JSC BCC Invest	97.63	12,749	95.19	5,062
Center Leasing LLP	90.75	1,139	90.75	1,139
		23,528		**38,952**
Less: loss allowance		(277)		(4,236)
Total investments in subsidiaries		**23,251**		**34,716**

In December 2011, Kazakhstan adopted the Law of the Republic of Kazakhstan 'On the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan regarding the Regulation of Banking Activities and Financial Institutions with Respect to Risk Mitigation', which stipulated that commercial banks could create special subsidiaries to purchase banks' non-performing (distressed) assets and manage them. On 21 August 2013, the Bank's special subsidiary LLP BCC-SAOO intended for the management of distressed assets was registered.

During 2017 the Bank provided loans to its subsidiary LLP BCC-SAOO in the amount of KZT 6,470 million at 0.01% p.a. Loans issued were intended for repayment of the receivables of BCC-SAOO LLP to the Bank and payment for purchased from the Bank rights of claim on loans issued to customers. As a result of this transaction, the Bank has written off loans issued to customers and initially recognised loans issued to the subsidiary at fair value of KZT 2,005 million determined using market interest rate of 13%. The difference between the fair value of the loans and their nominal value in the amount of KZT 4,465 million was recognised as part of the investment in the subsidiary, LLP BCC-SAOO. Subsequent amortisation of discount was recognised as interest income.

During 2018, the Bank provided on-demand loans to its subsidiary LLP BCC-SAOO in the amount of KZT 26,806 million at 0.01% p.a. Loans issued were intended for repayment of the receivables of BCC-SAOO LLP to the Bank and payment for property purchased from the Bank. The Bank has recognised these loans at fair value equal to nominal value of claims on loans because the Bank may demand at any time early prepayment of these loans. The Bank also signed a supplement agreement for all loans issued to the subsidiary until 2018 having set no fixed term for the loans but made them payable on demand. Due to modification of the agreement terms, the Bank reversed the previously recognised discount in the amount of KZT 28,514 million having increased investment in the subsidiary, LLP BCC-SAOO.

In May 1998, JSC BCC Invest was established as a limited liability partnership (previously named "LLP KIB ASSET MANAGEMENT") in accordance with legislation of the Republic of Kazakhstan. On 26 September 2006, LLP KIB ASSET MANAGEMENT was re-registered as a joint stock company. The main activity of JSC BCC Invest is management of assets of mutual funds and management of investment portfolios. During 2018, the Bank increased capitalisation of JSC BCC Invest to expand the subsidiary's operations and improve business synergy of the banking group.

In September 2002, LLP Center Leasing was established as a limited liability partnership in accordance with the legislation of the Republic of Kazakhstan. The main activity of LLP Center Leasing is leasing operations, which are carried out in accordance with Article 10 of the Law of the Republic of Kazakhstan "On Financial Leasing". In 2018, LLP Center Leasing was in the process of liquidation.

(in millions of Kazakhstani tenge, unless otherwise stated)

17. DUE FROM BANKS

	31 December 2018	31 December 2017
Term deposits		
- conditional deposit with NBRK	1,826	1,275
- rated from A- to A+	-	1,656
- rated from BB- to BB+	1,014	1,526
- rated from B- to B+	25,117	8,638
- not rated	3,907	49
Total term deposits (gross)	**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 rating agency or analogues of similar international rating agencies.

Term deposit of KZT 19,216 million is allocated to 'Stage 2' credit risk grade and remaining due from banks are allocated to 'Stage 1' credit risk grade.

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

Concentration of placements with banks

As at 31 December 2018 the Bank has one bank (2017: none) whose balance exceeds 10% of equity.

18. LOANS TO CUSTOMERS AND BANKS

	31 December 2018	31 December 2017
Loans to customers	981,175	879,376
Net investment in finance lease	-	4,156
Accrued interest	53,556	36,223
	1,034,731	**919,755**
Less: loss allowance	(121,658)	(113,851)
Total loans to customers	**913,073**	**805,904**
Loans to banks	1,214	3
Accrued interest	4	-
Less: credit loss allowance	(25)	-
Total loans to banks	**1,193**	**3**
Continuing involvement in asset	30,906	-
Loans under reverse repurchase agreements	**66,041**	**11,006**
Total loans to customers and banks	**1,011,213**	**816,913**

Movement in credit 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.

(in millions of Kazakhstani tenge, unless otherwise stated)

18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

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

	Gross amount	Credit loss allowance	Carrying amount
Loans to corporate customers			
Corporate loans	523,607	(87,461)	436,146
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
	1,034,731	**(121,658)**	**913,073**

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

	Gross amount	Impairment allowance	Carrying amount
Loans to corporate customers			
Corporate loans (restated)	456,704	(87,225)	369,479
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
	919,755	**(113,851)**	**805,904**

(in millions of Kazakhstani tenge, unless otherwise stated)

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

The following table provides information on the credit quality of loans to customers as at 31 December 2018:

	Corporate loans	Loans to small and medium-sized enterprises	Mortgage loans	Consumer loans	Business development	Auto loans	Total
Loans to customers							
Not overdue	378,391	97,943	122,250	95,701	67,730	6,028	768,043
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	163	2,063	1,551	498	8	33,765
- 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	20,115	10,168	12,657	16,583	15,630	261	75,414
Total gross loans to customers	**523,607**	**124,651**	**154,453**	**130,489**	**95,115**	**6,416**	**1,034,731**
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	**436,146**	**114,680**	**147,148**	**121,695**	**87,105**	**6,299**	**913,073**

(in millions of Kazakhstani tenge, unless otherwise stated)

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, continued

The following table provides information on the credit quality of loans to customers as at 31 December 2017:

	Corporate loans (restated)	Loans to 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	244,585	77,927	106,549	74,545	59,952	4,624	568,182
Overdue:							
- overdue less than 30 days	3,655	2,302	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	248,240	82,926	116,521	82,701	64,783	4,724	599,895
Impaired loans assessed on a collective basis							
Not overdue	7,849	4,612	6,825	3,898	2,413	5	25,602
Overdue:							
- overdue less than 30 days	198	1,653	4,481	2,705	850	1	9,888
- overdue 31-60 days	-	128	859	304	88	9	1,388
- 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	12,317	26,559	25,914	17,523	346	90,712
Individually impaired loans							
Not overdue	116,847	7,091	-	-	-	-	123,938
Overdue:							
- overdue less than 30 days	40,544	1,636	2,011	576	-	-	44,767
- overdue 31-60 days	7,687	1,426	749	-	338	-	10,200
- 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	200,411	13,676	3,388	5,290	2,227	-	224,992
Total gross loans to customers	456,704	108,919	146,468	113,905	84,533	5,070	915,599
Impairment allowance for loans to customers	(87,225)	(10,709)	(4,450)	(6,892)	(4,515)	(60)	(113,851)
Total net loans to customers	369,479	98,210	142,018	107,013	80,018	5,010	801,748

(in millions of Kazakhstani tenge, unless otherwise stated)

18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(b) Analysis of movements in loss allowance for expected credit losses (ECL)

