Eurasian Bank JSC

Consolidated Financial Statements

for the year ended

31 December 2018

Contents

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Independent Auditors' Report

To the Shareholder and Board of Directors of Eurasian Bank Joint Stock Company

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген; Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

Expected credit losses ('ECL') for loans to customers	
Please refer to Notes 3(g) and 16 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Loans to customers represent 58% of assets and are stated net of allowance for expected credit losses that is estimated on a regular basis and is sensitive to assumptions used. From 1 January 2018 the Group implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas: - 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 adjustment to account for forward-looking information and assessment of expected cash flows on Stage 3 loans. Due to the significant volume of loans to customers, adoption of the new ECL valuation model and the related estimation uncertainty of ECL allowance, this area is a key audit matter.	We analysed the key aspects of the Group's methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of our own financial risk management specialists. To analyse the adequacy of professional judgement and assumptions made by the management in relation to the allowance for ECL estimate, we performed the following: — We tested design and operating effectiveness of controls over timely allocation of corporate loans into Stages. — For a sample of corporate loans, for which a potential changes in ECL estimate may have a significant impact on the consolidated financial statements, we tested whether stages are correctly assigned by the Group by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. — For a sample of corporate loans we tested the correctness of input data used to determine PD. — For a sample of Stage 3 corporate loans for which ECL is assessed individually, we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realisable collateral and their timing based on our understanding and publicly available market information. — For retail loans 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 retail loans to underlying documents on a sample basis. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Alexei Kolosov
Audit Partner

Mukhit Kossayev
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. 558 of 24 December 2003

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

14 June 2019

	Note	2018 KZT'000	2017 KZT'000
Interest income calculated using the effective interest method	4	114,994,306	95,178,606
Other interest income		626,188	-
Interest expense	4	(64,867,344)	(61,204,279)
Net interest income	4	**50,753,150**	**33,974,327**
Fee and commission income	5	28,361,125	18,991,593
Fee and commission expense		(3,645,590)	(2,338,815)
Net fee and commission income		**24,715,535**	**16,652,778**
Net gain/(loss) on financial instruments at fair value through profit or loss	6	1,613,603	(18,435,979)
Net foreign exchange (loss)/gain	7	(708,776)	4,117,549
Net loss on financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale financial assets)		(1,498)	-
Gain from recognition of discount on subordinated debt securities issued	24	-	106,961,607
Other operating expenses, net		(3,391,946)	(637,610)
Operating income		**72,980,068**	**142,632,672**
Losses on impairment of debt financial assets	8	(29,740,843)	(112,222,633)
Impairment loss of loan commitments issued and financial guarantee contracts		(997,185)	(60,945)
Personnel expenses	9	(19,150,401)	(17,985,886)
Other general and administrative expenses	10	(13,257,805)	(14,024,785)
Profit/(loss) before income tax		**9,833,834**	**(1,661,577)**
Income tax expense	11	(692,372)	(2,192,745)
Profit/(loss) for the year		**9,141,462**	**(3,854,322)**
Other comprehensive (loss)/ income			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserves for financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale financial assets):			
- Net change in fair value		(6,661)	(120,061)
- Net change in fair value transferred to profit or loss		1,498	-
Foreign currency exchange differences on translation		(374,422)	516,954
Total items that are or may be reclassified subsequently to profit or loss		*(379,585)*	396,893
Total other comprehensive (loss)/income for the year		**(379,585)**	**396,893**
Total comprehensive income/(loss) for the year		**8,761,877**	**(3,457,429)**
Earnings/(loss) per share			
Basic earnings/(loss) per share (KZT)	28	449.25	(193.22)

The consolidated financial statements as set out on pages 7 to 108 were approved by management on 14 June 2019 and were signed on its behalf by:

Loginov P.V.
Chairman of the Board

Kapekova Sh.K.
Chief Accountant

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	2018 KZT'000	2017 KZT'000
ASSETS			
Cash and cash equivalents	12	138,524,123	153,600,744
Financial instruments at fair value through profit or loss	13	1,073,676	87,013
Financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale financial assets)	14	173,175,483	50,378,050
Deposits and balances with banks	15	5,008,892	3,642,351
Loans to customers	16	638,009,716	614,437,990
Investments measured at amortised cost (IAS 39 - held-to-maturity investments)	17	114,454,312	124,912,385
Current tax asset		515,809	1,041,742
Property, plant and equipment and intangible assets	18	20,529,051	22,025,543
Deferred tax assets	11	223,444	-
Other assets	19	16,769,937	6,915,489
Total assets		**1,108,284,443**	**977,041,307**
LIABILITIES			
Financial instruments at fair value through profit or loss	13	-	19,334
Deposits and balances from banks	20	474,078	148,838
Amounts payable under repurchase agreements	21	79,882,889	43,744,906
Current accounts and deposits from customers	22	766,667,220	695,254,295
Debt securities issued	23	43,711,582	20,598,790
Subordinated debt securities issued	24	70,735,198	67,955,179
Other borrowed funds	25	35,479,720	37,994,781
Deferred tax liabilities	11	3,872,560	3,769,316
Other liabilities	26	14,634,808	9,781,610
Total liabilities		**1,015,458,055**	**879,267,049**
EQUITY			
Share capital	27	57,135,194	57,135,194
Share premium		25,632	25,632
Reserve for general banking risks		8,234,923	8,234,923
Dynamic reserve		-	7,594,546
Revaluation reserves for financial assets at at fair value through other comprehensive income (IAS 39 - available-for-sale financial assets)		(227,202)	(222,039)
Cumulative foreign currency translation reserve		1,880,026	2,254,448
Retained earnings		25,777,815	22,751,554
Total equity		**92,826,388**	**97,774,258**
Total liabilities and equity		**1,108,284,443**	**977,041,307**
Book value per ordinary share (in KZT)	27(c)	4,221.03	4,450.06

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2018 KZT'000	2017 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	109,417,900	83,370,414
Interest payments	(60,602,658)	(59,754,547)
Fee and commission receipts	28,506,860	18,802,911
Fee and commission payments	(3,645,590)	(1,943,765)
Net (payments)/receipts from financial instruments at fair value through profit or loss	(481,861)	103,768,471
Net receipts from foreign exchange	3,155,212	3,061,628
Other payments	(3,147,717)	(524,720)
Personnel expenses	(18,325,289)	(16,770,804)
Other general administrative expenses	(9,412,079)	(9,757,604)
(Increase)/decrease in operating assets		
Financial instruments at fair value through profit or loss	-	650,162
Mandatory reserve	12,216	29,669
Deposits and balances with banks	(933,895)	97,675
Loans to customers	(44,299,930)	(18,634,101)
Other assets	(6,830,404)	4,890,523
Increase /(decrease) in operating liabilities		
Deposits and balances from banks	192,602	(6,519,162)
Amounts payable under repurchase agreements	36,111,570	38,806,496
Current accounts and deposits from customers	32,477,670	22,196,047
Other liabilities	1,724,410	(1,814,075)
Net cash from operating activities before income tax paid	**63,919,017**	**159,955,218**
Income tax (payment)/refund	(366,864)	2,115
Cash flows from operating activities	**63,552,153**	**159,957,333**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale financial assets)	(308,978,413)	(48,760,106)
Sale and redemption of financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale financial assets)	188,445,796	2,087,159
Purchases of precious metals	(282,410)	(210,302)
Sale of precious metals	285,844	187,821
Purchase of investments measured at amortised cost (IAS 39 - held-to-maturity investments)	(697,140,113)	(2,170,851,608)
Redemption of investments measured at amortised cost (IAS 39 - held-to-maturity investments)	707,840,608	2,075,762,624
Purchases of property and equipment and intangible assets	(2,203,651)	(1,647,217)
Sales of property and equipment and intangible assets	127,970	248,299
Cash flows used in investing activities	**(111,904,369)**	**(143,183,330)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2018 KZT'000	2017 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from debt securities issued	22,156,342	11,231,499
Repayment of debt securities issued	-	(33,600,634)
Repurchase of debt securities issued	-	(87,692,049)
Receipts from subordinated debt securities issued	-	149,966,154
Receipts of other borrowed funds	10,368,580	4,081,976
Repayment of other borrowed funds	(13,225,081)	(21,069,784)
Proceeds from issuance of share capital	-	6,000,003
Dividends paid	-	-
Cash flows from financing activities	**19,299,841**	**28,917,165**
Net (decrease)/increase in cash and cash equivalents	**(29,052,375)**	**45,691,168**
Effect of movements in exchange rates on cash and cash equivalents	13,975,754	(1,412,143)
Cash and cash equivalents at the beginning of the year	153,600,744	109,321,719
Cash and cash equivalents at the end of the year (Note 12)	**138,524,123**	**153,600,744**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

KZT'000	**Share capital**	**Share premium**	**Reserve for general banking risks**	**Dynamic reserve**	**Revaluation reserve for available-for-sale financial assets**	**Cumulative foreign currency translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2017	51,135,191	25,632	8,234,923	7,594,546	(101,978)	1,737,494	26,605,876	95,231,684
Total comprehensive loss								
Loss for the year	-	-	-	-	-	-	(3,854,322)	(3,854,322)
Other comprehensive loss								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for-sale financial assets	-	-	-	-	(120,061)	-	-	(120,061)
Foreign currency exchange differences on translation	-	-	-	-	-	516,954	-	516,954
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*(120,061)*	*516,954*	-	*396,893*
Total other comprehensive (loss)/income	-	-	-	-	(120,061)	516,954	-	396,893
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(120,061)**	**516,954**	**(3,854,322)**	**(3,457,429)**
Transactions with owners recorded directly in equity								
Shares issued (Note 27 (a))	6,000,003	-	-	-	-	-	-	6,000,003
Balance at 31 December 2017	**57,135,194**	**25,632**	**8,234,923**	**7,594,546**	**(222,039)**	**2,254,448**	**22,751,554**	**97,774,258**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

KZT'000	**Share capital**	**Share premium**	**Reserve for general banking risks**	**Dynamic reserve**	**Revaluation reserve for financial assets at FVOCI**	**Cumulative foreign currency translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2018	57,135,194	25,632	8,234,923	7,594,546	(222,039)	2,254,448	22,751,554	97,774,258
Effect of the adoption of IFRS 9	-	-	-	-	-	-	(13,709,747)	(13,709,747)
Restated balance as at 1 January 2018	**57,135,194**	**25,632**	**8,234,923**	**7,594,546**	**(222,039)**	**2,254,448**	**9,041,807**	**84,064,511**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	9,141,462	9,141,462
Other comprehensive loss								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(6,661)	-	-	(6,661)
Net change in fair value of financial assets at fair value through other comprehensive income transferred to profit or loss					1,498	-	-	1,498
Foreign currency exchange differences on translation	-	-	-	-	-	(374,422)	-	(374,422)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*(5,163)*	*(374,422)*	-	*(379,585)*
Total other comprehensive loss	-	-	-	-	(5,163)	(374,422)	-	(379,585)
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(5,163)**	**(374,422)**	**9,141,462**	**8,761,877**
Other movements in equity								
Reversal of dynamic reserve	-	-	-	(7,594,546)	-	-	7,594,546	-
Balance at 31 December 2018	**57,135,194**	**25,632**	**8,234,923**	**-**	**(227,202)**	**1,880,026**	**25,777,815**	**92,826,388**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

(a) Principal activities

These consolidated financial statements include the financial statements of Eurasian Bank JSC (the "Bank") and its subsidiaries - Eurasian Bank PJSC, Eurasian Project 1 LLP and Eurasian Project 2 LLP (jointly referred to as the "Group").

The Bank was established in 1994 in the Republic of Kazakhstan as a closed joint-stock company under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint-stock company on 2 September 2003. The Bank operates based on general banking licence No. 237 granted on 28 December 2007. The Bank also holds licences Nos. 0401100623 and 0407100189 for brokerage, dealing and custodian activities. The principal activities of the Bank are deposit taking and customer account maintenance, lending, issuing guarantees, custodian services, cash and settlement operations, operations with securities and foreign exchange.

The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK").

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

As at 31 December 2018, the Group has 17 regional branches (2017: 16) and 117 cash settlement centres (2017: 119) from which it conducts business throughout the Republic of Kazakhstan and Russian Federation.

The registered address of the Bank's head office is 56 Kunayev str., Almaty, Republic of Kazakhstan. The majority of the Bank's assets and liabilities are located on the territory of the Republic of Kazakhstan.

On 1 April 2010 the Bank acquired a subsidiary, Eurasian Bank OJSC (Open Joint Stock Company), located in Moscow, Russian Federation. On 29 January 2015 the subsidiary was renamed to Eurasian Bank PJSC (Public Joint Stock Company).

On 30 December 2015 the Bank acquired a subsidiary, BankPozitiv Kazakhstan JSC, located in Almaty, Republic of Kazakhstan which was renamed to EU Bank (SB of Eurasian Bank JSC) JSC. On 31 December 2015 the sole shareholder of the Bank approved a reorganisation plan, under which EU Bank (SB of Eurasian Bank JSC) JSC was merged with the Bank. On 3 May 2016 the actual merger of EU Bank (SB of Eurasian Bank JSC) JSC with the Bank took place.

On 21 August 2017 the Bank's subsidiaries Eurasian Project 1 LLP and Eurasian Project 2 LLP were registered. The principal activity of these entities is acquisition and management of doubtful and bad assets of the Bank.

(b) Shareholders

As at 31 December 2018 Eurasian Financial Company JSC ("EFC") is the Bank's Parent company, which owns 100.00% of the Bank's shares (2017: EFC owned 100.00% of the Bank's shares).

(c) Business environment

The Group's operations are primarily located on the territory of the Republic of Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Kazakhstan. In addition, the depreciation of the Kazakhstan tenge which took place during 2015, and a reduction in the global price of oil, have increased the level of uncertainty in the business environment.

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

These consolidated financial statements are prepared on the historical cost basis except for certain financial instruments measured at fair value.

(c) Functional and presentation currency

The functional currency of the Bank and its subsidiaries Eurasian Project 1 LLP and Eurasian Project 2 LLP 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 the Bank and its subsidiaries.

The functional currency of the Bank's subsidiary, Eurasian Bank PJSC, is the Russian rouble ("RUB") as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to the subsidiary.

For the purposes of these consolidated financial statements, management elected to use the KZT as the presentation currency.

In translating to the KZT, assets and liabilities of the Bank's subsidiary, Eurasian Bank PJSC, that are included in the consolidated statement of financial position are translated at the foreign exchange rate ruling at the reporting date. All income and expense and equity items are translated at approximating rates at the dates of the transactions. The resulting exchange difference is recorded in the cumulative translation reserve.

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

Any conversion of RUB amounts to KZT should not be construed as a representation that RUB amounts have been, could be, or will be in the future, convertible into KZT at the exchange rate shown, or at any other exchange rate.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

2 Basis of preparation, continued

(d) Use of estimates and judgments, continued

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 (d)(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 expected credit losses and selection and approval of models used to measure expected credit losses – Note 3 (g)(ii).
- impairment of financial instruments: determining inputs into the expected credit losses measurement model, including incorporation of forward-looking information – Note 3(g)(ii).

Applicable to 2018 and 2017:

- recognition of fee and commission income from agency services – Note 3(m).
- estimates of fair value of financial assets and liabilities – Note 36.

Applicable to 2017 only:

- impairment estimates of loans to customers – Note 16;
- estimates of fair value of subordinated debt securities issued – Note 24.

(e) Changes in accounting policies and presentation

This is the first set of the Group’s annual consolidated 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 3.

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

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by the Group, except as explained in note 3(a), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Business combinations

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

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

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

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(iv) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

(b) Foreign currency

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

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

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

Foreign currency differences arising in translation are recognised in profit or loss, except for equity financial instruments stated at fair value through other comprehensive income for which no foreign currency differences are recognised.

Below are foreign currency exchange rates as at the end of the year used by the Group in preparation of the consolidated financial statements:

	31 December 2018	**31 December 2017**
KZT/EUR	488.13	398.23
KZT/USD	384.20	332.33

(c) Cash and cash equivalents

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

3 Significant accounting policies, continued

(d) Financial instruments

(i) Classification of financial instruments

Financial instruments – accounting policy applicable from 1 January 2018

Under IFRS 9 Financial instruments, financial assets are classified into the following categories based on a business model used by the Group to manage its financial assets for cash flows generation:

Financial instruments measured at fair value through other comprehensive income within a business model "Holding assets in order to collect contractual cash flows and/or sell assets" that meet the SPPI ("solely payments of principal and interest") criterion. This business model implies that the objective is achieved by both collecting contractual cash flows and selling assets. The level of sales is usually higher (in respect of frequency and volumes of asset transactions) within this business model than those under the business model "hold to collect contractual cash flows");

Financial instruments measured at amortised cost within the business model "Holding assets to collect contractual cash flows". The objective within this business model implies the following:

– to hold assets in order to collect contractual cash flows;

– sales are secondary to the objective of this model;

– the level of sales within this model, as a rule, is the lowest as compared to other business models (in respect of frequency and volumes of asset transactions).

Financial instruments measured at fair value through profit or loss within a business model "Managing assets on a fair value basis and maximising cash flows through selling assets" that do not meet the SPPI criterion.

This business model does not seek both "to hold to collect" and "to hold to collect and/or sell". Receiving contractual cash flows is secondary to the objective of this model.

In order to define a business model for specific financial assets the Group analyses the following:

– how performance of the business model (and the financial assets held within that business model) is measured and how this information is communicated to the key 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 the Group's top-managers 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 expectations about future sales activity. However, information about sales activity is not considered in isolation from other data, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised. In this case, the Group considers information about previous sales, the reasons for those sales and conditions that existed at that time as compared to current conditions.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition.

On initial recognition, the Group may 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.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

The Group reclassifies financial assets if the Group changes its business model for managing those financial assets. The reclassification is applied prospectively from the reclassification date.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification of financial instruments, continued

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

The Group classifies its financial assets as follows:

– *loans and receivables* are classified as assets measured at amortised cost since they are managed within the business model “Holding to collect contractual cash flows” that meet the SPPI criterion;

– *correspondent account balances, interbank loans and deposits, REPO transactions* are classified as assets measured at amortised cost since they are managed within the business model “Holding to collect contractual cash flows” that meet the SPPI criterion;

– *debt securities* may be classified in any of the three classification categories depending on the business model chosen and compliance with the SPPI criterion;

– *equity securities,* generally will be classified as instruments measured at fair value through profit or loss;

– *derivative financial instruments* are classified as financial assets at fair value through profit or loss.

All financial liabilities are classified on initial recognition as measured at amortised cost, except for the following:

– financial liabilities at fair value through profit or loss (IFRS 9 says that the Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss);

– financial liabilities, which arise when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies;

– financial guarantee contracts;

– commitments to provide a loan at a below-market interest rate;

– contingent consideration recognised by an acquirer in a business combination.

Financial instruments – Policy applicable before 1 January 2018

Under IFRS (IAS) 39 *Financial Instruments: Recognition and Measurement,* financial assets are classified into one of the following categories.

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments); or
- upon initial recognition, designated as at fair value through profit or loss.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification of financial instruments, continued

Financial instruments – Policy applicable before 1 January 2018

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale; or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;

- investments within a business model “Hold to collect contractual cash flows” which are measured at amortised cost, using an effective interest rate method.

(iv) Amortised cost versus gross carrying amount

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, less loss allowance (or provision for impairment before 1 January 2018). Premiums and discounts, including transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

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.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on the origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(v) Fair value measurement principles

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

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

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(v) Fair value measurement principles, continued

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.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net-long position (or paid to transfer the net-short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between the levels of the fair value hierarchy as of the end of the end of the reporting period during which the change has occurred.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on a financial asset at fair value through other comprehensive income is recognised as other comprehensive income in equity (except for expected credit losses, reversal of impairment losses and foreign exchange gains and losses at fair value through other comprehensive income) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in comprehensive income is recognised in profit or loss. Interest income in relation to financial asset measured at fair value through other comprehensive income is recognised in profit or loss, as accrued, using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged, or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(vii) Derecognition, continued

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense 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. 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.

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in fair value of derivatives are recognised immediately in profit or loss.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(x) Offsetting

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

(e) Property, plant and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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.

3 Significant accounting policies, continued

(e) Property, plant and equipment, continued

(ii) 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. The estimated useful lives are as follows:

-	Buildings	40 to 100 years;
-	Computer and banking equipment	5 years;
-	Vehicles	7 years;
-	Office furniture	8 to 10 years;
-	Leasehold improvements	5 years.

(f) 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.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

-	Trademark	10 years;
-	Computer software and other intangibles	up to 15 years.

(g) Impairment of assets

Impairment of financial assets from 1 January 2018

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

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

(i) Impairment

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

- financial assets that are debt instruments;
- receivables on documentary settlements and guarantees;
- financial guarantee contracts issued, commitments on unsecured letters of credit, issued or confirmed guarantees;
- loan commitments issued.

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

- debt investment securities and other financial assets that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

3 Significant accounting policies, continued

(g) Impairment of assets, continued

Impairment of financial assets from 1 January 2018, continued

(i) Impairment, continued

The Group considers:

- a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade';
- a financial asset to have low credit risk when a loan agreement has been concluded with a counterparty a credit rating of at least BBB- according to the international scale assigned by S&P agency or similar ratings assigned by Moody's and Fitch agencies, a loan agreement has been concluded with a government-owned company.

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.

(ii) Significant increase in credit risk

For the purpose of determining significant increases in credit risk of a financial asset, the Group:

- assesses change in the risk of default over the expected life of the financial asset by comparing a risk of a default of the financial asset with the risk of default as at the date of initial recognition;
- analyses reasonable and supportable information, that is available without undue cost or effort and which indicates a significant increase in credit risk since initial recognition.

Significant increases in credit risk of a financial asset mean occurrence of one or several cases listed below:

- significant changes in external market indicators of credit risk for a particular financial asset or similar financial assets with the same expected life;
- an actual or expected internal credit rating downgrade for the borrower determined upon monitoring;
- significant changes in the value of the collateral (more than 50% of the value of a financial asset at initial recognition) supporting the obligation or quality of guarantees;
- amounts past due thirty and more calendar days.

Monitoring means activities of control and analysis of the status of financial asset and all mutual relations between the Group and counterparty and comprises the following:

- control of observance of the payment discipline related to the financial asset;
- periodic analysis of the counterparty's financial statements;
- monitoring of the account turnover;
- monitoring of the progress in the project funded by the Group.

(iii) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI (bonds) 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 being more than 60 days past due;
- loan restructuring by the Group due to financial difficulties experienced by the borrower;
- 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, delisting of a security.

3 Significant accounting policies, continued

(g) Impairment of assets, continued

Impairment of financial assets from 1 January 2018, continued

(iii) Credit-impaired financial assets, continued

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 retail loans that are overdue for 90 days or more are considered credit-impaired.

In making an assessment of whether investments in sovereign debt are credit-impaired, the Group considers the following factors.

- Downgrading of the bonds' long-term sovereign rating below "B" by Standard&Poor's international rating agency or below similar rating by one of other rating agencies;
- Internal economic reasons (hostilities inside the state, global natural and/or man-made disasters affecting significantly the country economy, undemocratic seizure of power and denial to serve government liabilities, and other similar events affecting significantly the country economy);
- Decision to restructure the obligation to purchase bonds.

(iv) Measurement of ECL

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 the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive;
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount of a financial asset and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

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).

For debt securities and financial assets arising from entering into transactions with financial organisations:

- PD is estimated on the basis of data on global corporate and global sovereign average cumulative values of PD published by S&P agency, depending on the counterparty's credit rating assigned by S&P or similar rating assigned by Moody's and Fitch;
- LGD is estimated using the Recovery Rate data for unsecured bonds published by Moody's;
- LGD for unsecured corporate bonds of the issuers is determined to be equal to 70%.

For loans referred to both individual and homogeneous financial assets, PD and LGD are estimated on the basis of statistical models used by the Group and other historic data, given the looking-forward information on macroeconomic indicators.

Individual financial assets

PD for loans referred to individual financial assets is estimated on the basis of historic data on the borrowers' ratings assigned while considering the matter of financing and exercising the quarterly monitoring, and historic data on the borrowers' defaults for at least 5-year observation period.

3 Significant accounting policies, continued

(g) Impairment of assets, continued

Impairment of financial assets from 1 January 2018, continued

(iv) Measurement of ECLs, continued

Individual financial assets, continued

The level of PD corresponding to the borrower' rating is estimated by determining a ratio of total balance sheet debt of the defaulted borrowers to the total balance sheet debt (average for the year) of a borrower having certain rating, for 1 calendar year, at each reporting date of the observation period, for the observation period.

Homogeneous financial assets

PD for loans referred to homogeneous financial assets is estimated on the basis of historic data on the borrowers' defaults of each generation of issue (per month) for at least 5-year observation period, given the grouping of homogeneous assets based on their common risk characteristics, which include a type of credit product and type of available collateral.

PD for the group of homogeneous assets is estimated as a ratio of a number of defaulted loans to non-defaulted loans in each generation of loan issue, per each month of the observation period, with due account of subsequent estimate of an averaged probability of default for a group of homogeneous assets per each month of the observation period, with subsequent annualisation.

To take into account the impact of macroeconomic indicators on PD, estimated PDs are calibrated by PIT coefficient (Point-in-Time). Economic scenarios used as at 31 December 2018 comprised the following key indicators for the Republic of Kazakhstan:

- for individual financial assets: inflation, GDP growth, state budget revenue, CDS index of the Republic of Kazakhstan (annual):

Period	Inflation, %	GDP growth, %	State budget revenue, KZT billion	CDS index (1 year), in basis points, at the end of the year
2019 forecast	6.0	3.8	8,759.7	18.7

- for homogeneous financial assets: consumer price index (as at the end of the period, as a percentage against December of a previous year), industrial production growth rate, volume of retail turnover index, CDS index of the Republic of Kazakhstan (annual), on the level of individual /homogeneous financial assets in default during the year in the observation period:

Period	Consumer price index (as at the end of the period, as a percentage against December of a previous year)	Industrial production growth rate, as % against a previous year	Volume of retail turnover index	CDS index, in basis points, at the end of the year
2019 forecast	105.3	103.3	103.9	18.7

Impact assessment is performed using the linear regression method; PIT coefficient is calculated as a ratio of projected default rate (D) to an average D over the observation period (at least 5 years).

LGD is estimated by the Group as a difference between carrying amount of an asset and overall recovery rate (Recovery Rates) for defaulted loans from the time of default against an outstanding debt as at the date of default and present value of estimated future cash flows from enforcement of collateral discounted at the initial effective interest rate of a financial asset (i.e. effective interest rate calculated on initial recognition).

3 Significant accounting policies, continued

(g) Impairment of assets, continued

Impairment of financial assets from 1 January 2018, continued

(iv) Measurement of ECLs, continued

Exposure at default represents the expected exposure in the event of a default. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation. The EAD of homogeneous financial assets is the gross carrying amount.

(v) Recognised impairment losses

All losses on impairment of loans and receivables (including reversal of impairment losses or impairment gains) are recognised in profit or loss.

No loss allowance for debt financial assets measured at FVOCI is recognised in the consolidate 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.

(vi) Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

Impairment of financial assets before 1 January 2018

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis.

The Group assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

3 Significant accounting policies, continued

(g) Impairment of assets, continued

Impairment of financial assets before 1 January 2018, continued

(i) Financial assets carried at amortised cost, continued

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan or receivable is uncollectible, it is written off against the related allowance for impairment. The Fund writes off a loan or receivable balance (and any related allowances for losses) when the Fund's management determines that the loans and receivables are uncollectible and when all necessary steps to collect the loans or receivables are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is 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. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. 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 or CGU. 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.

3 Significant accounting policies, continued

(g) Impairment of assets, continued

Impairment of financial assets before 1 January 2018, continued

(iv) Non-financial assets, continued

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. .

(h) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the 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.

A provision for restructuring is recognised in the period when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(i) Credit related commitments

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

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except in the following cases:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss;
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

3 Significant accounting policies, continued

(j) 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) Dividends

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

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

(k) Taxation

Income tax comprises current and deferred taxes. 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.

(i) 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.

(ii) Deferred tax

Deferred tax assets and liabilities are 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 Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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

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

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

3 Significant accounting policies, continued

(l) Income and expense recognition

Accounting policy applicable from 1 January 2018

(i) Effective interest rate

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

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

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

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

(ii) 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.

Fee and commission which relate to issue of a loan and are an inherent component of an effective interest rate, taking into account direct transaction costs, are stated as a discount on loans issued by the Group. Within the effective period of a contract, the discount amount is amortised and stated as the Group's income, using an effective interest rate. Fee and commission income related to provision of other services stipulated in a concluded contract and received as the services are provided can be stated simultaneously in "fee and commission receivable from a borrower" line item, unless otherwise provided for by the contract, and are recognised in "income" line items as the relevant services are provided.

(iii) Presentation

Interest income on financial instruments at fair value through profit or loss is included in "Other interest income" in the consolidated statement of profit or loss.

3 Significant accounting policies, continued

(l) Income and expense recognition, continued

Accounting policy applicable before 1 January 2018

(i) 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 Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Accrued discounts and premiums are recognised in gains or losses less losses from financial instruments at fair value through profit or loss.

(ii) Presentation

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

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- interest on non-derivative debt financial instruments measured at fair value through profit or loss.

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

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

(m) Fee and commission income

Fee and commission income is stated at the amount which the Group expects to receive in exchange for the services provided, and is recognised when or as the Group provides the services to customers.

The Group provides insurance agent services by offering life insurance policies of different insurance companies at its points of sale of retail loans and is paid an agency fee proportionate to premiums subscribed. As acquisition of a life insurance policy is voluntary and is not a condition to obtain a loan, it does not affect the interest rate on the loan. Therefore the agent services fee was not considered as part of effective interest rate. A service is deemed to be completely provided when an insurance policy has been issued (insurance contract), therefore, the Group recognises fee and commission simultaneously, when a performance obligation is satisfied, i.e. an insurance policy is issued (insurance contract is concluded).

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Fee and commission income for payment card maintenance comprises interchange fee from transactions with credit and debit cards carried out in trade and service enterprises, and is recognised upon receipt of compensation from payment systems. Other payment card fees are recognised at the time of transaction completion.

3 Significant accounting policies, continued

(m) Fee and commission income, continued

Fee and commission income for cash withdrawal comprises fee and commission for customer accounts maintenance as well as fee and commission for cash operations. Payment for customer account maintenance is recognised in the period when the services are provided, usually, on a monthly basis. Payment collected for cash operations is recognised at the time of the services provision.

Fee and commission for settlement transactions represent fee and commission income for payments and transfers charged at the time of the transaction.

Income in the form of fee and commission for issue of guarantees as well as fee and commission for issue and servicing of letters of credit are stated on an accrual basis, with daily amortisation on income line items.

Adoption of IFRS 15 has not had a significant effect on disclosure of information or amounts stated in the consolidated financial statements.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(n) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses, 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.

(o) Comparative information

Comparative information is reclassified to conform to changes in presentation of the consolidated financial statements in the current year.

Reclassifications in the consolidated financial statements for the previous year

In the course of preparation of the consolidated financial statements of the Group for the year ended 31 December 2018, management made certain classifications which affected comparative information, for the purpose of presentation of the consolidated financial statements for the year ended 31 December 2018.

The effect of changes due to reclassifications on the corresponding figures can be summarised as follows:

KZT'000	As previously reported	Effect of reclassifications	As restated
Consolidated statement of profit or loss and comprehensive income for the year ended 31 December 2018			
Fee and commission expense	(1,943,765)	(395,050)	(2,338,815)
Net fee and commission income	**17,047,828**	**(395,050)**	**16,652,778**
Other operating expenses, net	(1,032,660)	395,050	(637,610)

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

3 Significant accounting policies, continued

(o) Comparative information, continued

Reclassifications in the consolidated financial statements for the previous year, continued

As a result of change in approach to issuance of certain large non-program loans to individuals, the following reclassifications of comparative information for 2017 have been performed in "Loans to customers" note:

KZT'000	As previously reported	Effect of reclassifications	As reclassified
Loans to corporate customers			
Loans to large corporates	354,771,120	(17,945,695)	336,825,425
Total loans to corporate customers	**377,603,446**	**(17,945,695)**	**359,657,751**
Loans to retail customers			
Non-programme loans on individual terms	-	24,181,310	24,181,310
Mortgage loans	18,067,432	(4,151,413)	13,916,019
Loans for individual entrepreneurship	6,033,500	(2,084,202)	3,949,298
Total loans to retail customers	**309,572,408**	**17,945,695**	**327,518,103**

KZT'000	As previously reported	Effect of reclassifica-tions	As reclassified
Loans to corporate customers			
Loans to large corporates			
Unimpaired loans:			
Standard loans, not overdue	224,218,307	(17,462,705)	206,755,602
Total unimpaired loans	227,085,912	(17,462,705)	209,623,207
Impaired loans:			
- overdue less than 90 days	19,778,205	(482,990)	19,295,215
Total impaired loans	127,685,208	(482,990)	127,202,218
Total loans to large corporates	**354,771,120**	**(17,945,695)**	**336,825,425**
Impairment allowance for loans to large corporates	(37,143,418)	48,453	(37,094,965)
Loans to large corporates net of impairment allowance	**317,627,702**	**(17,897,242)**	**299,730,460**
Total loans to corporate customers	**377,603,446**	**(17,945,695)**	**359,657,751**
Total impairment allowance for loans to corporate customers	(38,988,649)	48,453	(38,940,196)
Total loans to corporate customers net of impairment allowance	**338,614,797**	**(17,897,242)**	**320,717,555**

3 Significant accounting policies, continued

(o) Comparative information, continued

KZT'000	As previously reported	Effect of reclassifica-tions	As reclassified
Loans to retail customers			
Mortgage loans			
- not overdue	11,424,179	(1,478,824)	9,945,355
- overdue 90-179 days	295,494	(159,021)	136,473
- overdue 180-360 days	247,896	(21,368)	226,528
- overdue more than 360 days	5,152,160	(2,492,200)	2,659,960
Total mortgage loans	**18,067,432**	**(4,151,413)**	**13,916,019**
Impairment allowance for mortgage loans	(2,715,283)	1,368,243	(1,347,040)
Net mortgage loans	**15,352,149**	**(2,783,170)**	**12,568,979**
Loans for individual entrepreneurship			
- not overdue	2,763,875	(655,720)	2,108,155
- overdue 30-89 days	23,099	(5,852)	17,247
- overdue 180-360 days	226,449	(219,297)	7,152
- overdue more than 360 days	2,874,711	(1,203,333)	1,671,378
Total loans for individual entrepreneurship	**6,033,500**	**(2,084,202)**	**3,949,298**
Impairment allowance for loans for individual entrepreneurship	(1,247,411)	65,075	(1,182,336)
Net loans for individual entrepreneurship	**4,786,089**	**(2,019,127)**	**2,766,962**
Non-programme large loans on individual terms			
- not overdue	-	19,597,249	19,597,249
- overdue 30-89 days	-	488,842	488,842
- overdue 90-179 days	-	159,021	159,021
- overdue 180-360 days	-	240,665	240,665
- overdue more than 360 days	-	3,695,533	3,695,533
Total non-programme large loans on individual terms	**-**	**24,181,310**	**24,181,310**
Impairment allowance for non-programme large loans on individual terms	**-**	**(1,481,771)**	**(1,481,771)**
Net non-programme large loans on individual terms	**-**	**22,699,539**	**22,699,539**
Total loans to retail customers	**309,572,408**	**17,945,695**	**327,518,103**
Total impairment allowance for loans to retail customers	(33,749,215)	(48,453)	(33,797,668)
Total net loans to retail customers	**275,823,193**	**17,897,242**	**293,720,435**

KZT'000	As previously reported	Effect of reclassifications	As reclassified
Loans to corporate customers			
Wholesale trade	101,540,077	(17,945,695)	83,594,382
Loans to retail customers			
Non-programme loans on individual terms	-	24,181,310	24,181,310
Mortgage loans	18,067,432	(4,151,413)	13,916,019
Loans for individual entrepreneurship	6,033,500	(2,084,202)	3,949,298

3 Significant accounting policies, continued

(p) Transition to IFRS 9

At 1 January 2018, the Group has initially applied IFRS 9 _Financial Instruments_, which replaces the guidance in IAS 39 _Financial Instruments: Recognition and Measurement_.

Impact of adoption of IFRS 9 _Financial instruments_ - Classification and measurement

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018, and summarises the impact of adopting IFRS 9 on the consolidated statement of financial position and retained earnings.

KZT'000	Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39 at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Cash and cash equivalents	Loans and receivables	Amortised cost	153,600,744	-	-	153,600,744
Financial instruments at fair value through profit or loss	FVTPL	FVTPL	87,013	-	-	87,013
Investment securities measured at fair value through other comprehensive income	Available-for-sale	FVOCI	50,378,050	-	-	50,378,050
Deposits and balances with banks	Loans and receivables	Amortised cost	3,642,351	-	(821)	3,641,530
Loans to customers	Loans and receivables	Amortised cost	614,437,990	(19,089,700)	(12,712,858)	582,635,432
Loans to customers	Loans and receivables	FVTPL	-	19,089,700	(982,750)	18,106,950
Investment securities measured at amortised cost	Held-to-maturity	Amortised cost	124,912,385	-	(18,625)	124,893,760
Other financial assets	Loans and receivables	Amortised cost	4,965,898	-	-	4,965,898
Total financial assets			**952,024,431**	**-**	**(13,715,054)**	**938,309,377**
Financial instruments at fair value through profit or loss	FVTPL	FVTPL	(19,334)	-	-	(19,334)
Deposits and balances from banks	Amortised cost	Amortised cost	(148,838)	-	-	(148,838)
Amounts payable under repurchase agreements	Amortised cost	Amortised cost	(43,744,906)	-	-	(43,744,906)
Current accounts and deposits from customers	Amortised cost	Amortised cost	(695,254,295)	-	-	(695,254,295)
Debt securities issued	Amortised cost	Amortised cost	(20,598,790)	-	-	(20,598,790)
Subordinated debt securities issued	Amortised cost	Amortised cost	(67,955,179)	-	-	(67,955,179)
Other borrowed funds	Amortised cost	Amortised cost	(37,994,781)	-	-	(37,994,781)
Other financial liabilities	Amortised cost	Amortised cost	(7,730,075)	-	-	(7,730,075)
Total financial liabilities			**(873,446,198)**	**-**	**-**	**(873,446,198)**
Provision for contingent liabilities included in other liabilities	-	-	(42,172)	-	5,307	(36,865)
Total impact of adopting IFRS 9 on equity				**-**	**(13,709,747)**	

3 Significant accounting policies, continued

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2018, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's consolidated financial position and its operations. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 *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*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

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 optional 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.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of office buildings. As at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to KZT 8,030,022 thousand, on an undiscounted basis (see Note 33).