	Twelve months ended 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**
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 as related to expected credit losses	1,792	(249)	12,336	13,879
Effect of transition to IFRS 9 as 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 assets not credit-impaired	(40)	40	-	-
Transition to lifetime expected credit losses for credit-impaired assets	(155)	(1,584)	1,739	-
Charge/(recovery) of allowance	(3,080)	749	20,037	17,706
Originated or purchased financial assets	1,985	796	-	2,781
Effect of unwinding	(279)	(530)	(11,631)	(12,440)
Write-off of assets	-	-	(42,859)	(42,859)
Recovery of the previously written off assets			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**

	Twelve months ended 31 December 2018			
	Stage 1 12-month expected credit losses (ECL)	**Stage 2 Lifetime ECL for assets not credit-impaired**	**Stage 3 Lifetime ECL for credit-impaired assets**	**Total**
Loans to individuals				
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 as related to expected credit losses	7	(1,806)	4,954	3,155
Effect of transition to IFRS 9 as related to adjustment of interest income of credit-impaired loans	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 lifetime expected credit losses for assets not credit-impaired	(28)	53	(25)	-
Transition to lifetime expected credit losses for credit-impaired assets	(1,093)	(493)	1,586	-
Charge/(recovery) of allowance	838	(130)	8,763	9,471
Originated or purchased financial assets	791	40	-	831
Effect of unwinding	(8)	(472)	(2,144)	(2,624)
Write-off of assets	-	-	(5,773)	(5,773)
Recovery of the previously written off assets	-	-	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**

(in millions of Kazakhstani tenge, unless otherwise stated)

18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(c) Analysis of movements in gross carrying amount

Significant changes in the gross carrying amount of loans to customers during the year 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.
- Write-off of loans with gross carrying amount of KZT 42,859 million resulted in decrease in loss allowance for loans allocated to 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 Bank 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 and small and medium-sized customers, net of allowance for ECL, by types of collateral.

31 December 2018	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
Loans to corporate customers				
Cash and deposits	2,257	2,257	-	-
Real estate	320,983	320,983	-	-
Vehicles	492	492	-	-
Equipment	9,753	9,753	-	-
Corporate guarantees	44,230	-	-	44,230
Income from future contracts	12,825	-	-	12,825
Goods in turnover	6,325	-	-	6,325
Subsoil use 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	**436,146**	**336,857**	**12,893**	**86,396**
Loans to small and medium-sized enterprises				
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	**550,826**	**443,976**	**14,575**	**92,275**

(in millions of Kazakhstani tenge, unless otherwise stated)

18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

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

(i) Loans to corporate customers, continued

Loans to corporate customers

At 31 December 2018, the net carrying amount of credit-impaired loans to corporate customers amounted to KZT 224,111 million and the value of identifiable collateral (mainly commercial properties) held against those loans amounted to KZT 226,134 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.

	2018
Credit-impaired loans	
Ratio of the gross carrying amount of the loan to the value of the collateral (LTV ratio0	
Less than 50%	117,073
51-70%	683
More than 70%	1,185
Total	**118,941**

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

During the period, there was no change in the Bank's collateral policies.

31 December 2017	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
Not impaired 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	27,523	-	-	27,523
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	**348,779**	**272,346**	**-**	**76,433**
Individually impaired loans				
Cash and deposits	74	74	-	-
Traded securities	215	215	-	-
Real estate	80,308	80,308	-	-
Vehicles	415	415	-	-
Equipment	2,508	2,508	-	-
Corporate guarantees	11,598	-	-	11,598
Goods in turnover	741	-	-	741
Subsoil use rights	7,284	7,284	-	-
Other collateral	1,140	-	1,140	-
No collateral or other credit enhancement	14,627	-	-	14,627
Total impaired loans	**118,910**	**90,804**	**1,140**	**26,966**
Total loans to corporate customers	**467,689**	**363,150**	**1,140**	**103,399**

18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

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

The tables above exclude overcollateralization. In accordance with the recommendations of the 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 12,825 million (31 December 2017: KZT 27,523 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 as at the reporting day. The Bank also has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not 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 loss assessment is disclosed. Sureties received from individuals, such as shareholders of the company's borrowers, are not considered for credit loss assessment purposes.

(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 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).

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

Repossessed collateral

During 2018, the Bank 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 amount of 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 Bank has 14 borrowers or groups of related borrowers (31 December 2017: 7), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2018 is KZT 339,579 million (31 December 2017: KZT 133,382 million).

As at 31 December 2018 and 31 December 2017, loans to customers included loans totalling KZT 76,716 million and KZT 99,468 million, respectively, terms of which were modified. Otherwise these loans would be past due or impaired.

(in millions of Kazakhstani tenge, unless otherwise stated)

18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(e) Loan portfolio analysis, continued

The components of net investment in finance lease as at 31 December 2017 are presented as follows:

	31 December 2017
Not later than one year	990
From one year to five years	1,454
More than 5 years	9,447
Minimum 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 investment in finance lease before impairment allowance	**4,156**
Less impairment allowance	-
Net investment in finance lease, net of impairment allowance	**4,156**

Industry and geographical analysis of the loan portfolio

Loans to customers are 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	122,486	141,608
Rent of real estate	104,169	92,408
Financial services	89,411	25,890
Transport and telecommunications	39,715	21,159
Manufacturing	39,677	32,730
Industrial construction	34,071	29,357
Transportation and equipment maintenance services	33,886	35,095
Energy	32,479	60,252
Housing construction	28,986	34,182
Food industry	22,553	24,874
Agriculture	21,848	17,932
Oil and gas industry	20,354	5,526
Other	58,623	48,766
Total	**1,034,731**	**919,755**
Credit loss allowance	(121,658)	(113,851)
	913,073	**805,904**

Fair values of assets pledged and carrying amount of loans under reverse repurchase agreements as at 31 December 2018 and 31 December 2017 are presented as follows:

	31 December 2018		31 December 2017	
	Loan carrying amount	Fair value of collateral	Loan carrying amount	Fair value of collateral
Government bonds of the Republic of Kazakhstan	66,041	66,190	11,006	11,169
	66,041	**66,190**	**11,006**	**11,169**

(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 Bank, 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.

18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(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 may not more frequently than once in 10 business days transfer rights of claim on loans by providing to the Operator the documents in accordance with an agreement.

In accordance with the Program and Trust Management Contract concluded with the Operator, the Bank acts as a trustee for loans received and ensures proper maintenance of a loan file. Fee for trust management is paid in the amount and within the timeframe established by the Trust Management Contract and makes up 4% of the carrying amount of assets as at the end of each month.

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.

The lending conditions under the Programme 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 of a local executive body 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 the Program, loans are issued for purchasing real estate on both primary and secondary housing markets.

The lending conditions under Baspana Hit Programme 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, 4 loans in the amount of more than KZT 22 million have been issued under the Program.