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the Group's finance leases.

(i) Determining whether an arrangement contains a lease

The Group has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of motor vehicles under IFRIC 4. On transition to IFRS 16, the Group can choose whether to:

- apply the IFRS 16 definition of a lease to all its contracts; or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

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

(ii) Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

3 Significant accounting policies, continued

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

IFRS 16 *Leases*, continued

(ii) Transition, continued

The lessee applies the election consistently to all of its leases.

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

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not obliged to make adjustments to leases where the Group acts as a lessor, except when the Group is an interim lessor under the sublease agreement.

Other standards

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

4 Interest income and expense

	2018 KZT’000	2017 KZT’000
Interest income calculated using the effective interest method		
Loans to customers at amortised cost	97,410,628	84,658,671
Investment at amortised cost (IAS 39 - Held-to maturity investments)	9,248,369	7,379,931
Financial assets at fair value through other comprehensive income (IAS 39 - Available-for-sale financial assets)	7,130,990	1,018,008
Amounts receivable under reverse repurchase agreements	371,260	1,938,622
Cash and cash equivalents	240,409	146,437
Deposits and balances with banks	592,650	36,937
	114,994,306	**95,178,606**
Other interest income		
Loans to customers measured at amortised cost	626,188	-
	115,620,494	**95,178,606**
Interest expense		
Current accounts and deposits from customers	(44,362,556)	(45,277,440)
Subordinated debt securities issued	(10,517,107)	(4,673,263)
Amounts payable under repurchase agreements	(5,678,659)	(615,463)
Debt securities issued	(2,832,518)	(8,618,237)
Other borrowed funds	(1,472,944)	(2,016,294)
Deposits and balances from banks	(3,560)	(3,582)
	(64,867,344)	**(61,204,279)**
	50,753,150	**33,974,327**

5 Fee and commission income

	2018 KZT'000	2017 KZT'000
Agency services	21,130,882	12,968,390
Payment card maintenance fees	2,994,041	1,816,936
Settlement	1,734,577	1,733,989
Cash withdrawal	1,214,205	1,050,247
Guarantee and letter of credit issuance	900,319	1,107,338
Custodian services	53,354	40,937
Cash collection	51,996	41,346
Other	281,751	232,410
	28,361,125	**18,991,593**

6 Net gain/(loss) on financial instruments at fair value through profit or loss

	2018 KZT'000	2017 KZT'000
Net unrealised gain on financial instruments at fair value through profit or loss	2,085,495	85,063
Gain on change in the value of loans to customers measured at fair value	989,368	-
Net realised gain on financial instruments at fair value through profit or loss	(1,461,260)	(12,926,121)
Interest expense on currency SWAPs with NBRK	-	(5,594,921)
	1,613,603	**(18,435,979)**

7 Net foreign exchange (loss)/gain

	2018 KZT'000	2017 KZT'000
Dealing operations, net	3,155,212	3,061,628
Translation differences, net	(3,863,988)	1,055,921
	(708,776)	**4,117,549**

8 Impairment losses on debt financial assets

	2018 KZT'000	2017 KZT'000
Loans to customers (Note 16)	31,472,549	103,594,292
Financial assets at fair value through other comprehensive income (IAS 39 - Available-for-sale financial) (Note 14)	36,611	-
Cash and cash equivalents (Note 12)	40	-
Deposits and balances with banks (Note 15)	(303)	-
Investment at amortised cost (IAS 39 - Held-to maturity) (Note 17)	(697)	-
Other assets (Note 19)	(1,767,357)	8,628,341
	29,740,843	**112,222,633**

9 Personnel expenses

	2018 KZT'000	2017 KZT'000
Wages, salaries, bonuses and related taxes	18,314,940	17,155,315
Other employee costs	835,461	830,571
	19,150,401	**17,985,886**

10 Other general and administrative expenses

	2018 KZT'000	2017 KZT'000
Depreciation and amortisation	3,527,619	4,517,722
Communication and information services	2,417,825	2,069,759
Operating lease expense	1,925,395	1,951,375
Taxes other than income tax	1,001,147	981,800
Security	779,257	1,066,338
Advertising and marketing	729,948	341,830
Repair and maintenance	675,556	558,700
Cash collection	236,449	237,035
Professional services	214,877	477,227
Business travel	210,841	178,422
Services of state centre for pension payments	204,512	198,804
Stationery and office supplies	182,706	173,373
Insurance	71,137	249,186
Transportation	52,926	55,349
Other	1,027,610	967,865
	13,257,805	**14,024,785**

11 Income tax expense

	2018 KZT'000	2017 KZT'000
Current income tax expense		
Current period	5,250	46,167
Underprovided in prior years	809,454	686,552
	814,704	**732,719**
Deferred tax expense		
Origination and reversal of temporary differences	(122,332)	1,460,026
Total income tax expense	**692,372**	**2,192,745**

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:

	2018 KZT'000	%	2017 KZT'000	%
Profit/(loss) before income tax	**9,833,834**	**100.00**	**(1,661,577)**	**100.00**
Income tax at the applicable income tax rate	1,966,767	20.00	(332,315)	20.00
Tax-exempt income on securities	(1,205,393)	(12.26)	-	-
Underprovided in prior years	809,454	8.23	686,552	(41.32)
(Non-taxable income)/non-deductible expenses	(878,456)	(8.93)	1,838,508	(110.65)
	692,372	**7.04**	**2,192,745**	**(131.97)**

11 Income tax expense, continued

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 liability as at 31 December 2018 and 2017.

Tax loss carry-forwards originated in 2017 will expire 31 December 2027. Other deductible temporary differences do not expire under current tax legislation of the Republic of Kazakhstan.

As at 31 December 2017 the Group recognised deferred tax liability in the amount of KZT 21,341,201 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.

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

2018 **KZT’000**	**Balance at 1 January 2018**	**Recognised in profit or loss**	**Other**	**Balance at 31 December 2018**
Loans to customers	(1,562,424)	1,655,937	(595)	92,918
Property, plant and equipment	(1,085,490)	37,154	(369)	(1,048,705)
Securities measured at fair value through other comprehensive income and at amortised cost	2,078,300	(2,078,300)	-	-
Other assets	(42,250)	64,067	-	21,817
Subordinated debt securities issued	(21,341,201)	361,305	-	(20,979,896)
Other liabilities	57,422	136,452	(1,168)	192,706
Tax loss carry-forwards	18,126,327	(54,283)	-	18,072,044
	(3,769,316)	**122,332**	**(2,132)**	**(3,649,116)**

2017 **KZT’000**	**Balance at 1 January 2017**	**Recognised in profit or loss**	**Balance at 31 December 2017**
Loans to customers	(1,542,007)	(20,417)	(1,562,424)
Property, plant and equipment	(1,230,185)	144,695	(1,085,490)
Available-for-sale and held-to-maturity securities	-	2,078,300	2,078,300
Other assets	42,443	(84,693)	(42,250)
Subordinated debt securities issued	-	(21,341,201)	(21,341,201)
Other liabilities	370,150	(312,728)	57,422
Tax loss carry-forwards	50,309	18,076,018	18,126,327
	(2,309,290)	**(1,460,026)**	**(3,769,316)**

12 Cash and cash equivalents

	2018 KZT'000	2017 KZT'000
Cash on hand	**35,990,737**	**32,234,337**
Nostro accounts with the NBRK and CBRF	**36,948,634**	**81,791,214**
Nostro accounts with other banks		
- rated from AA- to AA+	45,323,916	13,907,517
- rated from A- to A+	1,016,306	347,323
- rated from BBB- to BBB+	7,509,793	4,106,464
- rated from BB- to BB+	1,291,965	723,002
- rated from B- to B+	288,665	31,284
- not rated	5,474	28,561
Total nostro accounts with other banks	**55,436,119**	**19,144,151**
Term deposits with the NBRK and CBRF	**6,354,172**	**-**
Term deposits with other banks		
- rated from BBB- to BBB+	-	577,219
- rated from BB- to BB+	-	1,661,946
Total term deposits with other banks	**-**	**2,239,165**
Amounts receivable under reverse repurchase agreements		
- rated from BBB- to BBB+	**3,794,650**	**-**
- not rated	-	18,191,877
Total cash and cash equivalents before loss allowance for expected credit losses	138,524,312	153,600,744
Loss allowance for expected credit losses	(189)	-
Total cash and cash equivalents	**138,524,123**	**153,600,744**

The above table is based on the credit ratings assigned by Fitch Ratings agency or other agencies converted into Fitch Ratings' scale.

All cash and cash equivalents are allocated to Stage 1 of the credit risk grade.

As at 31 December 2018 the Group has 2 banks (31 December 2017: 2 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KZT 81,884,510 thousand (31 December 2017: KZT 95,130,138 thousand).

During 2018 and 2017, the Group entered into reverse repurchase agreements with counterparties on the Kazakhstan Stock Exchange and Non-Bank Credit Organisation "National Clearing Centre" CJSC. The agreements have been secured by the federal bonds of the Russian Federation (2017: treasury bills of the Ministry of Finance of the Republic of Kazakhstan, discount notes of the NBRK and federal bonds of the Russian Federation). As at 31 December 2018, the fair value of financial assets that serve as collateral under reverse repurchase agreements is KZT 4,116,585 thousand (31 December 2017: KZT 18,359,289 thousand).

Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a total of specified proportions of different groups of banks' liabilities. Second-tier banks are required to comply with these requirements by maintaining average reserve assets (local currency cash and the NBRK balances) equal to or in excess of the average minimum requirements. As at 31 December 2018 the minimum reserves amounted to KZT 7,766,990 thousand (31 December 2017: KZT 7,683,422 thousand).

13 Financial instruments at fair value through profit or loss

	2018 KZT'000	2017 KZT'000
ASSETS		
Derivative financial instruments		
Foreign currency contracts	1,073,676	87,013
	1,073,676	**87,013**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	-	19,334
	-	**19,334**

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

Foreign currency contracts

The Group had the following derivative financial instruments as at 31 December 2018 and 2017:

Type of instrument	Notional amount	Maturity	Weighted average contractual exchange rates	Amounts payable by Group	Amounts receivable by Group	Fair value Asset KZT'000	Fair value Liability KZT'000
31 December 2018							
Foreign currency swap	USD 260,000 thousand	3 January 2019	380.07	KZT 98,818,324 thousand	USD 260,000 thousand	1,073,676	-
						1,073,676	**-**

Type of instrument	Notional amount	Maturity	Weighted average contractual exchange rates	Amounts payable by Group	Amounts receivable by Group	Fair value Asset KZT'000	Fair value Liability KZT'000
31 December 2017							
Foreign currency swap	USD 145,000 thousand	3 January 2018	331.73	KZT 48,100,837 thousand	USD145,000 thousand	87,013	-
Foreign currency swap	USD 60,000 thousand	4 January 2018	332.61	KZT 19,956,838 thousand	USD60,000 thousand	-	17,038
Foreign currency swap	USD 6,000 thousand	9 January 2018	57.66	RUB 345,975 thousand	USD6,000 thousand	-	2,296
						87,013	**19,334**

Net loss on swaps with the NBRK on financial instruments at fair value through profit or loss of KZT 16,707,566 thousand was recognised in the consolidated statement of profit or loss and other comprehensive income for 2017.

The Group's approach to derivative transactions

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

13 Financial instruments at fair value through profit or loss, continued

The Group's approach to derivative transactions, continued

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

The Group'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 Group. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of the counterparty's insolvency.

14 Financial assets at fair value through other comprehensive income (IAS 39 - Available-for-sale financial assets)

	2018 KZT'000	**2017 KZT'000**
Held by the Group		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	14,121,254	7
Discounted NBRK notes	73,226,448	49,400,326
Corporate bonds		
- rated from BBB- to BBB+	978,241	977,717
- rated from B- to B+	2,478,957	-
	90,804,900	**50,378,050**
Pledged under repurchase agreements		
Discounted NBRK notes	82,370,583	-
	82,370,583	**-**
	173,175,483	**50,378,050**

As at 31 December 2018, loss allowance for expected credit losses on financial assets measured fair value through other comprehensive income was KZT 36,611 thousand (at 1 January 2018: nil).

As at 31 December 2018 and 1 January 2018, all financial assets measured fair value through other comprehensive income are referred to as 'Stage 1' financial instruments.

The above table is based on the credit ratings assigned by Fitch Ratings agency or other agencies converted into Fitch Ratings' scale.

None of treasury notes and bonds are overdue or impaired as at 31 December 2018 and 2017.

15 Deposits and balances with banks

	2018 KZT'000	2017 KZT'000
Mandatory reserves with the CBRF	96,727	108,943
Term deposits		
- conditional deposit with the NBRK	2,474,187	1,357,417
- rated from AA- to AA+	805,426	
- rated from A- to A+	1,501,234	1,991,726
- rated from B- to B+	-	400
- not rated	47,000	33,476
Total term deposits	4,827,847	3,383,019
Loans to banks		
- rated from BBB- to BBB+	84,956	-
- rated from B- to B+	-	150,389
Total loans to banks	84,956	150,389
Total deposits and balances with banks before loss allowance for expected credit losses	5,009,530	3,642,351
Loss allowance for expected credit losses	(638)	-
Total deposits and balances with banks	**5,008,892**	**3,642,351**

The above table is based on the credit ratings assigned by Fitch Ratings agency or other agencies converted into Fitch Ratings' scale.

None of deposits and balances with banks are overdue or impaired as at 31 December 2018 and 2017.

As at 31 December 2018, a conditional deposit with the NBRK consists of funds of KZT 567,064 thousand (31 December 2017: KZT 160,651 thousand) received from the Development Bank of Kazakhstan JSC ("DBK") and KZT 1,907,123 thousand (31 December 2017: KZT 1,196,766 thousand) 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.

Movements in the loss allowance for expected credit losses for deposits and balances with banks for the year ended 31 December 2018 are as follows:

Deposits and balances with banks at amortised cost Amortised cost	Stage 1 KZT'000	Total KZT'000
Loss allowance for expected credit losses at the beginning of the year - IFRS 9	821	821
Net remeasurement of loss allowance	(303)	(303)
Foreign exchange and other movements	120	120
Loss allowance for expected credit losses at the end of the year	**638**	**638**

(a) Concentration of deposits and balances with banks

As at 31 December 2018 the Group does not have deposits and balances with banks (2017: nil), whose balances exceed 10% of equity.

(b) Mandatory reserves with the CBRF

Under legislation of the Russian Federation, the Group's subsidiary is required to maintain a mandatory reserve. The mandatory reserve is a non-interest bearing deposit calculated in accordance with regulations issued by the CBRF and whose withdrawability is restricted.

16 Loans to customers

	2018 KZT'000	2017 KZT'000
Loans to customers measured at amortised cost		
Loans to corporate customers		
Loans to large corporates	270,755,331	336,825,425
Loans to small- and medium size companies	22,661,126	22,832,326
Total loans to corporate customers	**293,416,457**	**359,657,751**
Loans to retail customers		
Uncollateralised consumer loans	262,669,640	168,187,784
Car loans	134,062,916	117,283,692
Non-programme loans on individual terms	14,264,503	24,181,310
Mortgage loans	11,986,450	13,916,019
Loans for individual entrepreneurship	4,208,378	3,949,298
Total loans to retail customers	**427,191,887**	**327,518,103**
Loans to customers measured at amortised cost before loss allowance for expected credit losses (IAS 39 - impairment allowance)	**720,608,344**	**687,175,854**
Loss allowance for expected credit losses (IAS 39 - impairment allowance)	(95,181,943)	(72,737,864)
Total loans to customers measured at amortised cost net of loss allowance for expected credit losses (IAS 39 - impairment allowance)	**625,426,401**	**614,437,990**
Loans to customers measured at fair value through profit or loss		
Loans to corporate customers		
Loans to large corporates	**12,017,505**	**-**
Loans to retail customers		
Mortgage loans	**565,810**	**-**
Total loans to customers measured at fair value through profit or loss	**12,583,315**	**-**
Total loans to customers	**638,009,716**	**614,437,990**

16 Loans to customers, continued

Movements in the loss allowance for expected credit losses by classes of loans to customers for the year ended 31 December 2018 are as follows:

KZT'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost					
Loss allowance for expected credit losses at the beginning of the year - IFRS 9	11,408,533	4,585,549	73,492,086	-	89,486,168
Transfer to Stage 1	4,101,949	(1,685,568)	(2,416,381)	-	-
Transfer to Stage 2	(1,159,377)	2,390,730	(1,231,353)	-	-
Transfer to Stage 3	(1,473,334)	(3,734,053)	5,207,387	-	-
Net remeasurement of loss allowance*	(16,649,001)	(422,434)	30,614,688	352,657	13,895,910
New financial assets originated or purchased	18,531,055	258	3,680	-	18,534,993
Financial assets that have been derecognised**	-	-	(958,354)	-	(958,354)
(Write-offs of loans)/recovery of previously written off loans	-	-	(26,325,902)	-	(26,325,902)
Unwinding of discount on present value of ECLs	-	-	3,089,650	54,948	3,144,598
Transfer to POCI-assets	-	-	(4,034,964)	-	(4,034,964)
Foreign exchange and other movements	930,677	207,406	301,411	-	1,439,494
Loss allowance for expected credit losses at the end of the year	**15,690,502**	**1,341,888**	**77,741,948**	**407,605**	**95,181,943**

* Includes changes in models/risk parameters, effect of repayments (including early repayments).

** Excludes repayments (including early repayments).

16 Loans to customers, continued

KZT'000	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost – corporate customers					
Loss allowance for expected credit losses at the beginning of the year - IFRS 9	206,512	3,443,017	40,574,757	-	44,224,286
Transfer to Stage 1	1,553,092	(21,085)	(1,532,007)	-	-
Transfer to Stage 2	-	79,522	(79,522)	-	-
Transfer to Stage 3	(23,971)	(1,731)	25,702	-	-
Net remeasurement of loss allowance*	(1,312,681)	(2,937,769)	25,229,361	352,657	21,331,568
New financial assets originated or purchased	809,487	258	3,680	-	813,425
Financial assets that have been derecognised**	-	-	(974,349)	-	(974,349)
(Write-offs of loans)/recovery of previously written off loans	-	-	(25,561,121)	-	(25,561,121)
Unwinding of discount on present value of ECLs	-	-	1,199,731	54,948	1,254,679
Transfer to POCI-assets	-	-	(4,034,964)	-	(4,034,964)
Foreign exchange and other movements	112,784	3,453	319,126	-	435,363
Loss allowance for expected credit losses at the end of the year	**1,345,223**	**565,665**	**35,170,394**	**407,605**	**37,488,887**

16 Loans to customers, continued

KZT'000	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost – retail customers					
Loss allowance for expected credit losses at the end of the year - IFRS 9	11,202,021	1,142,532	32,917,329	-	45,261,882
Transfer to Stage 1	2,548,857	(1,664,483)	(884,374)	-	-
Transfer to Stage 2	(1,159,377)	2,311,208	(1,151,831)	-	-
Transfer to Stage 3	(1,449,363)	(3,732,322)	5,181,685	-	-
Net remeasurement of loss allowance*	(15,336,320)	2,515,335	5,385,327	-	(7,435,658)
New financial assets originated or purchased	17,721,568	-	-	-	17,721,568
Financial assets that have been derecognised**	-	-	15,995	-	15,995
Write-offs	-	-	(764,781)	-	(764,781)
Unwinding of discount on present value of ECLs	-	-	1,889,919	-	1,889,919
Foreign exchange and other movements	817,893	203,953	(17,715)	-	1,004,131
Loss allowance for expected credit losses at the end of the year	**14,345,279**	**776,223**	**42,571,554**	**-**	**57,693,056**

* Includes changes in models/risk parameters, effect of repayments (including early repayments).