(in millions of Kazakhstani tenge, unless otherwise stated)

18. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(h) Transfer of financial assets

During 2018, the Bank sold a mortgage loan portfolio at its carrying amount, which balance as at the year-end amounted to KZT 30,906 million, and provided to the buyer a guarantee to purchase individual loans back or exchange it if they are overdue more than 90 calendar days. Re-purchase or exchange amount is not limited.

The Bank determined that it transferred some, but not all of the risks and rewards to the Operator, in particular credit risk, and that it retains control over the transferred assets and continues to recognise the loans to the extent of its continuing involvement. The Bank's continuing involvement takes the form of a guarantee for the asset transferred and the amount of its continuing involvement is determined to the extent of maximum consideration received, which the Bank would be obliged to pay back. Management believes that the guarantee value is reasonably high and this guarantee would deter the Operator from selling the transferred asset as the sale would not make sense.

The Bank's continuing involvement with such transferred portfolio is recorded in the separate statement of financial position as loans to customers at the amount of KZT 30,906 million, which is equal to the corresponding liability from continuing involvement included in other liabilities (Note 25).

The Bank determined that carrying amount of the transferred mortgage portfolio 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	13,526	53	6,429	51,094
Acquisitions	175	1,309	68	2,988	4,540
Transfers	-	16	(16)	-	-
Disposals	(245)	(969)	-	(90)	(1,304)
31 December 2017	**31,016**	**13,882**	**105**	**9,327**	**54,330**
Acquisitions	2	3,167	120	862	4,151
Transfers	87	5	(92)	-	-
Disposals	(9,928)	(1,752)	-	(448)	(12,128)
31 December 2018	**21,177**	**15,302**	**133**	**9,741**	**46,353**
Accumulated depreciation, amortisation and impairment					
1 January 2017	(60)	(8,511)	-	(3,609)	(12,180)
Charge for the year	(344)	(1,250)	-	(818)	(2,412)
Disposals	10	930	-	90	1,030
31 December 2017	**(394)**	**(8,831)**	-	**(4,337)**	**(13,562)**
Charge for the year	(233)	(1,361)	-	(786)	(2,380)
Disposals	117	1,733	-	448	2,298
31 December 2018	**(510)**	**(8,459)**	-	**(4,675)**	**(13,644)**
Net carrying amount					
31 December 2018	**20,667**	**6,843**	**133**	**5,066**	**32,709**
31 December 2017	**30,622**	**5,051**	**105**	**4,990**	**40,768**

Intangible assets include computer software, patents and licences.

The Bank 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 20,667 million and KZT 30,662 million, respectively. If buildings and constructions of the Bank 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.

The fair value of buildings and constructions is categorised into Level 2 and Level 3 of the fair value hierarchy.

(in millions of Kazakhstani tenge, unless otherwise stated)

20. OTHER ASSETS

	31 December 2018	31 December 2017
Other financial assets		
Accounts receivable	3,949	6,644
Accrued commission	8,047	7,651
Dividends receivable	-	2,687
Western Union and other wireless transfers	164	167
	12,160	17,149
Credit loss allowance	(1,372)	(1,747)
	10,788	15,402
Other non-financial assets		
Repossessed collateral	19,213	41,252
Payment receivable on repossessed collateral	3,281	4,253
Advances paid	457	149
Taxes receivable other than income tax	609	1,231
Inventories	40	60
Other assets	412	649
	24,012	47,594
Credit loss allowance	-	-
	24,012	47,594
	34,800	62,996

Repossessed collateral. Repossessed collateral represents real estate accepted by the Bank in exchange for its liabilities on impaired loans. 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 Bank'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.

21. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	Nominal interest rate, %	31 December 2018	Nominal interest rate, %	31 December 2017
Long-term loans from banks and financial institutions	1.00-9.80	62,563	1.00-9.08	48,767
Perpetual financial instruments	8.34	31,061	7.34	26,868
Loans from international credit organisations	8.50-10.00	16,920	8.50-10.70	16,151
Correspondent accounts of banks	-	10,201	-	1,440
Loans from the NBRK	5.50	90	5.50	105
Accumulated interest expense		988	-	867
		121,823		94,198
Loans under repurchase agreements		-	9.30	3,710
		121,823		97,908

Long-term loans from 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 ("JSC DBK") in the amount of KZT 48,079 million at 1%-9.08% p.a. maturing in 2019-2035, unaudited, and of KZT 14,483 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 2017 and 2018 the Bank made payments of principal and interest according the agreed debt repayment schedule.

21. DUE TO BANKS AND FINANCIAL INSTITUTIONS, CONTINUED

During the year ended 31 December 2018, the Bank 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 Bank 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 Bank 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 million at 1% p.a. maturing in 2024.

The Bank has received loans from DAMU JSC under the Government program ("the Programme") to finance small and medium enterprises ("SME") of certain industries. According to the loan agreement between DAMU and the Bank, the Bank extends loans to SME borrowers, eligible to participate in the Programme, at 4% margin with the maturity not exceeding 10 years. The Bank's obligation to repay the loan to DAMU is not contingent on collectability of the loans extended to SME borrowers. The Bank is obligated to pay 5% penalty on the amounts not extended to SME borrowers within 3-9 months after receiving the money from DAMU.

Management of the Bank 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 LSE and SME clients, this product represents a separate market. As a result, the loans from DAMU and JSC DBK were received in an orderly transaction at 1-2% p.a. and as such have been recorded at fair value at the recognition date.

Perpetual financial instruments. The perpetual non-cumulative debt was 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 the 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 Bank 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 Bank has been repaying principal and interest according to the repayments schedule in the amount of KZT 7,940 million.

During the year ended 31 December 2017, the Bank has repaid a part of a 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 Bank is obligated to comply with financial covenants in relation to funds and loans from banks and financial institutions above. 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 Bank has not breached any of these covenants.

As at 31 December 2017, funds and loans from banks and financial institutions included loans received under repurchase agreements of KZT 3,710 million that were repaid in January 2018. The fair value of assets pledged under repurchase agreements amounted to KZT 3,742 million as at 31 December 2017.

(in millions of Kazakhstani tenge, unless otherwise stated)

22. CUSTOMER AND BANKS ACCOUNTS

	31 December 2018	31 December 2017
Customer accounts		
- Retail	583,807	504,610
- Corporate	494,272	471,031
Due to banks	-	1,663
	1,078,079	977,304

	31 December 2018	31 December 2017
Term deposits	767,684	696,787
Demand deposits	305,672	274,331
	1,073,356	971,118
Accrued interest	4,723	4,523
	1,078,079	975,641

As at 31 December 2018, the Bank 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	122,111	133,800
Construction	99,784	84,357
Trade	54,068	48,636
Education and healthcare	28,032	34,260
Transport and communications	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 industry	8,627	2,950
Fuel	6,396	5,743
Energy	6,045	19,670
Chemical production	5,186	3,801
Research and development	4,582	2,981
Entertainment services	4,548	3,841
Machine-building industry	3,117	3,806
Public administration	794	1,026
Other	50,260	62,005
Total due to customers	1,078,079	975,641

23. DEBT SECURITIES ISSUED

	Currency	Issue 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	69,251	8.00-9.00	17,086
					69,251		**17,086**
Accrued interest					1,334		280
					70,585		**17,366**

During the twelve months ended 31 December 2018, the Bank 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 the end of term.

(in millions of Kazakhstani tenge, unless otherwise stated)

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	50,678	4.00-11.00	54,576
Floating rate	KZT	31/12/2007 - 02/05/2013	27/11/2019-11/11/2023	7.00-7.50	20,232	8.70-8.80	20,206
					70,910		**74,782**
Accrued interest					1,144		823
					72,054		75,605

Coupons on subordinated bonds are repayable semiannually, principal is repayable at the end of term.

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

By the Decree of the NBRK No. 191 dated 10 October 2017, the Bank was approved to participate in the Program of Strengthening Financial Stability of Banking Sector in the Republic of Kazakhstan (the "Programme").

According to the terms of the Programme, the Bank received cash funds from the NBRK's subsidiary, Joint Stock Company "Kazakhstan Sustainability Fund", by virtue of issue of the Bank's registered coupon subordinated bonds (the "Bonds") convertible to the Bank's ordinary shares according to the terms of the Bond Issue Prospectus.

The Bank is subject to restrictions (covenants) in its activities valid for 5 years from the Bonds' issue date, breach of any of each will result in exercising by the Bonds' holders of their right of Bonds being converted to the Bank's ordinary shares:

- The Bank undertakes to comply with capital adequacy ratios set by the authorised body for the second-tier banks of the Republic of Kazakhstan;

- The Bank undertakes not to commit action intended to withdraw the Bank's assets; at that, summary of activities to be considered the withdrawal of assets is set out in the Bond Issue Prospectus.

As part of its participation in the Programme, on 3 November 2017 the Bank placed the Bonds at JSC Kazakhstan Stock Exchange for the amount of KZT 60,000 million; the Bonds bear a coupon rate of 4.00 % p.a. and mature in 15 years. 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		
	Debt securities issued	**Subordinated bonds**	**Total**
Balance as at 1 January 2017	24,832	53,489	78,321
Changes from financing cash flows			
Proceeds 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 due to recognition of the discount	-	**(34,993)**	**(34,993)**
Other changes	**133**	**322**	**455**
Interest expense	(2,666)	(5,846)	(8,510)
Interest paid	2,498	5,633	8,129
Balance at 31 December 2017	**17,366**	**75,605**	**92,971**

(in millions of Kazakhstani tenge, unless otherwise stated)

24. SUBORDINATED BONDS, CONTNINUED

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

	Liabilities		
	Debt securities issued	Subordinated bonds	Total
Balance as at 1 January 2018	**17,366**	**75,605**	**92,971**
Changes from financing cash flows			
Proceeds 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 carrying amount due to recognition of the discount	**(1,554)**	**(3,193)**	**(4,747)**
Other changes	**209**	**429**	**638**
Interest expense	(4,218)	(7,963)	(12,181)
Interest paid	4,552	7,669	12,221
Balance at 31 December 2018	**70,585**	**72,054**	**142,639**

25. OTHER LIABILITIES

	31 December 2018	31 December 2017
Other financial liabilities:		
Liability from continuing involvement (Note 18 (g))	30,904	-
Settlements on other operations	3,424	4,856
Liabilities on guarantees issued	7,933	7,413
Fee and commission expense accrued	504	769
Provisions for guarantees and letters of credit	125	115
	42,890	**13,153**
Other non-financial liabilities:		
Taxes payable other than income tax	666	1,091
Other non-financial liabilities	-	200
Total other liabilities	**43,556**	**14,444**

26. SHARE CAPITAL

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

	Authorised share capital	Share capital authorized and not issued	Repurchased shares	Total share capital
Ordinary shares, number	995,876,753	(833,419,953)	-	162,456,800
Preference shares, number	39,249,255	-	(38,953,841)	295,414

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

	Authorised share capital	Share capital not issued	Total share capital
Ordinary shares, number	995,876,753	(833,419,953)	162,456,800
Preference shares, number	39,249,255	-	39,249,255

26. SHARE CAPITAL, CONTINUED

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

	Authorized and issued share capital	Repurchased shares	Total
Ordinary shares	58,081	-	58,081
Preference shares	11,775	(11,686)	89
	69,856	(11,686)	58,170

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

	Authorized and issued share capital	Repurchased shares	Total
Ordinary shares	58,081	-	58,081
Preference shares	11,775	-	11,775
	69,856	-	69,856

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 Regulation of the Bank, 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 Bank 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, the beginning of the year	39,249	39,249
Preference shares purchased	(38,954)	-
Preference shares, the end of the year	**295**	**39,249**
Ordinary shares, the beginning of the year	162,457	162,457
Ordinary shares issued	-	-
Ordinary shares, the end of the year	**162,457**	**162,457**

Reserves for general banking risks

As at 31 December 2018, reserve for general banking risks of the Bank included in retained earnings in the separate statement of financial position of the Bank amounts to KZT 4,981 million (31 December 2017: KZT 16,896 million).

26. SHARE CAPITAL, CONTINUED

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 a non-distributable reserve, to cover expected credit losses.

During the twelve months ended 31 December 2018, the Bank utilised the accumulated reserve to recognise the effect of transition to IFRS 9.

Revaluation reserve for available-for-sale financial assets

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

27. SEGMENT REPORTING

The segment information below is presented on the basis used by the Bank's chief operating decision maker to evaluate performance in accordance with IFRS 8 and in accordance with the segment reporting presented in the separate financial statements for the year ended 31 December 2018 and 2017. The Bank'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 maintenance, taking of savings and deposits, provision of 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 derivatives transactions, structured financing, corporate lease, merger and acquisitions advice, provision of the Bank'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 financial statements. The Board of Directors reviews discrete financial information for each of its segments, including measurement of operating performance, assets and liabilities. The segments are managed primarily on the basis of their results, which do not include the effects of intragroup eliminations.

Segment assets and liabilities comprise all assets and liabilities, which account for the major portion of the separate statement of financial position but excluding such item as taxation. 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 Bank presents its business on the basis of three main segments. Segment information about these businesses is presented below:

(in millions of Kazakhstani tenge, unless otherwise stated)

27. SEGMENT REPORTING, CONTINUED

	Retail banking	Corporate banking	Investing activities	For the year ended 31 December 2018
Interest income calculated using the effective interest method	49,844	42,732	16,904	109,480
Other interest income	-	-	224	224
Interest expense	(27,291)	(31,859)	(6,356)	(65,506)
Provision for impairment losses on interest-bearing assets	(10,302)	(20,512)	-	(30,814)
Net non-interest income	6,649	17,614	3,513	27,776
Operating expenses	(14,144)	(14,053)	(948)	(29,145)
Profit/(loss) before income tax	**4,756**	**(6,078)**	**13,337**	**12,015**
Segment assets*	394,466	935,718	183,280	1,513,464
Segment liabilities*	602,230	586,275	210,260	1,398,765
Other segment items				
Depreciation charge on property, equipment and intangible assets	(1,095)	(1,199)	(86)	(2,380)
Loans to customers and banks	393,153	618,060	-	1,011,213
Customer and banks accounts	583,807	494,272	-	1,078,079
Financial guarantees and commitments	-	154,019	-	154,019