** Excludes repayments (including early repayments).

During 2018, the Group has written off loans of KZT 26,325,902 thousand, which resulted in decrease in loss allowance for expected credit on loans referred to as Stage 3 for the same amount (2017: KZT 76,820,676 thousand).

The high volume of loans to customers originated during the year increased the gross carrying amount of the retail portfolio by KZT 332,679,020 thousand with a corresponding increase in loss allowance measured on a 12-month basis by KZT 17,721,568 thousand.

The high volume of loans repaid during the year decreased the gross carrying amount of the retail portfolio by KZT 306,588,196 thousand with a corresponding decrease in loss allowance by KZT 14,522,948 thousand.

16 Loans to customers, continued

The total amount of undiscounted ECL on initial recognition on originated credit-impaired financial assets that were initially recognised during 2018 was KZT 4,034,964 thousand.

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2017 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	17,411,923	28,857,098	46,269,021
Net charge	89,712,906	13,881,386	103,594,292
Write-offs	(67,892,791)	(8,927,885)	(76,820,676)
Effect of changes in exchange rates	(291,842)	(12,931)	(304,773)
Balance at the end of the year	**38,940,196**	**33,797,668**	**72,737,864**

The following table provides information by types of loan products for loans measured at amortised cost as at 31 December 2018:

	Gross amount KZT'000	Loss allowance for expected credit losses KZT'000	Carrying amount KZT'000
Loans to corporate customers			
Loans to large corporates	270,755,331	(30,791,975)	239,963,356
Loans to small- and medium-size companies	22,661,126	(6,696,912)	15,964,214
Loans to retail customers			
Uncollateralised consumer loans	262,669,640	(43,446,847)	219,222,793
Car loans	134,062,916	(9,661,800)	124,401,116
Non-programme loans on individual terms	14,264,503	(1,337,364)	12,927,139
Mortgage loans	11,986,450	(1,925,182)	10,061,268
Loans for individual entrepreneurship	4,208,378	(1,321,863)	2,886,515
Total loans to customers	**720,608,344**	**(95,181,943)**	**625,426,401**

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

	Gross amount KZT'000	Impairment allowance KZT'000	Carrying amount KZT'000
Loans to corporate customers			
Loans to large corporates	336,825,425	(37,094,965)	299,730,460
Loans to small- and medium-size companies	22,832,326	(1,845,231)	20,987,095
Loans to retail customers			
Uncollateralised consumer loans	168,187,784	(21,110,036)	147,077,748
Car loans	117,283,692	(8,676,485)	108,607,207
Non-programme large loans on individual terms	24,181,310	(1,481,771)	22,699,539
Mortgage loans	13,916,019	(1,347,040)	12,568,979
Loans for individual entrepreneurship	3,949,298	(1,182,336)	2,766,962
Total loans to customers	**687,175,854**	**(72,737,864)**	**614,437,990**

16 Loans to customers, continued

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers measured at amortised cost as at 31 December 2018.

KZT'000	12-month expected credit losses (ECL)	Lifetime ECL on assets not credit-impaired	Lifetime ECL on credit-impaired assets	Credit impaired on initial recognition	Total
Loans to customers at amortised cost – corporate customers					
Not externally rated:					
Standard	10,896,378	-	-	-	10,896,378
Low risk	118,636,441	-	42,099	-	118,678,540
Medium risk	34,927,293	30,166,435	1,837,675	-	66,931,403
Problem	-	-	29,381,581	407,605	29,789,186
High risk	-	-	44,459,824	-	44,459,824
Not rated	-	-	-	-	-
Total loans to large corporates	**164,460,112**	**30,166,435**	**75,721,179**	**407,605**	**270,755,331**
Loss allowance	(1,331,669)	(520,157)	(28,532,544)	(407,605)	(30,791,975)
Carrying amount	**163,128,443**	**29,646,278**	**47,188,635**	**-**	**239,963,356**

KZT'000	12-month expected credit losses (ECL)	Lifetime ECL on assets not credit-impaired	Lifetime ECL on credit-impaired assets	Credit impaired on initial recognition	Total
Loans to customers at amortised cost – small- and medium-size companies					
Not externally rated:					
Standard	3,340,874	55,363	-	-	3,396,237
Low risk	4,254,523	-	-	-	4,254,523
Medium risk	958,349	184,760	48,414	-	1,191,523
Problem	-	81,596	4,319,263	-	4,400,859
High risk	-	-	8,882,180	-	8,882,180
Not rated	78,230	-	63,506	-	141,736
Not rated (secured with cash)	394,068	-	-	-	394,068
Total loans to small- and medium-size companies	**9,026,044**	**321,719**	**13,313,363**	**-**	**22,661,126**
Loss allowance	(13,554)	(45,508)	(6,637,850)	-	(6,696,912)
Carrying amount	**9,012,490**	**276,211**	**6,675,513**	**-**	**15,964,214**

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

KZT'000	12-month expected credit losses (ECL)	Lifetime ECL on assets not credit-impaired	Lifetime ECL on credit-impaired assets	Total
Car loans				
Not past due loans	113,475,787	705,101	2,776,538	116,957,426
- overdue less than 30 days	3,708,776	313,885	1,615,634	5,638,295
- overdue 30-89 days	-	470,630	813,569	1,284,199
- overdue 90-179 days	-	-	598,146	598,146
- overdue 180-360 days	-	-	839,640	839,640
- overdue more than 360 days	-	-	8,745,210	8,745,210
	117,184,563	**1,489,616**	**15,388,737**	**134,062,916**
Loss allowance	(1,142,520)	(105,767)	(8,413,513)	(9,661,800)
Carrying amount	**116,042,043**	**1,383,849**	**6,975,224**	**124,401,116**
Uncollateralised consumer loans				
-not overdue	210,584,045	500,185	2,654,462	213,738,692
- overdue less than 30 days	10,493,930	431,977	1,798,879	12,724,786
- overdue 30-89 days	-	3,090,828	1,614,130	4,704,958
- overdue 90-179 days	-	-	3,509,595	3,509,595
- overdue 180-360 days	-	-	5,044,679	5,044,679
- overdue more than 360 days	-	-	22,946,930	22,946,930
	221,077,975	**4,022,990**	**37,568,675**	**262,669,640**
Loss allowance	(13,000,820)	(628,753)	(29,817,274)	(43,446,847)
Carrying amount	**208,077,155**	**3,394,237**	**7,751,401**	**219,222,793**
Non-programme loans on individual terms				
-not overdue	7,297,228	-	4,770,076	12,067,304
- overdue less than 30 days	-	-	36,985	36,985
- overdue 30-89 days	-	-	69,724	69,724
- overdue 90-179 days	-	-	-	-
- overdue 180-360 days	-	-	17,358	17,358
-overdue more than 360 days	-	-	2,073,132	2,073,132
	7,297,228	**-**	**6,967,275**	**14,264,503**
Loss allowance	(86,250)	-	(1,251,114)	(1,337,364)
Carrying amount	**7,210,978**	**-**	**5,716,161**	**12,927,139**
Mortgage loans				
-not overdue	7,313,131	592,535	326,763	8,232,429
- overdue less than 30 days	242,654	42,425	131,535	416,614
- overdue 30-89 days	-	153,822	152,111	305,933
- overdue 90-179 days	-	-	65,489	65,489
- overdue 180-360 days	-	-	273,075	273,075
- overdue more than 360 days	-	-	2,692,910	2,692,910
	7,555,785	**788,782**	**3,641,883**	**11,986,450**
Loss allowance	(72,389)	(33,260)	(1,819,533)	(1,925,182)
Carrying amount	**7,483,396**	**755,522**	**1,822,350**	**10,061,268**
Loans for individual entrepreneurship				
-not overdue	2,582,358	10,656	58,105	2,651,119
- overdue less than 30 days	30,004	-	-	30,004
- overdue 30-89 days	-	9,509	-	9,509
- overdue 90-179 days	-	-	14,894	14,894
- overdue 180-360 days	-	-	35,651	35,651
- overdue more than 360 days	-	-	1,467,201	1,467,201
	2,612,362	**20,165**	**1,575,851**	**4,208,378**
Loss allowance	(43,300)	(8,443)	(1,270,120)	(1,321,863)
Carrying amount	**2,569,062**	**11,722**	**305,731**	**2,886,515**

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

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

	2017 KZT'000
Loans to corporate customers	
Loans to large corporates	
Unimpaired loans:	
Standard loans, not overdue	206,755,602
Overdue loans:	-
- overdue 30-89 days	1,018,860
- overdue 90-179 days	184,779
- overdue 180-360 days	520,214
- overdue more than 360 days	1,143,752
Total unimpaired loans	209,623,207
Impaired loans:	
- not overdue	56,861,116
- overdue less than 90 days	19,295,215
- overdue more than 90 days and less than 360 days	28,073,156
- overdue more than 360 days	22,972,731
Total impaired loans	127,202,218
Total loans to large corporates	**336,825,425**
Impairment allowance on loans to large corporates	(37,094,965)
loans to large corporatesNet	**299,730,460**
Loans to small and medium size companies	
-Unimpaired loans:	
Standard loans, not overdue	6,771,352
Overdue loans::	
- overdue 30-89 days	74,790
- overdue 90-179 days	654,059
- overdue 180-360 days	518,851
- overdue more than 360 days	1,586,413
Total unimpaired loans	9,605,465
Impaired loans:	
- not overdue	23
- overdue less than 90 days	354,862
- overdue more than 90 days and less than 360 days	8,566,274
- overdue more than 360 days	4,305,702
Total impaired loans	13,226,861
Loans to small- and medium-size companies	**22,832,326**
Impairment allowance on loans to small- and medium-sized companies	(1,845,231)
Loans to small and medium-sized companies net of impairment allowance	**20,987,095**
Total loans to corporate customers	**359,657,751**
Total impairment allowance for loans to corporate customers	(38,940,196)
Total loans to corporate customers net of impairment allowance	**320,717,555**

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	2017 KZT'000
Loans to retail customers	
Car loans	
- not overdue	99,623,431
- overdue less than 30 days	5,630,107
- overdue 30-89 days	1,327,334
- overdue 90-179 days	1,422,523
- overdue 180-360 days	992,281
- overdue more than 360 days	8,288,016
Total car loans	**117,283,692**
Impairment allowance for car loans	(8,676,485)
Net car loans	**108,607,207**
Uncollateralised consumer loans	
- not overdue	133,535,912
- overdue less than 30 days	7,783,053
- overdue 30-89 days	2,384,219
- overdue 90-179 days	3,448,006
- overdue 180-360 days	3,295,137
- overdue more than 360 days	17,741,457
Total uncollateralised consumer loans	**168,187,784**
Impairment allowance for uncollateralised consumer loans	(21,110,036)
Uncollateralised consumer loans, net	**147,077,748**
Non-programme loans on individual terms	
- not overdue	19,597,249
- overdue 30-89 days	488,842
- overdue 90-179 days	159,021
- overdue 180-360 days	240,665
- overdue more than 360 days	3,695,533
Total non-programme loans on individual terms	**24,181,310**
Impairment allowance for non-programme loans on individual terms	(1,481,771)
Non-programme loans on individual terms, net	**22,699,539**
Mortgage loans	
- not overdue	9,945,355
- overdue less than 30 days	656,478
- overdue 30-89 days	291,225
- overdue 90-179 days	136,473
- overdue 180-360 days	226,528
- overdue more than 360 days	2,659,960
Total mortgage loans	**13,916,019**
Impairment allowance for mortgage loans	(1,347,040)
Mortgage loans, net	**12,568,979**
Loans for individual entrepreneurship	
- not overdue	2,108,155
- overdue less than 30 days	116,786
- overdue 30-89 days	17,247
- overdue 90-179 days	28,580
- overdue 180-360 days	7,152
- overdue more than 360 days	1,671,378
Total loans for individual entrepreneurship	**3,949,298**
Impairment allowance for loans for individual entrepreneurship	(1,182,336)
Loans for individual entrepreneurship, net	**2,766,962**
Total loans to retail customers	**327,518,103**
Total impairment allowance for loans to retail customers	(33,797,668)
Total loans to retail customers, net	**293,720,435**
Total loans to customers	**687,175,854**
Movements in the impairment allowance for loans to customers	(72,737,864)
Total loans to customers net of impairment allowance	**614,437,990**

16 Loans to customers, continued

(b) Key assumptions and judgments used in estimation of expected credit losses

(i) Loans to corporate customers

In determining the loss allowance for expected credit losses on loans to corporate customers, management makes the following key assumptions:

- A discount of between 30% and 60% to the originally appraised value if the property pledged is sold;
- Exclusion from collateral value of unstable collaterals;
- A delay of up to 36 months in obtaining proceeds from the foreclosure of collateral;
- PD for loans referred to as Stage 1 in terms of credit quality was 0.97-27.57%, referred to as Stage 2 in terms of credit quality -- 17.08-46.96%, depending on the borrower's internal rating;
- LGD for loans referred to as Stages 1 and 2 was 0% - 75.94%.

Changes in the above estimates may impact a loss allowance for expected credit losses. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, loss allowance for expected credit losses on loans to corporate customers as at 31 December 2018 would be KZT 2,559,276 thousand lower/higher.

(ii) Loans to retail customers

The Group estimates loss allowance for expected credit losses for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the loss allowance for expected credit losses for loans to retail customers include:

- migration rates are constant and can be estimated based on historic loss migration pattern for the past 2-6 years; a 12-month PD for groups of products referred to as Stage 1 in terms of credit quality was 4.80-15.72% (minimum value of 4.80% relates to the product "Auto lending" and maximum value of 15.72% relates to the product "LOYALTY"); lifetime PD referred to as Stage 2 in terms of credit quality was 21.51-40.13%, depending on the group of products of homogeneous retail portfolio (minimum value relates to the product "POS-trade unsecured lending" and maximum value of 40.13% relates to the product "LOYALTY");
- recovery rates for uncollateralised loans are estimated based on historical cash recovery rates for the past 2-6 years; LGD for products of homogeneous portfolio referred to as Stage 1 and Stage 2 was 45.97% for the product PAYROLL (salary cash credit) and 52.01% for the product UnCL (cash credit);
- a discount of between 30% and 60% to the annually appraised value if the property pledged is sold;
- a delay of up to 24 months in obtaining proceeds from the sale of foreclosed collateral;
- there are no significant legal impediments for foreclosure of cars pledged as collateral that could extend realisation period beyond expected time;
- the cars will either be foreclosed without significant damages or the damages will be reimbursed by insurance companies and the sales will be made at market prices prevailing at the reporting date less reasonable handling expenses and liquidity discounts.

Changes in the above estimates may impact a loss allowance for expected credit losses. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, loss allowance for expected credit losses on loans to retail customers as at э31 December 2018 would be KZT 11,084,965 thousand lower/higher.

In 2018, the Group revised its judgments with regard to duration of discounting period for retail loans, and determined more precisely the time period used for averaging the recovery rates for defaulted loans, and transited from RR according to PTP-based model to RR according to LGD-based model. In case of applying unadjusted approach, loss allowance for expected credit losses on loans to retail customers as at 31 December 2018 would be KZT 3.7 billion higher.

16 Loans to customers, continued

(c) Analysis of collateral

(i) Loans to corporate customers

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

31 December 2018 KZT '000	**Carrying amount of loans to customers***	**Fair value of collateral: for collateral assessed as at reporting date**	**Fair value of collateral: for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Loans at amortised cost				
Loans not credit-impaired				
Real estate	90,241,795	80,309,933	9,931,862	-
Corporate guarantees (unrated) and guarantees of individuals	25,168,803	-	-	25,168,803
Equipment	15,161,346	15,161,346	-	-
Motor vehicles	14,682,314	14,682,314	-	-
Construction-in-progress	6,453,587	6,453,587	-	-
Mineral rights	6,216,632	6,216,632	-	-
Goods in turnover	4,635,818	4,635,818	-	-
Other collateral	1,966,473	1,966,473	-	-
Insurance	1,056,678	-	-	1,056,678
Cash and deposits	855,862	855,862	-	-
No collateral and other credit enhancements	35,624,114	-	-	35,624,114
Total loans not credit-impaired	**202,063,422**	**130,281,965**	**9,931,862**	**61,849,595**
Credit-impaired loans				
Real estate	38,117,616	38,117,616	-	-
Corporate guarantees (unrated) and guarantees of individuals	4,246,450	-	-	4,246,450
Construction-in-progress	4,091,657	4,091,657	-	-
Motor vehicles	1,727,530	1,727,530	-	-
Equipment	1,487,599	1,482,900	4,699	-
Other collateral	1,480,213	1,480,213	-	-
Goods in turnover	251,522	22,842	228,680	-
Mineral rights	15,802	15,802	-	-
Cash and deposits	12,483	12,483	-	-
No collateral and other credit enhancements	1,989,447	-	-	1,989,447
Total credit-impaired loans	**53,864,148**	**47,394,872**	**233,379**	**6,235,897**
Total loans to corporate customers measured at amortised cost	**255,927,570**	**177,676,837**	**10,165,241**	**68,085,492**
Loans measured at fair value				
Real estate	**7,855,598**	**7,855,598**	**-**	**-**
No collateral and other credit enhancements	**4,161,907**	**-**	**-**	**4,161,907**
Total loans to corporate customers measured at amortised cost	**12,017,505**	**7,855,598**	**-**	**4,161,907**
	267,945,075	**185,532,435**	**10,165,241**	**72,247,399**

*When preparing this disclosure, the Group has taken into account the collateral in the process of collateralisation at the reporting date and accepted before the date of approval of the consolidated financial statements.

16 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

31 December 2017 KZT'000	Carrying amount of loans to customers*	Fair value of collateral: for collateral assessed as at reporting date	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
Unimpaired loans				
Real estate	86,016,287	86,016,287	-	-
Corporate guarantees (unrated) and guarantees of individuals	31,627,470	-	-	31,627,470
Equipment	14,271,955	14,266,992	4,963	-
Construction-in-progress	13,888,613	-	-	13,888,613
Insurance	6,939,076	-	-	6,939,076
Motor vehicles	6,998,925	6,938,472	60,453	-
Mineral rights	5,663,031	5,663,031	-	-
Cash and deposits	2,468,666	2,468,666	-	-
Goods in turnover	179,224	149,684	29,540	-
Other collateral	3,929,792	-	-	3,929,792
No collateral and other credit enhancements	44,249,427	-	-	44,249,427
Total unimpaired loans	**216,232,466**	**115,503,132**	**94,956**	**100,634,378**
Impaired loans				
Real estate	37,174,703	37,071,383	103,320	-
Corporate guarantees (unrated) and guarantees of individuals	16,538,424	-	-	16,538,424
Insurance	15,550,261	-	-	15,550,261
Motor vehicles	15,382,062	4,826,320	10,555,742	-
Cash and deposits	7,962,087	7,962,087	-	-
Equipment	1,592,038	1,592,038	-	-
Goods in turnover	675,917	-	675,917	-
Construction-in-progress	154,193	-	-	154,193
Mineral rights	15,802	15,802	-	-
Other collateral	885,406	-	-	885,406
No collateral and other credit enhancements	8,554,196	-	-	8,554,196
Total impaired loans	**104,485,089**	**51,467,630**	**11,334,979**	**41,682,480**
Total loans to corporate customers	**320,717,555**	**166,970,762**	**11,429,935**	**142,316,858**

*When preparing this disclosure, the Group has taken into account the collateral in the process of collateralisation at the reporting date and accepted before the date of approval of the consolidated financial statements.

The tables above exclude overcollateralization.

The Group 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. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

16 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

For loans secured by multiple types of collateral, collateral that is most relevant for assessment is disclosed. Sureties and collateral received from individuals, such as shareholders of small- and medium-sized borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans 'without collateral or other credit enhancement'.

The recoverability of loans to corporate customers, which are neither overdue nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Small business loans are secured by real estate and movable property. Auto loans are secured by the underlying cars. Cash loans are collateralised by cash. Uncollateralised consumer loans are not secured.

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of KZT 1,883,300 thousand (31 December 2017 KZT 3,177,362 thousand), 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 491,269 thousand (31 December 2017: KZT 1,005,641 thousand).

Management believes that for mortgage loans with a net carrying amount of KZT 8,177,968 thousand (31 December 2017: KZT 9,391,617 thousand) the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral obtained at inception of the loan to the present value considering the approximate changes in property values. The Group obtains specific individual valuation of collateral for individual loans once a half-year in case there are indications of impairment.

For mortgage loans with a net carrying amount of 5,705,012 thousand (31 December 2017: KZT 6,786,586 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Loans for individual entrepreneurship

Included in loans for individual entrepreneurship are loans with a net carrying amount of KZT 145,319 thousand (31 December 2017: KZT 137,213 thousand), 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 7,125 thousand (31 December 2017: KZT 31,736 thousand).

Management believes that for loans for individual entrepreneurship with a net carrying amount of KZT 2,741,196 thousand (31 December 2017: KZT 2,629,749 thousand) the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral obtained at inception of the loan to the present value considering the approximate changes in property values. The Group obtains specific individual valuation of collateral for individual loans once a half-year in case there are indications of impairment.

Management believes that for loans for individual entrepreneurship with a net carrying amount of KZT 568,382 thousand (31 December 2017: KZT 302,251 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

16 Loans to customers, continued

(c) Analysis of collateral, continued

(ii) Loans to retail customers, continued

Non-programme loans on individual terms

Included in non-programme loans on individual terms are loans with a net carrying amount of KZT 9,044,113 thousand (31 December 2017: KZT 16,013,606 thousand), 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 3,239,427 thousand (31 December 2017: KZT 8,263,136 thousand).

Management believes that for non-programme loans on individual terms with a net carrying amount of KZT 3,883,026 thousand (31 December 2017: KZT 6,685,933 thousand) the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral obtained at inception of the loan to the present value considering the approximate changes in property values. The Group obtains specific individual valuation of collateral for individual loans once a half-year in case there are indications of impairment.

Management believes that for non-programme loans on individual terms with a net carrying amount of KZT 382,357 thousand (31 December 2017: KZT 4,283,582 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

16 Loans to customers, continued

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan, except for loans to customers issued by the Russian subsidiary bank, who operate in the following economic sectors:

	2018 KZT'000	2017 KZT'000
Loans to customers at amortised cost		
Wholesale trade	77,597,621	83,594,382
Construction	60,901,582	66,841,544
Manufacturing	39,419,376	43,522,980
Real estate	23,638,265	19,207,283
Retail trade	19,722,886	23,062,488
Textile manufacturing	18,224,897	18,050,752
Mining/metallurgy	14,529,289	36,451,324
Financial intermediary	12,977,305	18,842,714
Agriculture, forestry and timber industry	9,504,300	18,032,145
Foods production	6,573,773	5,744,500
Services	4,889,850	19,842,999
Medical and social care	1,674,721	841,785
Machinery manufacturing	1,216,045	1,659,437
Transport	1,127,841	990,119
Electrical power generation and supply	111,343	1,676,173
Lease, rental and leasing	81,580	51,765
Research activities	-	450,851
Other	1,225,783	794,510
Loans to retail customers at amortised cost		
Uncollateralised consumer loans	262,669,640	168,187,784
Car loans	134,062,916	117,283,692
Non-programme loans on individual terms	14,264,503	24,181,310
Mortgage loans	11,986,450	13,916,019
Loans for individual entrepreneurship	4,208,378	3,949,298
	720,608,344	**687,175,854**
Loss allowance for expected credit losses (IAS 39 - impairment allowance)	(95,181,943)	(72,737,864)
Total loans to corporate customers at amortised cost	**625,426,401**	**614,437,990**
Loans to corporate customers at fair value		
Mining and metals	**12,017,505**	**-**
Total loans to corporate customers at fair value	**12,017,505**	**-**
Loans to retail customers at fair value		
Mortgage loans	**565,810**	**-**
Total loans to retail customers at fair value	**565,810**	**-**
Total loans to customers at fair value	**12,583,315**	**-**
	638,009,716	**614,437,990**

16 Loans to customers, continued

(d) Industry and geographical analysis of the loan portfolio, continued

As at 31 December 2018 the Group has 14 borrowers or groups of connected borrowers (31 December 2017: 15), whose loan balances exceed 10% of equity. The gross value of these loans before loss allowance for expected credit losses as at 31 December 2018 is KZT 222,970,511 thousand (31 December 2017: KZT 228,812,657 thousand).

(e) Loan maturities

The maturity of the loan portfolio is presented in Note 30 (d) which shows the remaining period from the reporting date to the contractual maturity of the loans.

(f) Transfers of financial assets

In 2018, as part of its participation in the state mortgage programme '7-20-25', the Group has transferred to Baspana Mortgage Organisation JSC the mortgage loans of KZT 189,730 thousand. The Group determined that it has not transferred risks and rewards to the buyer of the assets and therefore, retains control and continues recognising loans in its consolidated statement of financial position. The liability from continuing involvement with the asset is included in 'other liabilities' and amounts to KZT 189,858 thousand.

In 2018, the Group has not sold to third parties other consumer loans (during 2017, the Group sold to third party the loans with a carrying value of KZT 667,124 thousand for KZT 667,124 thousand under cession agreements).

In December 2013 and in June 2014, the Group sold to an another third party a portfolio of mortgage loans with a carrying value of KZT 3,820,407 thousand for KZT 3,969,928 thousand and provided a guarantee to the buyer that it will repurchase individual loans back or exchange them for other individual loans if loans become delinquent for more than sixty days. The amount that will be repurchased or exchanged is limited to 20% of transferred financial assets at the date of sale. Net gain recognised in the consolidated statement of profit or loss and other comprehensive income at the date of transfer amounted to KZT 149,521 thousand. The Group has determined that it has transferred some but not substantially all of the risks and rewards to the transferee, accordingly the Group retains control and continues to recognise the loans to the extent of its continuing involvement in that mortgage loans.

As at 31 December 2018 the Group's continuing involvement with such transferred portfolio is recorded in the consolidated statement of financial position in other assets (Note 19) of KZT 1,571,962 thousand (31 December 2017: KZT 1,824,637 thousand) with corresponding liability on continuing involvement of KZT 937,339 thousand included in other liabilities (31 December 2017: KZT 1,113,686 thousand) (Note 26),) and the guarantee with the fair value of KZT 159,521 thousand (31 December 2017: KZT 169,186 thousand) recognised in other liabilities. This asset includes also an interest strip receivable of KZT 1,029,126 thousand (31 December 2017: KZT 1,129,888 thousand) which represents the right to withhold from the loan buyer a portion of interest receivable on mortgage loan portfolio sold. The Group has a right to receive 1.7% p.a. of the sold mortgage loan portfolio, on a monthly basis.

17 Investment at amortised cost (IAS 39 - Held-to maturity)

	2018 KZT'000	2017 KZT'000
Held by the Group		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	15,941,433	4,052,124
Discounted NBRK notes	92,904,717	71,946,327
Corporate bonds rated from BB- to BB+	5,628,918	4,901,390
	114,475,068	**80,899,841**
Pledged under repurchase agreements		
Federal bonds of the Russian Government	-	295,332
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	-	12,633,978
Discounted NBRK notes	-	31,083,234
	-	**44,012,544**
Total before loss allowance for expected credit losses	**114,475,068**	**124,912,385**
Loss allowance for expected credit losses	**(20,756)**	**-**
Investment at amortised cost (IAS 39 - Held-to maturity investments)	**114,454,312**	**124,912,385**

The above table is based on the credit ratings assigned by Fitch Ratings agency or other agencies converted into Fitch Ratings' scale.

As at 31 December 2018 and 1 January 2018, all investment measured at amortised cost are referred to as 'Stage 1' financial instruments.

None of the discounted NBRK notes or bonds are overdue or impaired as at 31 December 2018 and 2017.

18 Property, plant and equipment and intangible assets

KZT’000	Land and buildings	Computers and banking equipment	Vehicles	Office furniture	Construction in progress and equipment to be installed	Leasehold improvements	Trademarks	Software and other intangibles	Total
Cost									
Balance at 1 January 2018	11,855,969	14,409,789	734,886	831,380	6,198	775,130	1,075,716	14,511,760	44,200,828
Additions	-	833,350	-	25,594	-	12,175	-	1,243,853	2,114,972
Disposals	(25,876)	(378,465)	(79,566)	(26,970)	(5,737)	-	-	(41,912)	(558,526)
Transfers	-	457	(457)	-	-	-	-	-	-
Effect of foreign currency translation	-	(5,927)	(562)	(813)	-	-	-	(10,610)	(17,912)
Balance at 31 December 2018	**11,830,093**	**14,859,204**	**654,301**	**829,191**	**461**	**787,305**	**1,075,716**	**15,703,091**	**45,739,362**
Depreciation and amortisation									
Balance at 1 January 2018	(1,983,783)	(10,255,887)	(525,870)	(475,317)	-	(571,157)	(662,216)	(7,701,055)	(22,175,285)
Depreciation and amortisation for the year	(150,239)	(1,582,884)	(78,388)	(81,123)	-	(142,979)	(68,941)	(1,423,065)	(3,527,619)
Disposals	7,398	373,215	69,273	24,654	-	-	-	6,585	481,125
Effect of foreign currency translation	-	3,936	562	546	-	-	-	6,424	11,468
Balance at 31 December 2018	**(2,126,624)**	**(11,461,620)**	**(534,423)**	**(531,240)**	**-**	**(714,136)**	**(731,157)**	**(9,111,111)**	**(25,210,311)**
Carrying amount									
At 31 December 2018	**9,703,469**	**3,397,584**	**119,878**	**297,951**	**461**	**73,169**	**344,559**	**6,591,980**	**20,529,051**

In 2018, the Group revised downwards the amortisation rates for intangible assets in connection with change in the expected useful life of intangible assets. If the amortisation rates do not change, depreciation and amortisation would be on average higher by KZT 892,918 thousand.

18 Property, equipment and intangible assets, continued

KZT'000	**Land and buildings**	**Computers and banking equipment**	**Vehicles**	**Office furniture**	**Construction in progress and equipment to be installed**	**Leasehold improvements**	**Trademarks**	**Software and other intangibles**	**Total**
Cost									
Balance at 1 January 2017	11,933,130	15,072,873	774,229	846,335	14,132	918,034	1,075,716	13,352,152	43,986,601
Additions	10,600	337,284	-	9,953	-	10,501	-	1,254,691	1,623,029
Disposals	(87,761)	(1,008,578)	(40,107)	(26,014)	(7,934)	(153,405)	-	(108,510)	(1,432,309)
Effect of foreign currency translation	-	8,210	764	1,106	-	-	-	13,427	23,507
Balance at 31 December 2017	**11,855,969**	**14,409,789**	**734,886**	**831,380**	**6,198**	**775,130**	**1,075,716**	**14,511,760**	**44,200,828**
Depreciation and amortisation									
Balance at 1 January 2017	(1,843,733)	(9,461,667)	(467,093)	(415,503)	-	(577,714)	(558,805)	(5,540,238)	(18,864,753)
Depreciation and amortisation for the year	(152,212)	(1,788,848)	(89,867)	(83,938)	-	(146,848)	(103,411)	(2,152,598)	(4,517,722)
Disposals	12,162	999,434	31,787	24,756	-	153,405	-	198	1,221,742
Effect of foreign currency translation	-	(4,806)	(697)	(632)	-	-	-	(8,417)	(14,552)
Balance at 31 December 2017	**(1,983,783)**	**(10,255,887)**	**(525,870)**	**(475,317)**	**-**	**(571,157)**	**(662,216)**	**(7,701,055)**	**(22,175,285)**
Carrying amount									
At 31 December 2017	**9,872,186**	**4,153,902**	**209,016**	**356,063**	**6,198**	**203,973**	**413,500**	**6,810,705**	**22,025,543**

Capitalised borrowing costs related to the acquisition or construction of property, plant and equipment during 2018 and 2017 were nil.

19 Other assets

	2018 KZT'000	2017 KZT'000
Debtors on loan operations	6,272,463	7,109,542
Settlements with professional dealers of securities market	3,599,533	202
Plastic cards settlements	3,219,191	916,771
Asset from continuing involvement in transferred assets (Note 16 (f))	1,571,962	1,824,637
Fee and commission income accrued	430,544	576,279
Other	5,691,440	2,240,750
Loss allowance for expected credit losses (IAS 39 - impairment allowance)	(7,928,654)	(7,702,283)
Total other financial assets	**12,856,479**	**4,965,898**
Collateral carried on balance sheet	2,094,162	684,152
Prepayment	800,094	531,470
Taxes prepaid other than income tax	574,597	447,943
Advances for capital expenditures	257,935	169,256
Raw materials and supplies	182,140	86,677
Precious metals	27,890	29,456
Other	994	12,633
Impairment allowance	(24,354)	(11,996)
Total other non-financial assets	**3,913,458**	**1,949,591**
Total other assets	**16,769,937**	**6,915,489**

Debtors on loan operations are primarily presented with amounts receivable on assignment of claims on loans issued of KZT 3,637,295 thousand (31 December 2017: KZT 6,296,505 thousand) are prepayments for loans. As at 31 December 2018 and 2017 the Group recognised an impairment allowance for the full amount of said claims.

Asset from continuing involvement in transferred assets in the amount KZT 1,571,962 thousand (31 December 2017: KZT 1,824,637 thousand) originated as a result of loans sale to a mortgage company in June 2014 and December 2013.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December are as follows:

	2018 KZT'000	2017 KZT'000
Balance at the beginning of the year	7,714,279	1,867,313
Net (recovery)/ charge of impairment allowance	(1,767,357)	8,628,341
(Reversal) /write-offs	1,797,605	(2,823,416)
Effect of foreign currency translation	208,481	42,041
Balance at the end of the year	**7,953,008**	**7,714,279**

Reversal of allowance for other assets of KZT 2,735,486 thousand in 2018 resulted from reclassification of the receivables into outstanding loans. The Group charged a 100% allowance against the loans outstanding.

As at 31 December 2018, included in other assets are overdue receivables of KZT 71,655 thousand (31 December 2017: KZT 78,182 thousand) of which KZT 14,103 thousand are overdue for more than 90 days but less than one year (31 December 2017: KZT 6,420 thousand) and KZT 46,459 thousand are overdue for more than one year (31 December 2017: KZT 65,514 thousand).

20 Deposits and balances from banks

	2018 KZT'000	2017 KZT'000
Termdeposits	38,420	33,233
Vostro accounts	435,658	115,605
	474,078	**148,838**

21 Amounts payable under repurchase agreements

Securities pledged

As at 31 December 2018, the amounts payable under repurchase agreements were KZT 79,882,889 thousand (31 December 2017: KZT 43,744,906 thousand) The fair value of assets transferred as collateral under repurchase agreements was KZT 82,370,583 thousand (31 December 2017: KZT 42,385,806 thousand).

As at 31 December 2018 and 2017, the Group has pledged the securities as collateral under repurchase agreements (Notes 14 and 17).

22 Current accounts and deposits from customers

	2018 KZT'000	2017 KZT'000
Current accounts and demand deposits		
- Retail	41,906,328	31,397,609
- Corporate	61,776,047	105,468,056
Term deposits		
- Retail	369,088,191	335,241,891
- Corporate	293,896,654	223,146,739
	766,667,220	**695,254,295**

As at 31 December 2018, the Group maintains customer deposit balances of KZT 5,180,402 thousand (31 December 2017: KZT 4,861,748 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 31 December 2018, the Group has 8 customers (31 December 2017: 5 customers), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KZT 186,759,673 thousand (31 December 2017: KZT 160, 308,213 thousand).

As at 31 December 2018, the Group‘s current accounts and demand deposits from retail customers of KZT 6,606,654 thousand (31 December 2017: KZT 5,011,528 thousand) are prepayments for loans. Prepayments for loans comprise payments made by retail borrowers ahead of schedule. These payments are settled against the loan balance at the date the installments fall due.

23 Debt securities issued

	2018 KZT'000	2017 KZT'000
Nominal value	44,339,619	21,839,619
Discount	(1,504,337)	(1,673,018)
Accrued interest	876,300	432,189
	43,711,582	**20,598,790**

23 Debt securities issued, continued

A summary of bond issues at 31 December 2018 and 2017 is presented below:

	Issue registration date	Date of repayment	Coupon rate	Effective interest rate	Carrying amount 2018 KZT'000	Carrying amount 2017 KZT'000
Bonds of the sixteenth issue	17-Oct-18	17-Oct-20	11.00%	12.01%	22,634,074	-
Bonds of the fifteenth issue	06-Sep-17	14-May-20	8.50%	13.16%	11,694,265	11,257,860
Bonds of the fifth issue	24-Oct-08	01-Sep-23	Inflation +1%	8.30%	7,870,048	7,841,686
Bonds of the seventh issue	23-Nov-10	21-Jan-19	Inflation +1%	10.86%	1,513,195	1,499,244
					43,711,582	**20,598,790**

24 Subordinated debt securities issued

	2018 KZT'000	2017 KZT'000
Nominal value	177,464,550	177,464,550
Discount	(108,259,533)	(110,576,988)
Accrued interest	1,530,181	1,067,617
	70,735,198	**67,955,179**

As at 31 December 2018 and 2017, subordinated debt securities issued comprise unsecured obligations of the Group. In case of bankruptcy, the repayment of the subordinated debt securities would be made after repayment in full of all other liabilities of the Group

A summary of issues of subordinated debt securities at 31 December 2018 and 2017 is presented below:

	Issue registration date	Date of repayment	Coupon rate	Effective interest rate	Carrying amount 2018 KZT'000	Carrying amount 2017 KZT'000
Bonds of the seventeenth issue	18-Oct-17	18-Oct-32	4.00%	18.00%	46,268,702	43,960,483
Bonds of the eighth issue	21-Aug-09	15-Oct-23	Inflation +1%	12.30%	12,345,790	11,984,456
Bonds of the eleventh issue	14-June-13	26-Dec-19	8.00%	8.64%	9,944,534	9,889,526
Bonds of the thirteenth issue	25-Aug-16	10-Jan-24	9.00%	13.81%	2,176,172	2,120,714
					70,735,198	**67,955,179**

Embedded derivatives represented by inflation-indexed coupon payments are considered to be closely related to the host debt instruments as the inflation index is commonly used for this purpose in the KZT economic environment and it is not leveraged and accordingly has not been separated from the underlying data.