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

	Retail banking	Corporate banking	Investing activities	For the year ended 31 December 2017
Interest income calculated using the effective interest method	43,625	54,683	11,467	109,775
Other interest income	-	-	862	862
Interest expense	(27,481)	(32,991)	(1,834)	(62,306)
Allowance for impairment losses on interest-bearing assets	(13,129)	(30,614)	-	(43,743)
Net non-interest income	6,073	55,237	(1,127)	60,183
Operating expenses	(13,757)	(13,036)	(478)	(27,271)
(Loss)/profit before income tax	**(4,669)**	**33,279**	**8,890**	**37,500**
Segment assets*	335,193	833,581	160,618	1,329,392
Segment liabilities*	525,712	524,359	141,755	1,191,826
Other segment items				
Depreciation charge on property, equipment and intangible assets	(1,240)	(1,129)	(43)	(2,412)
Loans to customers and banks	334,059	482,854	-	816,913
Customer and banks accounts	504,610	472,694	-	977,304
Financial guarantees and commitments	-	146,913	-	146,913

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

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

27. SEGMENT REPORTING, CONTINUED

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 Bank.

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 supreme management 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 shareholders' General 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 decisions made by the General Meeting of the shareholders and the Board of Directors. The Bank's executive bodies are subordinated to the Board of Directors and General Meeting of the shareholders.

(b) Risk management policies and procedures

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

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

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

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 of the Bank is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank 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.

(in millions of Kazakhstani tenge, unless otherwise stated)

28. RISK MANAGEMENT POLICY, CONTINUED

(b) Risk management policies and procedures, continued

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 Bank 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-bearing and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

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

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

The Bank 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 Bank 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 an 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:

	2018		2017	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel fall	1,065	1,065	746	746
100 bp parallel rise	(1,065)	(1,065)	(746)	(746)

(in millions of Kazakhstani tenge, unless otherwise stated)

28. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis, continued

An analysis of sensitivity of net profit or loss and equity as a result of changes in the fair value of financial assets 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 fall	(850)	(7,741)	83	3,568
150 bp parallel rise	1,093	8,548	(79)	(3,310)

(ii) Currency risk

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

Currency risk is the risk that the fair value or the 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 Bank 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 Board and the Board of Directors. The Treasury Department performs monitoring of the Bank's currency position with the aim to comply with 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 1 USD = KZT 384.2	EUR 1 EUR = KZT 439.37	Other currency	31 December 2018 Total
Financial assets:					
Cash and cash equivalents	38,426	124,433	7,141	5,235	175,235
Investment securities measured at FVOCI	61,318	109,099	459	-	170,876
Investment financial assets measured at amortised cost	6,911	-	-	-	6,911
Due from banks	1,853	27,011	2,428	-	31,292
Loans to customers and banks	787,244	212,539	11,008	422	1,011,213
Other financial assets	4,702	5,944	113	29	10,788
Total financial assets	900,454	479,026	21,149	5,686	1,406,315
Financial liabilities:					
Due to banks and financial institutions	80,624	41,197	-	2	121,823
Customer and banks accounts	589,022	462,304	21,026	5,727	1,078,079
Debt securities issued	70,585	-	-	-	70,585
Subordinated bonds	72,054	-	-	-	72,054
Other financial liabilities	36,836	5,966	60	28	42,890
Total financial liabilities	849,121	509,467	21,086	5,757	1,385,431
Open position	51,333	(30,441)	63	(71)	20,884

(in millions of Kazakhstani tenge, unless otherwise stated)

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 332.33	EUR 1 EUR = KZT 398.23	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	**38,948**	**(3,547)**	**63**	**(71)**	

The Bank'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	24,312	147,005	9,859	6,737	187,913
Financial instruments at fair value through profit or loss	3,529	-	-	-	3,529
Available-for-sale investments	98,748	51,154	20	-	149,922
Due from banks	1,278	11,862	-	-	13,140
Loans to customers and banks	634,056	172,750	10,107	-	816,913
Other financial assets	10,783	4,525	35	59	15,402
Total financial assets	**772,706**	**387,296**	**20,021**	**6,796**	**1,186,819**
Financial liabilities:					
Due to banks and financial institutions	69,471	28,437	-	-	97,908
Customer and banks accounts	565,201	385,692	20,005	6,406	977,304
Debt securities issued	17,366	-	-	-	17,366
Subordinated bonds	75,605	-	-	-	75,605
Other financial liabilities	7,988	5,053	49	63	13,153
Total financial liabilities	**735,631**	**419,182**	**20,054**	**6,469**	**1,181,336**
Open position	**37,075**	**(31,886)**	**(33)**	**327**	**-**

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	**24,108**	**(8,623)**	**(33)**	**327**	**-**

(in millions of Kazakhstani tenge, unless otherwise stated)

28. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(ii) Currency risk, continued

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 net of tax basis and is based on foreign currency exchange rate variances that the Bank 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	(284)	(690)
10% appreciation of EUR against KZT	5	(3)
10% appreciation of other currencies against KZT	(6)	26

(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 Bank 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 Bank 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 potential scenarios, particularly those of an extreme nature.
- a 60-day holding period assumes that all positions can be liquidated or hedged within that period of 60 days. 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 on the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

(in millions of Kazakhstani tenge, unless otherwise stated)

28. RISK MANAGEMENT POLICY,

(c) Market risk, continued

(iii) Other price risk, continued

The Bank 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 open positions 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:

	31 December 2018	31 December 2017
Foreign exchange risk	2,070	4,754
	2,070	**4,754**

(d) Credit risk

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

The credit policy establishes:

- procedures for reviewing and approving 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.

Corporate loan credit applications are originated by the relevant client managers. At that, credit risk department employees may be or may not be involved in on-site visiting and performing financial analysis, depending on their level of authorisation. 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 Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank 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.

(in millions of Kazakhstani tenge, unless otherwise stated)

28. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

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.

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.

A scoring models as a statistical model used for quantitative assessment of future creditworthiness of new and existing borrowers of the Bank. 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 pf the applicant.

Credit strategies are tailor-made for specific products and segments 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 separate statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2018	2017
ASSETS		
Cash and cash equivalents	123,318	154,754
Financial instruments at fair value through profit or loss	27,177	23,024
Investment financial assets at FVOCI - debt financial instruments	170,719	-
Investment financial assets measured at amortised cost	6,911	-
Available-for-sale investments	-	149,774
Due from banks	31,292	13,140
Loans to customers and banks	1,011,213	816,913
Other financial assets	10,788	15,402
Total maximum exposure to credit risk	**1,381,418**	**1,173,007**

28. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

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 also calculates and monitors, on the ongoing basis, mandatory maximum risk exposure ratio per borrower or group of related borrowers (K3), which regulates (mitigates) the Bank's credit risk in respect of a borrower or a group of related borrowers and sets the maximum ratio (k3) of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2018 and 2017, the maximum level of k3 ratio set by the NBRK was 25%. The k3 calculated by the Bank as at 31 December 2018 and 31 December 2017 was in compliance with limits set by the NBRK.