24 Subordinated debt securities issued, continued

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

By the Decree of the NBRK No. 183 dated 27 September 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 (“Bonds”) convertible to the Bank’s ordinary shares according to the terms of the Bond Issue Prospectus.

The Group 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-tire 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 18 October 2017 the Bank placed the Bonds at JSC “Kazakhstan Stock Exchange” for the amount of KZT 150,000,000 thousand; bonds bear a coupon rate of 4.00 % p.a. and mature in 15 years. The result of discounting Bonds using market interest rate of 18.00%, which was recognised within income in consolidated statement of profit and loss upon Bonds initial recognition, amounted to KZT 106,961,607 thousand.

25 Other borrowed funds

	2018 KZT’000	2017 KZT’000
Loans from state financial institutions	34,553,910	33,273,201
Loans from the Ministry of Finance of the Republic of Kazakhstan	925,810	1,043,318
Loans from foreign banks	-	3,678,262
	35,479,720	**37,994,781**

As at 31 December 2018, the terms and conditions of the loans outstanding are as follows:

	Currency	Average interest rate	Year of maturity	Carrying value, KZT'000
DAMU Entrepreneurship Development Fund JSC	KZT	1.00-8.50%	2019-2035	20,106,061
Development Bank of Kazakhstan JSC	KZT	1.00-2.00%	2034-2037	11,475,590
KazAgro National Management Holding JSC	KZT	3.00%	2020-2021	2,852,988
Ministry of Finance of the Republic of Kazakhstan	KZT	NBRK □ refinancing rate	2023	506,908
Ministry of Finance of the Republic of Kazakhstan	USD	Libor +1%	2023	418,902
Agrarian Credit Corporation JSC	KZT	10.00%	2019	119,271
				35,479,720

25 Other borrowed funds, continued

As at 31 December 2017, the terms and conditions of the loans outstanding are as follows:

	Currency	**Average interest rate**	**Year of maturity**	**Carrying value, KZT'000**
DAMU Entrepreneurship Development Fund JSC	KZT	1.10-8.50%	2018-2035	15,593,134
Development Bank of Kazakhstan JSC	KZT	1.00-2.00%	2034-2035	10,165,414
KazAgro National Management Holding JSC	KZT	3.00%	2020-2021	7,474,597
Foreign banks	USD	5.58-5.81%	2018	3,678,262
Ministry of Finance of the Republic of Kazakhstan	KZT	The NBRK refinancing rate	2023	609,059
Ministry of Finance of the Republic of Kazakhstan	USD	Libor +1%	2023	434,259
Agrarian Credit Corporation JSC	KZT	10.00%	2019	40,056
				37,994,781

Funds borrowed from the KazAgro National Management Holding JSC ("KazAgro") were received in accordance with the rules of its programme on financial recovery of companies operating in the agriculture industry. Funds borrowed from Agrarian Credit Corporation JSC ("ACC") were received under lending programme to the agriculture industry entities. Funds borrowed from DAMU and DBK were received in accordance with the Government program ("the Program") to finance large corporates, small and medium enterprises operating in certain industries.

According to the loan agreements between KazAgro and the Group, the Group is responsible to extend loans to companies operating in the agriculture industry to support their financial recovery. According to the loan agreements between ACC and the Group, the Group is responsible to extend loans to companies operating in the agriculture industry.

According to DAMU and DBK loan agreements, the Group is responsible to extend loans to corporates and SME borrowers, eligible to participate in the Program, with maximum maturity up to 10 years at 6% interest rate. Management of the Group believes that due to their specific nature, the loans from KazAgro, ACC, DAMU and DBK represent a separate segment of borrowings from state companies to support companies operating in certain industries. As a result, the loans from KazAgro, ACC, DAMU and DBK are regarded as having been received on an "arm's length" basis and, as such, the amount received under the loans represents the fair value of the loans on initial recognition.

The Group is liable for compliance with covenants of loan agreements stated above. The Group has complied with all covenants as at 31 December 2018 and 2017.

25 Other borrowed funds, continued

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

	Liabilities			
KZT'000	**Other borrowed funds**	**Subordinated debt securities issued**	**Debt securities issued**	**Total**
Balance as at 1 January 2018	37,994,781	67,955,179	20,598,790	126,548,750
Changes from financing cash flows				
Proceeds from other borrowed funds	10,368,580	-	-	10,368,580
Repayment of other borrowed funds	(13,225,081)	-	-	(13,225,081)
Proceeds from debt securities issued	-	-	22,156,342	22,156,342
Total changes from financing cash flows	**(2,856,501)**	**-**	**22,156,342**	**19,299,841**
The effect of changes in foreign exchange rates	369,595	-	-	369,595
Other changes				
Interest expense	1,472,944	10,517,107	2,832,518	14,822,569
Interest paid	(1,501,099)	(7,737,088)	(1,876,068)	(11,114,255)
Balance as at 31 December 2018	**35,479,720**	**70,735,198**	**43,711,582**	**149,926,500**

	Liabilities			
KZT'000	**Other borrowed funds**	**Subordinated debt securities issued**	**Debt securities issued**	**Total**
Balance as at 1 January 2017	55,138,154	23,748,211	129,441,161	208,327,526
Changes from financing cash flows				
Proceeds from other borrowed funds	4,081,976	-	-	4,081,976
Repayment of other borrowed funds	(21,069,784)	-	-	(21,069,784)
Proceeds from subordinated debt securities issued	-	149,966,154	-	149,966,154
Proceeds from debt securities issued	-	-	11,231,499	11,231,499
Repurchase / repayment of debt securities issued	-	-	(121,292,683)	(121,292,683)
Total changes from financing cash flows	**(16,987,808)**	**149,966,154**	**(110,061,184)**	**22,917,162**
The effect of changes in foreign exchange rates	29,300	-	(113,774)	(84,474)
Gain from recognition of discount on subordinated debt securities issued	-	(106,961,607)	-	(106,961,607)
Other changes				
Interest expense	2,016,294	4,673,263	8,618,237	15,307,794
Interest paid	(2,201,159)	(3,470,842)	(7,285,650)	(12,957,651)
Balance as at 31 December 2017	**37,994,781**	**67,955,179**	**20,598,790**	**126,548,750**

26 Other liabilities

	2018 KZT'000	2017 KZT'000
Plastic cards settlements	2,187,292	51,341
Payables to borrowers on lending operations	1,934,676	1,919,673
Assignment of rights of claim payable	1,269,644	915,295
Liabilities on electronic money issued	1,164,700	382,886
Liability from continuing involvement (Note 16 (f))	937,339	1,113,686
Accrued administrative expenses	709,260	391,217
Payables to insurance company	355,738	311,749
Consulting services fee payable	-	685,400
Borrowers' subsidies payable	-	610,807
Other financial liabilities	2,377,898	1,348,021
Total other financial liabilities	**10,936,547**	**7,730,075**
Payables to employees	1,325,993	400,301
Loss allowance for losses on contingent liabilities	1,034,085	42,172
Vacation reserve	610,187	447,039
Deferred income	538,219	940,181
Other taxes payable	152,099	215,579
Other non-financial liabilities	37,678	6,263
Total other non-financial liabilities	**3,698,261**	**2,051,535**
Total other liabilities	**14,634,808**	**9,781,610**

27 Share capital

(a) Issued capital and share premium

The authorised share capital comprises 2,034,807,500 ordinary shares (31 December 2017: 2,034,807,500 ordinary shares) and 3,000,000 non-redeemable cumulative preference shares (2017: 3,000,000 preference shares).

During 2018, the ordinary shares were not issued (in 2017:918,471 ordinary shares were issued and paid at the nominal value of KZT 6,532.60 per share).

Issued and outstanding share capital as at 31 December comprised of the following fully paid ordinary shares:

	2018 Shares	2017 Shares
Issued at KZT 955.98	8,368,300	8,368,300
Issued at KZT 1,523.90	2,631,500	2,631,500
Issued at KZT 1,092.00	2,930,452	2,930,452
Issued at KZT 6,532.60	6,417,823	6,417,823
Total issued and outstanding shares	**20,348,075**	**20,348,075**

As at 31 December 2018, charter capital of the Bank amounted to KZT 57,135,194 thousand (31 December 2017: KZT 57,135,194 thousand). In 2018, the Bank has not received cash contribution to share capital (2017: KZT one cash contribution of 6,000,003 thousand to the Bank's share capital).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general Bank's shareholders meetings.

27 Share capital, continued

(b) Dividends

In accordance with Kazakhstan legislation and the Bank's charter documents, distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan.

During the year ended 31 December 2018, no dividends were declared or paid (2017: no dividends were declared or paid).

(c) Book value per share

Under the listing rules of the Kazakhstan Stock Exchange the Group should present book value per ordinary share in its consolidated financial statements.

The book value per an ordinary share is calculated dividing net assets less intangible assets by number of outstanding ordinary shares. As at 31 December 2018 the book value per share was KZT 4,221.03 (31 December 2017: KZT 4,450.06).

(d) Nature and purpose of reserves

Reserves for general banking risks

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.

During the reporting periods ended 31 December 2018 and 31 December 2017, no transfers to general reserve were made to cover general banking risks.

In accordance with the amendments to the Resolution No. 358 "On approval of the Instruction of normative coefficients and methods of calculation of prudential norms for the second tier banks" issued on 25 December 2013 the statutory reserve capital is non-distributable.

Dynamic reserve

In accordance with Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 *On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss*, the Bank has established a dynamic reserve calculated using a formula determined in the Resolution. In accordance with the Resolution, dynamic reserve cannot be less than zero and shall be calculated as the difference between expected losses and actual charge on deductible for tax purposes impairment losses recognised during the reporting quarter in accordance with IFRS net of income from recovery of provisions. Expected losses were estimated based on the increase of loans to customers during the reporting quarter multiplied by certain coefficients. The Resolution has been effective from 1 January 2013.

As at 31 December 2017 the non-distributable dynamic reserve of the Group was KZT 7,594,546 thousand. In 2018, the dynamic reserve was cancelled by the Bank in accordance with the law of the Republic of Kazakhstan No.122-VI dated 25 December 2017.

28 Earnings/ (loss) per share

The calculation of earnings/ (loss) per share is based on the net consolidated earnings/ (loss), and a weighted average number of ordinary shares outstanding during the period. The Group has no dilutive potential ordinary shares.

	2018 KZT'000	2017 KZT'000
Net profit/(loss)	9,141,462	(3,854,322)
Weighted average number of ordinary shares	20,348,075	19,947,974
Basic earnings/(loss) per share (KZT)	**449.25**	**(193.22)**

(a) Basic earnings/ (loss) per share

The calculation of basic loss or earnings per share as at 31 December 2018 is based on the earnings attributable to ordinary shareholders of KZT 9,141,462 thousand (31 December 2017: loss of KZT 3,854,322 thousand), and a weighted average number of ordinary shares outstanding of 20,348,075 (31 December 2017: 19,947,974 shares) calculated as follows.

	2018 KZT'000	2017 KZT'000
Net profit/(loss)	9,141,462	(3,854,322)
Net profit/(loss) attributable to ordinary shareholders	**9,141,462**	**(3,854,322)**

	2018 Number of shares	2017 Number of shares
Issued ordinary shares as at the beginning of the year	20,348,075	19,429,604
Effect of shares issued during the year	-	518,370
Weighted average number of ordinary shares for the year ended 31 December	**20,348,075**	**19,947,974**

29 Analysis by segment

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chief operating decision maker, the Chairman of the Management Board, reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments.

- Corporate banking – includes loans, deposits and other transactions with corporate customers;
- Retail banking – includes loans, deposits and other transactions with retail customers;
- Assets and Liabilities management – includes maintaining of liquid assets portfolio (cash, nostro accounts with the NBRK, and other banks, interbank financing (up to 1 month), investments into liquid assets and bonds issue management);
- Small and medium size companies banking - includes loans, deposits and other transactions with small and medium size companies;
- Treasury – includes Group financing via interbank borrowings and using derivatives for hedging market risks and investments into liquid securities (corporate bonds).

29 Analysis by segments, continued

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit after income tax as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

	2018 KZT'000	2017 KZT'000
ASSETS		
Assets and liabilities management	405,511,706	267,240,736
Retail banking	370,899,984	288,528,579
Corporate banking	254,595,426	303,739,720
Treasury	33,407,611	50,460,700
Small and medium size companies banking	18,131,947	24,493,519
Unallocated assets	33,464,294	43,957,733
Total assets	**1,116,010,968**	**978,420,987**
LIABILITIES		
Retail banking	398,180,448	355,325,272
Corporate banking	309,044,000	302,219,116
Assets and liabilities management	194,850,647	129,323,423
Small and medium size companies banking	80,346,322	56,579,714
Treasury	526,443	19,334
Unallocated liabilities	38,552,980	31,100,611
Total liabilities	**1,021,500,840**	**874,567,470**

Reconciliations of reportable segment total assets and total liabilities:

	2018 KZT'000	2017 KZT'000
Total assets for reportable segments	1,116,010,968	978,420,987
Consolidation effect	6,391,596	8,415,469
Gross presentation of foreign currency swaps	(13,389,043)	-
Other adjustments	(729,078)	(9,795,149)
Total assets	**1,108,284,443**	**977,041,307**

	2018 KZT'000	2017 KZT'000
Total liabilities for reportable segments	1,021,500,840	874,567,470
Consolidation effect	7,703,276	7,935,776
Gross presentation of foreign currency swaps	(13,389,043)	-
Other adjustments	(357,018)	(3,236,197)
Total liabilities	**1,015,458,055**	**879,267,049**

29 Analysis by segments, continued

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

KZT'000	**Corporate banking**	**Small and medium size companies banking**	**Retail banking**	**Treasury**	**Assets and liabilities management**	**Unallocated assets and liabilities**	**Total**
Interest income	24,934,491	1,884,519	74,991,532	250,975	16,613,056	-	118,674,573
Fee and commission income	1,942,065	1,496,112	25,567,953	37,057	258	-	29,043,445
Other income	-	-	10,016	-	-	66,178	76,194
Funds transfer pricing	17,408,116	3,778,749	31,231,493	8,494	33,520,615	-	85,947,467
Revenue	**44,284,672**	**7,159,380**	**131,800,994**	**296,526**	**50,133,929**	**66,178**	**233,741,679**
Interest expense	(12,352,077)	(2,399,556)	(28,969,553)	-	(19,163,366)	-	(62,884,552)
Fee and commission expense	(1,171,185)	(12,799)	(11,043,247)	(68,559)	(101,712)	-	(12,397,502)
Net gain/(loss) on securities, dealing and translation differences	758,003	530,335	1,375,045	(3,768,496)	-	-	(1,105,113)
Impairment losses	(11,613,823)	(3,411,945)	(10,881,755)	(35,914)	(22,179)	(809,391)	(26,775,007)
Funds transfer pricing	(22,448,397)	(475,532)	(41,638,479)	(438,824)	(19,170,026)	(1,776,209)	(85,947,467)
Operational costs (direct)	(639,747)	(1,053,072)	(9,926,557)	(155,869)	(512,873)	(198,358)	(12,486,476)
Operational costs (indirect)	(2,492,907)	(1,701,632)	(15,296,628)	(126)	(85,926)	(327,076)	(19,904,295)
Corporate income tax	-	-	(452,373)	-	(342,355)	-	(794,728)
Segment result	**(5,675,461)**	**(1,364,821)**	**14,967,447**	**(4,171,262)**	**10,735,492**	**(3,044,856)**	**11,446,539**
Other segment items							
Additions of property and equipment	-	-		-	-	2,114,972	**2,114,972**
Depreciation and amortisation	(301,473)	(341,775)	(2,750,199)	(7,198)	(65,019)	(61,955)	**(3,527,619)**

29 Analysis by segments, continued

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

KZT'000	**Corporate banking**	**Small and medium size companies banking**	**Retail banking**	**Treasury**	**Assets and liabilities management**	**Unallocated assets and liabilities**	**Total**
Interest income	31,665,543	3,154,263	53,596,134	73,465	9,609,000	20,175	98,118,580
Fee and commission income	1,169,644	1,583,243	15,556,638	-	-	498,413	18,807,938
Discount recognition gain on subordinated debt securities issued	93,314,387	-	13,647,220		-	-	106,961,607
Other income	431,137	235,253	1,246,646	-	-	-	1,913,036
Funds transfer pricing	28,397,783	4,091,579	33,160,084	-	18,418,087	78,438	84,145,971
Revenue	**154,978,494**	**9,064,338**	**117,206,722**	**73,465**	**28,027,087**	**597,026**	**309,947,132**
Interest expense	(19,216,803)	(1,837,166)	(24,102,036)	-	(19,693,325)	-	(64,849,330)
Fee and commission expense	(837,219)	(76,861)	(5,416,008)	(105,138)	(21,268)	(126,144)	(6,582,638)
Net (loss)/gain on securities, dealing and translation differences	736,494	366,653	905,800	(10,864,272)	(309)	-	(8,855,634)
Impairment losses	(87,371,244)	(910,694)	(12,777,978)	-	(2,200)	(10,423)	(101,072,539)
Funds transfer pricing	(27,519,812)	(2,088,622)	(39,009,235)	(1,229,098)	(14,166,112)	(133,092)	(84,145,971)
Operational costs (direct)	(739,391)	(1,217,095)	(11,472,680)	(180,147)	(592,756)	(229,253)	(14,431,322)
Operational costs (indirect)	(2,712,714)	(1,851,670)	(16,645,376)	(137)	(93,503)	(355,913)	(21,659,313)
Corporate income tax	(359,555)	(83,358)	(549,671)	(307)	(2,981,895)	(2,119)	(3,976,905)
Segment result	**16,958,250**	**1,365,525**	**8,139,538**	**(12,305,634)**	**(9,524,281)**	**(259,918)**	**4,373,480**
Other segment items							
Additions of property and equipment	-	-	225,345	-	-	1,397,684	**1,623,029**
Depreciation and amortisation	(366,472)	(415,463)	(3,343,152)	(8,750)	(79,037)	(304,848)	**(4,517,722)**

During 2018, the Group changed its approach to recognition of certain types of income related to loans in its management reporting. Thus, a part of income previously included in fee and commission income in the segment reporting for the year ended 31 December 2017 was transferred to interest income to conform to presentation of segment reporting for 2018 as modified.

29 Analysis by segments, continued

Reconciliations of reportable segment revenues and profit or loss:

	2018 KZT'000	2017 KZT'000
Reportable segment revenue	233,741,679	309,947,132
Consolidation effect	2,686,215	2,508,744
Funds transfer pricing	(85,947,467)	(84,145,971)
Other adjustments	(7,207,584)	(3,006,716)
Total revenue	**143,272,843**	**225,303,189**

	2018 KZT'000	2017 KZT'000
Reportable segment profit	11,446,539	4,373,480
Difference in impairment losses	-	(8,327,707)
Other adjustments	130,148	1,768,755
Consolidation effect	(2,435,225)	(1,668,850)
Total profit/(loss)	**9,141,462**	**(3,854,322)**

Consolidation effect: consolidation effect occurs due to the fact that the Chairman reviews internal management reports on a stand-alone basis.