As at 31 December 2018 the Bank has 14 debtors or groups of related debtors (31 December 2017: 7 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 339,579 million (31 December 2017: KZT 133,382 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 Bank's separate 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 separate 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 Bank 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 Bank 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 Bank will process receivables and payables in a single settlement process or cycle.

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

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

Such collateral is subject to the standard industry terms of the 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 transitions upon the counterparty's failure to post collateral.

(in millions of Kazakhstani tenge, unless otherwise stated)

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 2018:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the separate statement of financial position	Net amount of financial assets/liabilities presented in the separate statement of financial position	Related amounts not offset in the separate statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Loans to customers and banks	59,641	-	59,641	-	(7,725)	51,916
Loans under reverse repurchase agreements	66,041	-	66,041	(66,041)	-	-
Total financial assets	**125,682**	**-**	**125,682**	**(66,041)**	**(7,725)**	**51,916**
Current accounts and deposits from customers	7,725	-	7,725	(7,725)	-	-
Total financial liabilities	**7,725**	**-**	**7,725**	**(7,725)**	**-**	**-**

(in millions of Kazakhstani tenge, unless otherwise stated)

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 separate statement of financial position	Net amount of financial assets/liabilities presented in the separate statement of financial position	Related amounts not offset in the separate 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	11,006	-	11,006	(11,006)	-	-
Total financial assets	**30,473**	**-**	**30,473**	**(11,006)**	**(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)	3,710	-	3,710	(3,742)	-	(32)
Total financial liabilities	**12,147**	**-**	**12,147**	**(12,179)**	**-**	**(32)**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the separate statement of financial position that are disclosed in the above tables are measured in the separate 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 Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Bank, but the counterparty has an obligation to return the securities when the contract matures. The Bank has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. Because the Bank sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

(in millions of Kazakhstani tenge, unless otherwise stated)

28. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

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 Bank's activity. This approach allows the Bank to minimise potential losses from the investment climate changes in the Republic of Kazakhstan.

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	155,511	4,995	14,729	175,235
Financial instruments at fair value through profit or loss	27,177	-	-	27,177
Investment financial assets at FVOCI	148,774	18,121	3,981	170,876
Investment financial assets measured at amortised cost	6,911	-	-	6,911
Due from banks	27,415	-	3,877	31,292
Loans to customers and banks	1,010,008	1,204	1	1,011,213
Other financial assets	10,788	-	-	10,788
Total financial assets	1,386,584	24,320	22,588	1,433,492
Financial liabilities:				
Financial instruments at fair value through profit or loss	12,668	-	-	12,668
Due to banks and financial institutions	65,127	8,326	48,370	121,823
Customer and banks accounts	1,078,079	-	-	1,078,079
Debt securities issued	70,585	-	-	70,585
Subordinated bonds	72,054	-	-	72,054
Other financial liabilities	42,890	-	-	42,890
Total financial liabilities	1,341,403	8,326	48,370	1,398,099
Open position	45,181	15,994	(25,782)	-

(in millions of Kazakhstani tenge, unless otherwise stated)

28. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Geographical concentration, continued

	Kazakhstan	Non-OECD countries	OECD countries	31 December 2017 Total
Financial assets:				
Cash and cash equivalents	164,820	5,474	17,619	187,913
Financial instruments at fair value through profit or loss	23,002	-	22	23,024
Available-for-sale investments	131,536	14,715	3,671	149,922
Due from banks	11,481	19	1,640	13,140
Loans to customers and banks	816,884	15	14	816,913
Other financial assets	15,402	-	-	15,402
Total financial assets	1,163,125	20,223	22,966	1,206,314
Financial liabilities:				
Financial instruments at fair value through profit or loss	9,199	-	-	9,199
Due to banks and financial institutions	54,397	235	43,276	97,908
Customer and banks accounts	977,304	-	-	977,304
Debt securities issued	17,366	-	-	17,366
Subordinated bonds	75,605	-	-	75,605
Other financial liabilities	13,153	-	-	13,153
Total financial liabilities	1,147,024	235	43,276	1,190,535
Open position	16,101	19,988	(20,310)	

(e) Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank 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 Bank 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, conducting 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.

(in millions of Kazakhstani tenge, unless otherwise stated)

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%	27,177	-	-	-	-	27,177
Investment financial assets at FVOCI	4.15%	170,719	-	-	-	-	170,719
Investment financial assets measured 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%	104,507	50,486	201,520	341,522	313,178	1,011,213
Total interest bearing assets		**314,291**	**72,350**	**205,956**	**343,997**	**313,178**	**1,249,772**
Cash and cash equivalents		169,071	-	-	-	-	169,071
Financial assets at fair value through profit or loss		157	-	-	-	-	157
Due from banks		3,704	-	-	-	-	3,704
Other financial assets		10,788	-	-	-	-	10,788
Total financial assets		**498,011**	**72,350**	**205,956**	**343,997**	**313,178**	**1,433,492**
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%	33,336	1,567	19,240	42,048	15,431	111,622
Customer and banks accounts	5.83%	84,415	54,956	297,686	309,863	20,360	767,280
Debt securities issued	8.62%	-	1,108	21,292	23,043	25,142	70,585
Subordinated bonds	11.09%	-	550	12,473	8,352	50,679	72,054
Other financial liabilities	3.00%	166	216	655	4,125	25,742	30,904
Total interest bearing liabilities		**130,585**	**58,397**	**351,346**	**387,431**	**137,354**	**1,065,113**
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		11,986	-	-	-	-	11,986
Total financial liabilities		**455,717**	**58,404**	**356,766**	**387,955**	**139,257**	**1,398,099**
Liquidity gap		42,294	13,946	(150,810)	(43,958)	173,921	
Interest sensitivity gap		183,706	13,953	(145,390)	(43,434)	175,824	
Cumulative interest sensitivity gap		**183,706**	**197,659**	**52,269**	**8,835**	**184,659**	
Cumulative interest sensitivity gap as a percentage of total interest-bearing assets		**14.70%**	**15.82%**	**4.18%**	**0.71%**	**14.78%**	

(in millions of Kazakhstani tenge, unless otherwise stated)