Other adjustments: these adjustments mostly represent netting of other assets and other liabilities, income and expenses. Other adjustments occur due to the fact that the Chairman of the Management Board reviews internal management reports prepared on a gross-up basis whereas for IFRS consolidated financial statements purposes netting is made for certain other assets/liabilities included in unallocated assets/liabilities.

Funds transfer pricing: for the purpose of internal management reporting transfer pricing represents the allocation of income and expense between segments that attract cash resources and to segments that create interest income generating assets using cash resources.

Information about major customers and geographical areas

For the year ended 31 December 2018, there are no revenues from large corporate customers individually exceed 10% of total revenue (31 December 2017: none).

The majority of revenues from external customers relate to residents of the Republic of Kazakhstan. The majority of non-current assets are located in the Republic of Kazakhstan.

30 Risk management

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

(a) Risk management policies and procedures

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

30 Risk management, continued

(a) Risk management policies and procedures, continued

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 Risk and Internal Controls Committee preliminary reviews these matters and seeks consideration and/or approval of these matters from the Board of Directors.

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. Corporate Credit Risk Block and Retail and General Banking Risks Block executives (hereinafter jointly referred to as "Risk Management Block") are 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. It reports directly to the Chairman and indirectly, through the Risk and Internal Controls Committee to the Board of Directors.

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

Both external and internal risk factors are identified and managed throughout the Group. 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. Apart from the standard credit and market risk analysis, the Risk Management Block monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate 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 market risk management objectives are to manage and control that exposure to market risk does not fall out of the acceptable parameters, ensuring the optimisation of profitability obtained for risk accepted.

MRLMC shall be responsible for management of the market risk and liquidity. MRLMC performs review of the market risk limits based on recommendations of the Risk Management Block and submits thereof to the Management Board and Board of Directors for approval.

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

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

30 Risk management, continued

(b) Market risk, continued

The management of the interest rate risk by monitoring the interest rate gap, is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios.

The Group also utilises Value-at-Risk ("VaR") methodology to monitor market risk of its trading positions.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its consolidated 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 gap analysis

Interest rate risk is managed principally through monitoring and forecasting interest rate gaps, reduction in time gaps of interest bearing assets and liabilities. A summary of the interest gap position as at 31 December 2018 and 2017 for major financial instruments is as follows:

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2018							
ASSETS							
Cash and cash equivalents	66,587,309	-	-	-	-	71,936,814	138,524,123
Financial instruments at fair value through profit or loss	1,073,676	-	-	-	-	-	1,073,676
Financial assets at FVOCI	18,065,439	35,534,631	102,107,196	3,430,425	14,037,792	-	173,175,483
Deposits and balances with banks	2,306,660	84,956	-	-	-	2,617,276	5,008,892
Loans to customers	150,730,585	39,072,736	127,999,543	295,613,665	23,610,825	982,362	638,009,716
Investments at amortised cost	92,904,717	7,069,013	164,651	5,443,511	8,872,420	-	114,454,312
	331,668,386	**81,761,336**	**230,271,390**	**304,487,601**	**46,521,037**	**75,536,452**	**1,070,246,202**
LIABILITIES							
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	0
Deposits and balances from banks	-	-	-	-	38,420	435,658	474,078
Amounts payable under repurchase agreements	79,882,889	-	-	-	-	-	79,882,889
Current accounts and deposits from customers	106,652,177	91,726,189	265,362,103	148,494,524	65,670,592	88,761,635	766,667,220
Debt securities issued	1,698,373	635,048	7,684,870	33,693,291	-	-	43,711,582
Subordinated debt securities issued	106,037	224,144	11,135,649	12,130,531	47,138,837	-	70,735,198
Other borrowed funds	722,283	578,333	1,934,202	10,351,852	21,893,050	-	35,479,720
	189,061,759	**93,163,714**	**286,116,824**	**204,670,198**	**134,740,899**	**89,197,293**	**996,950,687**
	142,606,627	**(11,402,378)**	**(55,845,434)**	**99,817,403**	**(88,219,862)**	**(13,660,841)**	**73,295,515**

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2017							
ASSETS							
Cash and cash equivalents	36,016,288	-	-	-	-	117,584,456	153,600,744
Financial instruments at fair value through profit or loss	87,013	-		-	-	-	87,013
Available-for-sale financial assets	17,833	-	49,400,334	959,883	-	-	50,378,050
Deposits and balances with	-	150,389	-	-	-	3,491,962	3,642,351
Loans to customers	132,486,837	63,293,098	120,512,890	281,065,983	16,409,415	669,767	614,437,990
Held-to-maturity investments	437,751	68,867	105,045,819	11,729,752	7,630,196	-	124,912,385
	169,045,722	**63,512,354**	**274,959,043**	**293,755,618**	**24,039,611**	**121,746,185**	**947,058,533**
LIABILITIES							
Financial instruments at fair value through profit or loss	19,334	-	-	-	-	-	19,334
Deposits and balances from banks	-	-	-	-	-	148,838	148,838
Amounts payable under repurchase agreements	43,744,906	-	-	-	-	-	43,744,906
Current accounts and deposits	176,239,873	73,608,674	159,166,896	134,487,848	61,603,765	90,147,239	695,254,295
Debt securities issued	1,499,244	133,173	7,841,685	11,124,688	-	-	20,598,790
Subordinated debt securities issued	106,038	8,884	12,684,456	9,880,642	45,275,159	-	67,955,179
Other borrowed funds	5,685,816	1,650,753	2,757,272	10,549,973	17,350,967	-	37,994,781
	227,295,211	**75,401,484**	**182,450,309**	**166,043,151**	**124,229,891**	**90,296,077**	**865,716,123**
	(58,249,489)	**(11,889,130)**	**92,508,734**	**127,712,467**	**(100,190,280)**	**31,450,108**	**81,342,410**

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2018 and 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018 Average effective interest rate, %			**2017 Average effective interest rate, %**		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	-	1.43	7.62	9.27	-	7.42
Securities measured at fair value through other comprehensive income (IFRS (IAS) 39 – available-for-sale financial assets)	8.61	4.12	2.54	8.53	-	-
Deposits and balances with banks	-	0.88	4.50	-	-	4.50
Loans to customers	20.30	7.15	13.53	19.40	7.75	14.48
Securities measured at amortised cost (IFRS (IAS) 39 – held-to-maturity investments)	8.72	4.99	-	8.36	5.31	6.20
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	-	-	-	3.72	5.56	-
Amounts payable under repurchase agreements	8.26	-	-	9.57	-	7.76
Current accounts and deposits from customers						
- Corporate	7.77	1.81	1.27	7.41	1.58	4.99
- Retail	10.13	1.38	2.54	12.40	2.29	3.90
Debt securities issued	11.43	-	-	11.98	-	-
Subordinated debt securities issued	14.85	-	-	15.74	-	-
Other borrowed funds						
- Loans from state financial institutions	3.91	-	-	3.55	-	-
- Loans from foreign banks	-	-	-	-	5.61	-
- Loans from the Ministry of Finance of the Republic of Kazakhstan	9.25	4.23	-	10.25	3.13	-

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of 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 KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	829,544	829,544	282,175	282,175
100 bp parallel rise	(829,544)	(829,544)	(282,175)	(282,175)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets measured at fair value through other comprehensive income (IFRS (IAS) 39 – available-for-sale financial assets) due to changes in the interest rates based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2018		2017	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	-	1,869,344	-	381,579
100 bp parallel rise	-	(1,869,344)	-	(381,579)

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Group hedges its exposure to currency risk. The Group manages its foreign currency position through the limits established for each currency and net foreign currency position limits.

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	USD KZT'000	**RUB* KZT'000**	**EUR KZT'000**	**Other currencies KZT'000**	**Total KZT'000**
ASSETS					
Cash and cash equivalents	87,214,297	12,261,088	13,964,187	470,595	113,910,167
Financial assets at FVOCI	9,743,790	-	4,377,462	-	14,121,252
Deposits and balances with banks	2,306,022	181,683	-	-	2,487,705
Loans to customers	118,732,591	5,282,464	3,502,449	-	127,517,504
Investments at amortised cost	14,556,013	-	-	-	14,556,013
Other financial assets	1,755,846	2,974	201,076	-	1,959,896
Total assets	**234,308,559**	**17,728,209**	**22,045,174**	**470,595**	**274,552,537**
LIABILITIES					
Deposits and balances from banks	285,469	7	102,606	19,999	408,081
Amounts payable under repurchase agreements	-	-	-	-	-
Current accounts and deposits from customers	316,952,531	10,703,917	19,893,980	305,475	347,855,903
Other borrowed funds	418,901	-	-	-	418,901
Other financial liabilities	3,437,165	96,108	59,319	44	3,592,636
Total liabilities	**321,094,066**	**10,800,032**	**20,055,905**	**325,518**	**352,275,521**
Net position as at 31 December 2018	**(86,785,507)**	**6,928,177**	**1,989,269**	**145,077**	**(77,722,984)**
The effect of derivatives held for risk management**	86,387,370	-	-	-	86,387,370
Net position with the effect of derivatives held for risk management as at 31 December 2018	**(398,137)**	**6,928,177**	**1,989,269**	**145,077**	**8,664,386**

**** including SPOT transactions**

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	USD KZT'000	RUB* KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS					
Cash and cash equivalents	98,613,013	12,043,276	8,957,851	348,722	119,962,862
Deposits and balances with banks	1,991,726	259,332	-	-	2,251,058
Loans to customers	134,235,997	9,271,102	2,450,640	-	145,957,739
Held-to-maturity investments	12,596,833	295,332	-	-	12,892,165
Other financial assets	228,948	20,229	31,268	-	280,445
Total assets	**247,666,517**	**21,889,271**	**11,439,759**	**348,722**	**281,344,269**
LIABILITIES					
Deposits and balances from banks	93,566	-	3,609	454	97,629
Amounts payable under repurchase agreements	-	1,462,049	-	-	1,462,049
Current accounts and deposits from customers	322,750,254	9,924,612	11,312,224	216,016	344,203,106
Debt securities issued	-	-	-	-	-
Other borrowed funds	4,112,521	-	-	-	4,112,521
Other financial liabilities	958,104	447,107	98,770	41	1,504,022
Total liabilities	**327,914,445**	**11,833,768**	**11,414,603**	**216,511**	**351,379,327**
Net position as at 31 December 2017	**(80,247,928)**	**10,055,503**	**25,156**	**132,211**	**(70,035,058)**
The effect of derivatives held for risk management	70,121,630	(1,996,276)	-	-	68,125,354
Net position with the effect of derivatives held for risk management as at 31 December 2017	**(10,126,298)**	**8,059,227**	**25,156**	**132,211**	**(1,909,704)**

* A portion of the net RUB position equivalent to KZT 7,006,199 thousand (2017: KZT 8,553,112 thousand) is not subject to direct currency risk exposure as it represents net assets of the subsidiary that are remeasured through cumulative translation reserve.

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 Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

	2018		2017	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
20% appreciation of USD against KZT	(63,702)	(63,702)	(1,706,920)	(1,706,920)
20% appreciation of RUR against KZT	318,283	318,283	(79,022)	(79,022)
20% appreciation of EUR against KZT	(12,484)	(12,484)	4,025	4,025
20% appreciation of other currencies against KZT	23,212	23,212	21,154	21,154

A strengthening of the KZT against the above currencies at 31 December 2018 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Other price risk

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

(iv) Value at Risk estimates

The Group also utilises Value-at-Risk ("VaR") methodology to monitor market risk its currency positions.

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used by the Group is based on a 99 percent confidence level and assumes a 1-day holding period depending on the type of positions. The VaR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential market price movements are determined with reference to market data from at least the most recent 12 months.

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

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature;
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases, but may not be the case in situations in which there is severe market illiquidity for an extended period;
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VAR estimate;.
- VAR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day;.
- The VAR measure is dependent upon the position and the volatility of market prices. The VAR of an unchanged position reduces if market volatility declines and vice versa.

30 Risk management, continued

(b) Market risk, continued

(iv) Value at Risk estimates, continued

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

A summary of the VaR estimates in respect of foreign currency risk of the Group at 31 December is as follows:

	2018 KZT'000	**2017 KZT'000**
Foreign exchange risk	92,376	83,758

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

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

Corporate loan credit applications are sent by the relevant client managers and are then passed on to the Corporate Business Block, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Corporate Credit Risks Block and a second opinion is given accompanied by verification that credit policy requirements are met. The Credit Committee makes decisions based on opinions of internal Bank's services. Individual transactions are also reviewed by the Bank's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

30 Risk management, continued

(c) Credit risk, continued

Retail loan credit applications are reviewed through the use of scoring models and application data verification procedures developed by the Retail Business Block together with the General Banking Risk Block.

Apart from individual customer analysis by the Bank's Credit Risk and Collateral Valuation Department, the credit portfolio is assessed also by the Risk Management Block with regard to credit concentration and market risks.

Loan approvals and credit card limits can be cancelled at anytime.

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

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

	2018 KZT'000	2017 KZT'000
ASSETS		
Cash and cash equivalents	98,738,925	121,366,407
Financial instruments at fair value through profit or loss	1,073,676	87,013
Financial assets measured at fair value through other comprehensive income (IFRS (IAS) 39 – available-for-sale financial assets)	173,175,483	50,378,050
Deposits and balances with banks	5,008,892	3,642,351
Loans to customers	638,009,716	614,437,990
Investments measured at amortised cost (IFRS (IAS) 39 – held-to-maturity investments)	114,454,312	124,912,385
Other financial assets	12,856,479	4,965,898
Total maximum exposure	**1,043,317,483**	**919,790,094**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 16.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 32.

As at 31 December 2018 and 2017 the Group did not have debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Offsetting financial assets and liabilities

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

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

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

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

30 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and liabilities, continued

The Group 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 International Swaps and Derivatives Association ("ISDA") Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

KZT'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Financial assets at FVOCI	82,370,583	-	82,370,583	(79,882,889)	-	2,487,694
Loans to customers	868,345	-	868,345	-	(868,345)	-
Total financial assets	**83,238,928**	**-**	**83,238,928**	**(79,882,889)**	**(868,345)**	**2,487,694**
Amounts payable under repurchase agreements	(79,882,889)	-	(79,882,889)	79,882,889	-	-
Current accounts and deposits from customers	(868,345)	-	(868,345)	-	868,345	-
Total financial liabilities	**(80,751,234)**	**-**	**(80,751,234)**	**79,882,889**	**868,345**	**-**

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

KZT'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Held-to-maturity investments	44,012,544	-	44,012,544	(43,744,906)	-	267,638
Loans to customers	3,320,219	-	3,320,219	-	(3,320,219)	-
Total financial assets	**47,332,763**	**-**	**47,332,763**	**(43,744,906)**	**(3,320,219)**	**267,638**
Amounts payable under repurchase agreements	(43,744,906)	-	(43,744,906)	43,744,906	-	-
Current accounts and deposits from customers	(3,320,219)	-	(3,320,219)	-	3,320,219	-
Total financial liabilities	**(47,065,125)**	**-**	**(47,065,125)**	**43,744,906**	**3,320,219**	**-**

30 Risk management, continued

(c) Credit risk, continued

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

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

The securities pledged under repurchased agreements (Note 14 and Note 17) represent the transferred financial assets that are not derecognised in their entirety. The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

(d) Liquidity risk

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

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

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

The liquidity management regulation requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury and ALM Block receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury and ALM Block then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, deposits and balances with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

30 Risk management, continued

(d) Liquidity risk, continued

The daily liquidity position is monitored by the Treasury and ALM Block and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Retail Business Block and General Banking Risks Block. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management regulation are made by the MRLMC and implemented by the Treasury and ALM Block.

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment.

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	435,658	-	-	-	38,420	474,078	474,078
Amounts payable under repurchase agreements	79,949,543	-	-	-	-	79,949,543	79,882,889
Current accounts and deposits from customers	126,418,665	76,397,381	101,535,906	276,065,388	245,954,924	826,372,264	766,667,220
Debt securities issued	1,522,779	280,102	1,758,611	2,038,712	48,117,244	53,717,448	43,711,582
Subordinated debt securities issued	112,275	-	916,422	17,023,697	250,613,001	268,665,395	70,735,198
Other borrowed funds	102,201	1,165,672	799,527	2,622,440	39,773,219	44,463,059	35,479,720
Other financial liabilities	10,671,446	-	-	2,792	146,722	10,820,960	10,936,547
Derivative financial liabilities*							
- Inflow	(13,389,043)	-	-	-	-	(13,389,043)	-
- Outflow	13,504,630	-	-	-	-	13,504,630	115,587
Total liabilities	**219,328,154**	**77,843,155**	**105,010,466**	**297,753,029**	**584,643,530**	**1,284,578,334**	**1,008,002,821**
Credit related commitments	57,702,731	-	-	-	-	57,702,731	57,702,731

* including SPOT transactions.

30 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2017 was as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	115,605	-	-	-	33,233	148,838	148,838
Amounts payable under repurchase agreements	43,783,178	-	-	-	-	43,783,178	43,744,906
Current accounts and deposits from customers	185,838,822	86,561,489	80,306,069	168,425,449	236,393,693	757,525,522	695,254,295
Debt securities issued	80,261	345,053	521,111	946,425	26,933,741	28,826,591	20,598,790
Subordinated debt securities issued	112,275	-	1,006,269	6,618,544	269,563,868	277,300,956	67,955,179
Other borrowed funds	2,005,980	3,272,534	1,563,441	3,557,730	34,485,158	44,884,843	37,994,781
Other financial liabilities	5,791,559	799,310	7,441	9,914	1,121,851	7,730,075	7,730,075
Derivative financial liabilities							
- Inflow	(21,933,780)	-	-	-	-	(21,933,780)	-
- Outflow	21,953,114	-	-	-	-	21,953,114	19,334
Total liabilities	**237,747,014**	**90,978,386**	**83,404,331**	**179,558,062**	**568,531,544**	**1,160,219,337**	**873,446,198**
Credit related commitments	65,864,374	-	-	-	-	65,864,374	65,864,374

In accordance with legislation of the Republic of Kazakhstan, depositors and in accordance with legislation of the Russian Federation, individuals 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. The maturities of the total amount of term deposits are as follows:

- KZT 25,777,099 thousand are categorised to the demand deposits and those, which mature within less than one month (31 December 2017: KZT 53,339,712 thousand);
- KZT 76,375,236 thousand are categorised to deposits, which mature within one to three months (31 December 2017: KZT 86,539,104 thousand;
- KZT 101,119,643 thousand are categorised to deposits, which mature within three to six months (31 December 2017: KZT 80,058,616 thousand);
- KZT 275,814,198 thousand are categorised to deposits, which mature within six to twelve months (31 December 2017: KZT 168,125,060 thousand);
- KZT 243,512,112 thousand are categorised to deposits, which mature within the period of more than one year (31 December 2017: KZT 230,154,639 thousand).