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	6.73%	23,024	-	-	-	-	23,024
Available-for-sale investments	6.34%	149,771	-	-	-	-	149,771
Due from banks	2.88%	1,328	5,650	2,991	-	-	9,969
Loans to customers and banks	11.60%	81,884	52,423	179,256	301,479	201,871	816,913
Total interest bearing assets		**256,007**	**58,073**	**182,589**	**301,479**	**201,871**	**1,000,019**
Cash and cash equivalents		187,571	-	-	-	-	187,571
Available-for-sale investments		151	-	-	-	-	151
Due from banks		3,171	-	-	-	-	3,171
Other financial assets		15,402	-	-	-	-	15,402
Total financial assets		**462,302**	**58,073**	**182,589**	**301,479**	**201,871**	**1,206,314**
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%	35,140	127	9,041	33,643	18,497	96,448
Customer and banks accounts	6.09%	77,820	50,708	274,734	285,654	18,769	707,685
Debt securities issued	8.07%	67	214	32	17,053	-	17,366
Subordinated bonds	10.93%	151	409	6,407	16,870	51,768	75,605
Total interest bearing liabilities		**122,377**	**51,458**	**290,214**	**353,220**	**89,034**	**906,303**
Due to banks and financial institutions		1,441	-	-	-	19	1,460
Customer and banks accounts		261,345	-	8,274	-	-	269,619
Other financial liabilities		13,153	-	-	-	-	13,153
Total financial liabilities		**398,316**	**51,458**	**298,488**	**353,220**	**89,053**	**1,190,535**
Liquidity gap		63,986	6,615	(115,899)	(51,741)	112,818	
Interest sensitivity gap		133,630	6,615	(107,625)	(51,741)	112,837	
Cumulative interest sensitivity gap		**133,630**	**140,245**	**32,620**	**(19,121)**	**93,716**	
Cumulative interest sensitivity gap as a percentage of total interest-bearing assets		**11.07%**	**11.61%**	**2.70%**	**(1.58%)**	**7.76%**	

(in millions of Kazakhstani tenge, unless otherwise stated)

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 Bank indicates that these customers accounts provide a long-term and stable source of funding.

Management expects that the cash flows from certain financial 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 in 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 year to 5 years	More than 5 years	31 December 2018 Total
Financial liabilities:						
Due to banks and financial institutions	33,378	2,136	22,234	46,535	20,853	125,136
Customer and banks accounts	86,312	56,190	304,374	316,824	20,817	784,517
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 financial liabilities	119,934	61,465	371,060	442,638	189,147	1,184,244
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	11,986	-	-	-	-	11,986
Total financial liabilities	445,066	61,472	376,480	443,162	191,050	1,517,230
Financial guarantees and commitments	154,019	-	-	-	-	154,019
Derivative financial instruments						
Gross settled derivatives						
- Inflow	-	-	23,816	-	-	23,816
- Outflow	-	-	(11,111)	-	-	(11,111)

(in millions of Kazakhstani tenge, unless otherwise stated)

28. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	31 December 2017 Total
Financial liabilities:						
Due to banks and financial institutions	33,639	1,886	9,692	33,773	30,455	109,445
Customer and banks accounts	81,000	56,780	287,173	288,222	19,941	733,116
Debt securities issued	280	359	1,126	18,186	6	19,957
Subordinated bonds	1,568	1,188	11,438	45,773	82,083	142,050
Total interest bearing financial liabilities	**116,487**	**60,213**	**309,429**	**385,954**	**132,485**	**1,004,568**
Due to banks and financial institutions	1,441	-	-	-	19	1,460
Customer and banks accounts	261,345	-	8,274	-	-	269,619
Other financial liabilities	13,153	-	-	-	-	13,153
Total financial liabilities	**392,426**	**60,213**	**317,703**	**385,954**	**132,504**	**1,288,800**
Financial guarantees and commitments	146,913	-	-	-	-	146,913
Derivative financial instruments						
Gross settled derivatives						
- 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 payments 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 Bank'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 Bank's operations.

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

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

29. CAPITAL MANAGEMENT

The NBRK sets and monitors capital requirements for the Bank.

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 Bank 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 Bank 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 credit loss provisions and IFRS credit loss 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 credit loss provisions and IFRS credit loss 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 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.

(in millions of Kazakhstani tenge, unless otherwise stated)

29. CAPITAL MANAGEMENT, CONTINUED

	31 December 2018	31 December 2017
Tier 1 capital		
Basic capital:	102,067	111,582
Ordinary share capital	57,977	57,977
Additional paid-in capital	-	-
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	1,564	4,444
Revaluation reserve of investment securities	(3,708)	(1,100)
Statutory adjustments:		
Intangible assets including goodwill	(5,066)	(4,990)
Total basic capital	**102,067**	**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 it 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	**117,642**	**142,496**
Tier 1 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:		
16.67% of the positive difference between regulatory credit loss allowance and IFRS credit loss allowance	(11,511)	(11,999)
Total capital	**200,555**	**229,419**
Risk-weighted assets, contingent assets and liabilities and derivative financial instrument, 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 assets and liabilities and derivative financial instrument, and operational risk	**1,172,381**	**1,070,556**
k1	**0.087**	**0.104**
k1-2	**0.100**	**0.133**
k2	**0.171**	**0.214**

(in millions of Kazakhstani tenge, unless otherwise stated)

30. CREDIT RELATED COMMITMENTS

The Bank 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 Bank 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 Bank 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.

As at 31 December 2018 and 31 December 2017, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2018		31 December 2017	
	Nominal amount	Risk-weighted amount	Nominal amount	Risk weighted amount
Guarantees issued and similar commitments	145,936	138,490	138,445	132,727
Letters of credit and other transaction related contingent obligations	8,083	1,617	8,468	1,694
	154,019	**140,107**	**146,913**	**134,421**

Management believes that loans and credit line commitments will be adequately financed from the proceeds received from repayment of current loan portfolio according to the debt repayment 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	**145,936**	**138,445**

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
Receivables	-	-
Unsecured letters of credit	-	98
Total	**8,083**	**8,468**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

(in millions of Kazakhstani tenge, unless otherwise stated)

31. OPERATING LEASE

Leases in which the Bank is a lessee

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

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

The Bank leases a number of premises under operating leases. The leases typically run for an initial period of one year to three years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals. During the reporting period KZT 1,348 million were recognised as expense in the separate statement of profit or loss under the operating leases (31 December 2017: KZT 1,685 million).

The Bank leases office space facilities 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.

The ownership for office premise does not pass to the Bank. The rent paid is increased to market rent at regular intervals and the Bank 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 Bank 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. CUSTODIAN ACTIVITIES

The Bank 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 Bank receives fee income for providing these services. Assets received under custodian management are not assets of the Bank and are not recognised in the separate statement of financial position. The Bank 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:

	31 December 2018	31 December 2017
Securities	227,078	571,935
Units of investment funds	23	162,953
Bank deposits	-	71,580
Investments in buildings, machinery, equipment, transport and other property	19,791	765
Other assets	688	170
Total fiduciary assets	**247,580**	**807,403**

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 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 Bank does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Bank's property or relating to the Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

(b) Litigation

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

(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, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years but 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 separate financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(in millions of Kazakhstani tenge, unless otherwise stated)