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

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

30 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2018:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative financial assets								
Cash and cash equivalents	138,524,123	-	-	-	-	-	-	138,524,123
Securities measured at fair value through other comprehensive income	15,920,982	2,144,458	137,641,826	3,430,425	14,037,792	-	-	173,175,483
Deposits and balances with banks	4,923,936	-	84,956	-	-	-	-	5,008,892
Loans to customers	39,504,261	49,769,360	168,758,033	290,823,578	21,483,657	-	67,670,827	638,009,716
Securities measured at amortised cost	92,904,717	-	7,233,664	5,443,511	8,872,420	-	-	114,454,312
Current tax asset	515,809	-	-	-	-	-	-	515,809
Property, plant and equipment and intangible assets	-	-	-	-	-	20,529,051	-	20,529,051
Deferred tax assets	-	-	-	-	-	223,444	-	223,444
Other assets	9,277,276	586,102	3,745,280	136,228	573,321	2,276,301	175,429	16,769,937
Total assets	**301,571,104**	**52,499,920**	**317,463,759**	**299,833,742**	**44,967,190**	**23,028,796**	**67,846,256**	**1,107,210,767**
Non-derivative financial liabilities								
Deposits and balances from banks	435,658	-	-	-	38,420	-	-	474,078
Amounts payable under repurchase agreements	79,882,889	-	-	-	-	-	-	79,882,889
Current accounts and deposits from customers	122,904,712	70,417,006	359,062,494	148,608,027	65,674,981	-	-	766,667,220
Debt securities issued	1,513,195	185,178	635,048	41,378,161	-	-	-	43,711,582
Subordinated debt securities issued	106,037	-	11,359,793	12,130,531	47,138,837	-	-	70,735,198
Other borrowed funds	82,001	640,285	2,512,535	10,351,851	21,893,048	-	-	35,479,720
Deferred tax liabilities	-	-	-	-	-	3,872,560	-	3,872,560
Other liabilities	14,215,558	14,045	257,817	-	147,388	-	-	14,634,808
Total liabilities	219,140,050	71,256,514	373,827,687	212,468,570	134,892,674	3,872,560	-	1,015,458,055
Net position	**82,431,054**	**(18,756,594)**	**(56,363,928)**	**87,365,172**	**(89,925,484)**	**19,156,236**	**67,846,256**	**91,752,712**

30 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2017:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative financial assets								
Cash and cash equivalents	153,600,744	-	-	-	-	-	-	153,600,744
Available-for-sale financial assets	-	17,833	49,400,334	959,883	-	-	-	50,378,050
Deposits and balances with banks	1,400,664	21,113	195,055	317	2,025,202	-	-	3,642,351
Loans to customers	34,773,231	51,366,250	181,616,917	275,346,885	22,276,637	-	49,058,070	614,437,990
Held-to-maturity investments	142,422	295,332	105,114,683	11,729,752	7,630,196	-	-	124,912,385
Current tax asset	1,041,742	-	-	-	-	-	-	1,041,742
Property, plant and equipment and intangible assets	-	-	-	-	-	22,025,543	-	22,025,543
Other assets	3,069,264	855,313	160,333	133,961	1,842,179	770,829	83,610	6,915,489
Total assets	**194,028,067**	**52,555,841**	**336,487,322**	**288,170,798**	**33,774,214**	**22,796,372**	**49,141,680**	**976,954,294**
Non-derivative financial liabilities								
Deposits and balances from banks	115,605	-	-	-	33,233	-	-	148,838
Amounts payable under repurchase agreements	43,744,906	-	-	-	-	-	-	43,744,906
Current accounts and deposits from customers	182,826,743	81,754,130	233,096,623	135,968,645	61,608,154	-	-	695,254,295
Debt securities issued	70,898	228,118	133,173	12,553,034	7,613,567	-	-	20,598,790
Subordinated debt securities issued	106,038	-	961,580	9,880,642	57,006,919	-	-	67,955,179
Other borrowed funds	2,005,980	3,078,652	4,147,781	11,239,114	17,523,254	-	-	37,994,781
Deferred tax liabilities	-	-	-	-	-	3,769,316	-	3,769,316
Other liabilities	6,883,512	799,448	962,234	28,225	1,108,191	-	-	9,781,610
Total liabilities	235,753,682	85,860,348	239,301,391	169,669,660	144,893,318	3,769,316	-	879,247,715
Net position	**(41,725,615)**	**(33,304,507)**	**97,185,931**	**118,501,138**	**(111,119,104)**	**19,027,056**	**49,141,680**	**97,706,579**

30 Risk management, continued

(d) Liquidity risk, continued

Management believes that the following factors provide decrease in the liquidity gap up to 1 year:

- Management's analysis of behaviour of holders of term deposits during the past three years indicates that offering of competitive interest rates provides for high level of renewals.
- The balance of customer accounts and deposits from related parties, which is due up to 1 year, is KZT 157,442,212 thousand as at 31 December 2018 (2017: KZT 49,102,134 thousand). Management believes that the term deposits will be extended when they fall due and withdrawals of significant customer accounts, if required, will be coordinated with the Group's liquidity management objectives.

(e) Operational risk

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

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

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

31 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defined 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, not consolidated in the Group with certain limitations.

31 Capital management, continued

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

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 Bank's coefficients are as follows: k1 – 0.095, k1-2 – 0.095 and k2 – 0.238 (31 December 2017: k1 – 0.106, k1-2 – 0.106 and k2 – 0.145).

The capital 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 13 September 2017, 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" was KZT 219,942,270 thousand (31 December 2017: KZT 132,352,258 thousand). Tier 1 capital as at 31 December 2018 amounted to KZT 87,892,397 thousand (31 December 2017: KZT 96,970,787 thousand).

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

32 Credit related commitments

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

32 Credit related commitments, continued

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

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

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. 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.

	2018 KZT'000	**2017 KZT'000**
Contracted amount		
Guarantees	37,152,765	39,045,297
Loan and credit line commitments	20,372,410	26,371,297
Letters of credit	177,556	447,780
	57,702,731	**65,864,374**
Loss allowance	(1,034,085)	(42,172)
Total credit related commitments less provision	**56,668,646**	**65,822,202**

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

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

As at 31 December 2018 the Group has 1 customer whose balances exceed 10% of total commitments (31 December 2017: 1 customer). The value of these commitments as at 31 December 2018 is KZT 13,747,016 thousand (31 December 2017: KZT 12,634,253 thousand).

The table below shows movement in loss allowance on credit related commitments.

Credit related commitments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for expected credit losses as at the beginning of the year – IFRS 9	**144**	**-**	**36,721**	**36,865**
Transfer to Stage 1	4	-	(4)	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	(140)	140	-
Net remeasurement of loss allowance	18,873	139	977,475	996,487
New financial assets originated or purchased	698	-	-	698
Foreign exchange differences and other changes	(185)	1	219	35
Allowance for expected credit losses as at the end of the year	**19,534**	**-**	**1,014,551**	**1,034,085**

During 2018 the Group issued guarantees for the total amount of KZT 6,275,527 thousand, including those that were subsequently designated at Stage 1 of credit quality in the amount of KZT 5,753,726 thousand, at Stage 3 - of KZT 521,801 thousand. During 2018 the Group derecognised credit related commitments on guarantees for the total amount of KZT 14,168,849 thousand, including those that were designated at Stage 1 of credit quality in the amount of KZT 9,225,048 thousand, at Stage 3 of credit quality - of KZT 4,943,801 thousand.

33 Operating leases

Leases as lessee

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

	2018 KZT'000	2017 KZT'000
Less than 1 year	1,719,459	1,981,181
From 1 to 5 years	5,425,286	6,048,841
	7,144,745	**8,030,022**

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals.

During the current year KZT 1,925,395 thousand was recognised as an expense in profit or loss in respect of operating leases (2017: KZT 1,951,375 thousand).

34 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Republic Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, in particular recognition of income, expenses and other items of the consolidated financial statements under IFRS. Taxes are subject to review and investigation by various levels 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; however, under certain circumstances a tax year may remain open longer.

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

35 Related party transactions

(a) Control relationships

The Group's parent company is Eurasian Financial Company JSC (the "Parent company"). The Parent company is controlled by the group of individuals, Mr. Mashkevich A.A., Mr. Shodiyev P.K., Mr. Ibragimov A.R., each of whom owns 33.3%. Publicly available consolidated financial statements are produced by the Parent company.

(b) Transactions with members of the Board of Directors, the Management Board and other key management personnel

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2018 KZT'000	2017 KZT'000
Members of the Board of Directors	496,784	530,994
Members of the Management Board	1,054,256	2,247,967
Other key management personnel	1,027,226	1,370,129
	2,578,266	**4,149,090**

These amounts include non-cash benefits in respect of members of the Board of Directors, the Management Board and other key management personnel.

The outstanding balances and average effective interest rates as at 31 December 2018 and 2017 for transactions with members of the Board of Directors, the Management Board and other key management personnel are as follows:

	2018 KZT'000	Average effective interest rate, %	2017 KZT'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	108,752	9.17	143,706	12.00
Loans to customers (allowance for expected credit losses)	(73,658)	-	-	-
LIABILITIES				
Current accounts and deposits from customers	13,693,760	3.90	12,727,881	8.16

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors, the Management Board and other key management personnel for the year ended 31 December are as follows:

	2018 KZT'000	2017 KZT'000
Profit or loss		
Interest income under the effective interest method	8,041	19,552
Interest expense	(1,188,259)	(429,486)
Impairment loss on debt financial assets	(5,597)	-

35 Related party transactions, continued

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2018 and related profit or loss amounts of transactions for the year ended 31 December 2018 with other related parties are as follows:

	The Parent company		Other subsidiaries of the Parent company		Other related parties*		
31 December 2018	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**Total KZT'000**
Consolidated statement of financial position							
ASSETS							
Loans to customers							
- in KZT	-	-	-		6,439,745	12.73	6,439,745
- in USD	-	-	-		67,247,004	6.47	67,247,004
- in other currencies	-	-	-		-		-
Loans to customers (allowance for expected credit losses)	-	-	-		(567,163)		(567,163)
Other assets							
- in KZT	-	-	100,888		93,082		193,970
LIABILITIES							
Current accounts and deposits from customers							
- in KZT	166,194	9.50	4,540,590	11.20	24,717,178	8.25	29,423,962
- in USD	-	-	2,518,337	2.50	154,224,133	1.87	156,742,470
- in other currencies	-	-	189,150	5.85	1,532,002	2.72	1,721,152
Debt securities issued	-						
- in KZT	-	-	11,746,660	8.49	-	-	11,746,660
Subordinated debt securities issued	-						
- in KZT	-	-	27,378	7.07	-	-	27,378
Other liabilities							
- in KZT	-	-	356,000	-	4,656	-	360,656

35 Related party transactions, continued

(c) Transactions with other related parties, continued

	The Parent company		Other subsidiaries of the Parent company		Other related parties*		
31 December 2018	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**Total KZT'000**
Items not recognised in the consolidated statement of financial position							
Loan and credit line commitments	-		-		752,987		752,987
Guarantees issued	-		-		13,062		13,062
Guarantees received	-		-		8,864,495		8,864,495
Profit/(loss)	-						
Interest income under the effective interest method	-		-		3,333,648		3,333,648
Other interest income	-		-		626,188		626,188
Interest expense	(58,440)		(1,974,616)		(3,146,198)		(5,179,254)
Fee and commission income	585		336,341		543,018		879,944
Fee and commission expense	-		(5,773)		-		(5,773)
Net gain on financial instruments at fair value through profit or loss	-		-		989,368		989,368
Net foreign exchange loss	-		(98,852)		(5,398,758)		(5,497,610)
Other operating expenses	-		-		-		-
Impairment loss on debt financial assets	-		-		559,874		559,874
Other general and administrative expenses	-		(60,085)		(190,871)		(250,956)

35 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances and the related average effective interest rates as at 31 December 2017 and related profit or loss amounts of transactions for the year ended 31 December 2017 with other related parties are as follows:

	The Parent company		**Other subsidiaries of the Parent company**		**Other related parties***		
31 December 2017	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**Total KZT'000**
Consolidated statement of financial position							
ASSETS							
Loans to customers							
- in KZT	-	-	-	-	9,613,093	12.63	9,613,093
- in USD	-	-	-	-	79,709,017	6.82	79,709,017
- in other currencies	-	-	-	-	2,294,061	16.84	2,294,061
Loans to customers (allowance for impairment)	-	-	-	-	(946,285)	-	(946,285)
Other assets							
- in KZT	-	-	18,769	-	61,355	-	80,124
LIABILITIES							
Current accounts and deposits from customers							
- in KZT	381,303	9.50	968,224	9.47	19,090,218	7.43	20,439,745
- in USD	-	-	3,056,943	2.95	107,047,853	1.61	110,104,796
- in other currencies	-	-	465,059	5.98	2,469,386	7.50	2,934,445
Debt securities issued	-						
- in KZT	-	-	11,301,939	8.50	-	-	11,301,939
Subordinated debt securities issued	-						
- in KZT	-	-	26,702	8.08	-	-	26,702
Other liabilities							
- in KZT	-	-	311,833	-	4,968	-	316,801

35 Related party transactions, continued

(c) Transactions with other related parties, continued

	The Parent company		Other subsidiaries of the Parent company		Other related parties*		
31 December 2017	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**KZT'000**	**Average effective interest rate, %**	**Total KZT'000**
Items not recognised in the consolidated statement of financial position							
Loan and credit line commitments	-		-		774,340		774,340
Guarantees received	-		-		4,918,502		4,918,502
Profit/(loss)	-						
Interest income	-		-		6,830,453		6,830,453
Interest expense	(230,286)		(2,190,163)		(2,832,738)		(5,253,187)
Fee and commission income	1,768		48,303		400,873		450,944
Net foreign exchange gain	150		203,087		859,226		1,062,463
Other operating expenses	-		-		(50,723)		(50,723)
Impairment losses	-		-		(354,776)		(354,776)
Other general and administrative expenses	-		(189,849)		(218,744)		(408,593)

*Other related parties are the entities that are controlled by the Parent company's shareholders.

As at 31 December 2018 loans to customers in the amount of KZT 1,438,208 thousand were insured by an insurance company under common control (31 December 2017: KZT 29,703,941 thousand).

Loans to related parties with net carrying amount of KZT 68,964,231 thousand (31 December 2017: KZT 86,714,825 thousand) are secured by land plots and other real estate, guarantees, movable property and other types of collateral, whose value covers the carrying amount of these loans excluding overcollateralization to a large extent. The remaining amount of loans to related parties is not secured.

36 Financial assets and liabilities: fair values and accounting classification

(a) Accounting classification and fair value

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

KZT'000	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	138,524,123	138,524,123	138,524,123
Financial instruments at fair value through profit or loss	1,073,676	-	-	1,073,676	1,073,676
Financial assets at FVOCI	-	173,175,483	-	173,175,483	173,175,483
Deposits and balances with banks	-	-	5,008,892	5,008,892	5,008,892
Loans to customers		-			
Loans to corporate customers	12,017,505	-	255,927,570	267,945,075	260,470,155
Loans to retail customers	565,810	-	369,498,831	370,064,641	386,528,459
Investments at amortised cost		-			
Government bonds	-	-	108,846,150	108,846,150	109,052,508
Corporate bonds	-	-	5,608,162	5,608,162	5,791,833
Other financial assets	-	-	12,856,479	12,856,479	12,856,479
	13,656,991	**173,175,483**	**896,270,207**	**1,083,102,681**	**1,092,481,608**
Deposits and balances from banks	-	-	474,078	474,078	474,078
Amounts payable under repurchase agreements	-	-	79,882,889	79,882,889	79,882,889
Current accounts and deposits from customers	-	-	766,667,220	766,667,220	766,235,620
Debt securities issued	-	-	43,711,582	43,711,582	44,235,076
Subordinated debt securities issued	-	-	70,735,198	70,735,198	68,269,922
Other borrowed funds	-	-	35,479,720	35,479,720	35,479,720
Other financial liabilities	-	-	10,936,547	10,936,547	10,936,547
	-	**-**	**1,007,887,234**	**1,007,887,234**	**1,005,513,852**

36 Financial assets and liabilities: fair values and accounting classification, 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:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	153,600,744	-	-	153,600,744	153,600,744
Financial instruments at fair value through profit or loss	87,013	-	-	-	-	87,013	87,013
Available-for-sale financial assets	-	-	-	50,378,050	-	50,378,050	50,378,050
Deposits and balances with banks	-	-	3,642,351	-	-	3,642,351	3,642,351
Loans to customers							
Loans to corporate customers	-	-	338,614,797	-	-	338,614,797	328,538,259
Loans to retail customers	-	-	275,823,193	-	-	275,823,193	261,994,722
Held-to-maturity investments							
Government bonds	-	120,010,995	-	-	-	120,010,995	117,176,974
Corporate bonds	-	4,901,390	-	-	-	4,901,390	5,122,535
Other financial assets	-	-	4,965,898	-	-	4,965,898	4,965,898
	87,013	**124,912,385**	**776,646,983**	**50,378,050**	**-**	**952,024,431**	**925,506,546**
Financial instruments at fair value through profit or loss	19,334	-	-	-	-	19,334	19,334
Deposits and balances from banks	-	-	-	-	148,838	148,838	148,838
Amounts payable under repurchase agreements	-	-	-	-	43,744,906	43,744,906	42,385,806
Current accounts and deposits from customers	-	-	-	-	695,254,295	695,254,295	696,509,732
Debt securities issued	-	-	-	-	20,598,790	20,598,790	19,141,869
Subordinated debt securities issued	-	-	-	-	67,955,179	67,955,179	64,098,339
Other borrowed funds	-	-	-	-	37,994,781	37,994,781	37,994,781
Other financial liabilities	-	-	-	-	7,730,075	7,730,075	7,730,075
	19,334	**-**	**-**	**-**	**873,426,864**	**873,446,198**	**868,028,774**

36 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

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

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

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

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes 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 4.90 – 15.40% and 9.50 – 17.20%, are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively (31 December 2017: 5.40 – 14.20% and 7.30 – 19.20%, respectively);
- discount rates of 0.90 – 7.10% and 1.30 – 9.70%, are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively (31 December 2017: 01.60 – 8.60% and 2.20 – 12.10%, respectively);
- quoted market prices are used for determination of 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.

36 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy

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

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

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

KZT'000	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative assets	1,073,676	-	1,073,676
- Derivative liabilities	(19,334)	-	(19,334)
Financial assets at FVOCI			
- Debt and other fixed-income instruments	173,175,483	-	173,175,483
Loans to customers	**-**	**12,583,315**	**12,583,315**
	174,249,159	**12,583,315**	**186,832,474**

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:

KZT'000	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative assets	87,013	-	87,013
- Derivative liabilities	(19,334)	-	(19,334)
Available-for-sale financial assets			
- Debt and other fixed-income instruments	50,378,050	-	50,378,050
	50,445,729	**-**	**50,445,729**

Due to low market liquidity, management considers that quoted prices in active markets are not available, including for government securities listed on the Kazakhstan Stock Exchange. Accordingly, as at 31 December 2018 and 2017 the estimated fair value of these financial instruments is based on the results of valuation techniques involving the use of observable market inputs.

36 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition

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

The following table shows a reconciliation for the year ended 31 December 2018 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3
	Financial instruments at fair value through profit or loss
	Loans to customers
KZT'000	
Balance at the beginning of the year - IFRS 9	**18,106,950**
Net gain on financial instruments at fair value through profit or loss	989,368
Interest income accrued	626,188
Foreign exchange differences and other changes	1,941,700
Loans issued	565,810
Repayments	(9,646,701)
Balance at the end of year	**12,583,315**

Management used interest rate of 11.74% in respect of USD cash flows to determine the fair value of loans to customers.

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

As at 31 December 2018 if the interest rate applied to cash flows had increased/(decreased) by 1%, the fair value of loans to customers in Level 3 of the hierarchy would have (decreased)/increased by KZT (281,866)/291,261 thousand.