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

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 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	-	-	175,235	175,235	175,235
Financial instruments at fair value through profit or loss	27,177	-	-	27,177	27,177
Investment financial assets at FVOCI	-	170,876	-	170,876	170,876
Investment financial assets measured at amortised cost	-	-	6,911	6,911	6,911
Due from banks	-	-	31,292	31,292	31,292
Loans to customers and banks	-	-	1,011,213	1,011,213	1,000,081
Other financial assets	-	-	10,788	10,788	10,788
	27,177	170,876	1,235,439	1,433,492	1,422,360
Financial instruments at fair value through profit or loss	12,668	-	-	12,668	12,668
Due to banks and financial institutions	-	-	121,823	121,823	121,823
Customer and banks accounts	-	-	1,078,079	1,078,079	1,076,661
Debt securities issued	-	-	70,585	70,585	68,482
Subordinated bonds	-	-	72,054	72,054	64,549
Other financial liabilities	-	-	42,890	42,890	42,890
	12,668	-	1,385,431	1,398,099	1,387,073

(in millions of Kazakhstani tenge, unless otherwise stated)

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:

	Held-for-trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	187,913	-	-	187,913	187,913
Financial instruments at fair value through profit or loss	23,024	-	-	-	23,024	23,024
Available-for-sale investments	-	-	149,922	-	149,922	149,922
Due from banks	-	13,140	-	-	13,140	13,140
Loans to customers and banks	-	816,913	-	-	816,913	808,325
Other financial assets	-	15,402	-	-	15,402	15,402
	23,024	1,033,368	149,922	-	1,206,314	1,197,726
Financial instruments at fair value through profit or loss	9,199	-	-	-	9,199	9,199
Due to banks and financial institutions	-	-	-	97,908	97,908	97,908
Customer and banks accounts	-	-	-	977,304	977,304	975,766
Debt securities issued	-	-	-	17,366	17,366	15,940
Subordinated bonds	-	-	-	75,605	75,605	69,282
Other financial liabilities	-	-	-	13,153	13,153	13,153
	9,199	-	-	1,181,336	1,190,535	1,181,248

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 judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. The Bank determines fair value of all other financial instruments 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 Bank 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 judgement 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 Bank 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 5.4 – 14.0% and 6.6 – 17.4% 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 2.2 – 12.1% are used to calculate expected future cash flows from current accounts and deposits of corporate and retail customers, respectively;

- 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.

(in millions of Kazakhstani tenge, unless otherwise stated)

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

(b) Fair value hierarchy

The Bank 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 all instruments where the valuation technique includes quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: 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 valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2018, 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	-	27,177	27,177
- Derivative liabilities	-	(12,668)	(12,668)
Available-for-sale investments - debt securities	170,719	-	170,719
	170,719	**14,509**	**185,228**

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	3,529	-	3,529
Available-for-sale investments - debt securities	149,922	-	149,922
	153,451	**10,296**	**163,747**

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

(in millions of Kazakhstani tenge, unless otherwise stated)

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

(b) Fair value hierarchy, continued

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 14). Upon initial recognition the Bank 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 Bank uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlying instruments, 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 (loss)/gain recognised in profit or loss:	(2,386)	328
Repaid	(20,072)	(300)
31 December 2017	**19,495**	**(9,199)**
Total (loss)/gain recognised in profit or loss:	7,682	(3,469)
Repaid	-	-
31 December 2018	**27,177**	**(12,668)**

To determine the fair value of the swaps, management assumed interest rates in KZT within the range of 14.79% to 15.13% and of 1.04% to 1.18% in USD. Management believes that the NBRK does not use its right of early termination of transactions before their maturity.

Although the Bank 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	175,235	-	175,235	175,235
Due from banks	31,292	-	31,292	31,292
Loans to customers and banks	784,565	215,516	1,000,081	1,011,213
Other financial assets	10,788	-	10,788	10,788
Liabilities				
Customer and banks accounts	1,076,661	-	1,076,661	1,078,079
Due to banks and financial institutions	121,823	-	121,823	121,823
Debt securities issued	68,482	-	68,482	70,585
Subordinated bonds	64,549	-	64,549	72,054
Other financial liabilities	42,890	-	42,890	42,890

(in millions of Kazakhstani tenge, unless otherwise stated)

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

(b) Fair value hierarchy, continued

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

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	187,913	-	187,913	187,913
Due from banks	13,140	-	13,140	13,140
Loans to customers and banks	680,575	127,750	808,325	816,913
Other financial assets	15,402	-	15,402	15,402
Liabilities				
Customer and banks accounts	975,766	-	975,766	977,304
Due to banks and financial institutions	97,908	-	97,908	97,908
Debt securities issued	15,940	-	15,940	17,366
Subordinated bonds	69,282	-	69,282	75,605
Other financial liabilities	13,153	-	13,153	13,153

35. RELATED PARTY TRANSACTIONS

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 Bank and other related parties are disclosed below:

	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	
- parties with joint control or influence on the Bank	-	-	3,323	2.20%
Investments in subsidiaries	23,251		34,716	
- subsidiaries	23,251	-	34,716	-
Loans to customers and banks, gross	83,802		50,987	
- key management personnel of the Bank or its Parent Bank	56	3.66%	-	-
- close family members of key management personnel	81	12.83%	315	8.45%
- subsidiaries	83,597	0.32%	45,638	0.01%-4%
- other	68	16.26%	5,034	7.89%
Provision for impairment losses on loans to customers and banks	(6,824)		(6,108)	
- close family members of key management personnel	-	-	(9)	-
- subsidiaries	(6,824)	-	(6,098)	-
-other	-	-	(1)	-
Due to banks and financial institutions			11	
- parties with joint control or influence on the Bank	-	-	11	-
- subsidiaries	-	-	-	-
Customer and banks accounts	15,475		18,715	
- key management personnel of the Bank or its Parent Bank	861	3.92%	6,911	3.29%
- close family members of key management personnel	10,472	3.24%	6,696	3.91%
- subsidiaries	3,565	0.07%	342	0.3%-5%
- other	577	5.30%	4,766	7.11%
Debt securities issued	438		38	
- subsidiaries	438	8%-9%	38	8%-9%
Subordinated bonds	139		151	
- subsidiaries	139	7%-11%	151	11%
Share capital	570		287	
-subsidiaries	570	-	287	-

(in millions of Kazakhstani tenge, unless otherwise stated)

35. RELATED PARTY TRANSACTIONS, CONTINUED

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 provided mostly on the same terms and conditions, including interest rates as those used in similar transactions with the persons of the same positions or, if applicable, to other employee. These 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 Bank.

Included in the separate 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	**85**	**704**
- key management personnel of the Bank	2	-
- close family members of key management personnel	7	32
- subsidiaries	66	-
- other	10	672
Interest expense	**(535)**	**(927)**
- key management personnel of the Bank	(166)	(64)
- close family members of key management personnel	(324)	(187)
- subsidiaries	(3)	-
- other	(42)	(676)
Fee and commission income	**8**	**4**
- subsidiaries	8	4
Fee and commission expense	**(18)**	**(5)**
- subsidiaries	(18)	(5)
Impairment loss on investments in subsidiaries	**-**	**(1,965)**
-subsidiaries	-	(1,965)
Other income	**1,358**	**2,687**
- subsidiaries	1,358	2,687
Operating expenses	**(389)**	**(406)**
- key management personnel of the Bank	(389)	(406)

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