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ForteBank Joint Stock Company

Consolidated financial statements

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

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Independent auditor's report

To the Shareholders and Board of Directors of ForteBank Joint Stock Company

Opinion

We have audited the consolidated financial statements of ForteBank Joint Stock Company and its subsidiaries (the "Group"), which comprise the consolidated statement of comprehensive income for the year ended 31 December 2018, the consolidated statement of financial position as at 31 December 2018, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended 31 December 2018, and notes to the consolidated financial statements including a summary of significant accounting policies.

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 Auditor's 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"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements.

The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matter	How the matter was addressed in the audit
Allowance for expected credit losses of loans to customers	
Estimation of allowance for expected credit losses on loans to customers in accordance with IFRS 9 is a key area of the Group's management judgment. Identification of factors of a significant increase in credit risk since initial recognition, including identification of changes in risk of default during the remaining life of a financial instrument, as well as determination of probability of default and loss given default rates, require significant use of professional judgment, assumptions and analysis of various historical, current and forward-looking information. The use of different models and assumptions may significantly affect the amount of allowance for expected credit losses on loans to customers. Due to materiality of loans to customers, which in aggregate amount to 41% of the total assets of the Group as at 31 December 2018, as well as significant use of professional judgment, estimation of allowance for expected credit losses was a key audit matter. Information on expected credit losses on loans to customers is presented in Note 8 Credit loss expense, Note 15 Loans to customers and Note 25 Risk management to the consolidated financial statements.	Our audit procedures included the analysis of methodology for estimation of allowance for expected credit losses on the loan portfolio, as well as assessment and testing controls over the processes of identification of factors of significant increase in credit risk on loans to customers since initial recognition and events of default, including debt overdue periods and changes in internal credit ratings. We performed, on a sample basis, testing of input data and analysis of the assumptions used by the Group in estimation of allowance for expected credit losses, including statistical information on debt servicing, borrower's financial and non-financial information, expected recoveries in the events of default due to sale of collateral held as well as forecast macroeconomic factors. We made recalculations on the allowance for expected credit losses. We have analyzed information on the allowance for expected credit losses on loans to customers disclosed in the Notes to the consolidated financial statements.

Other information included in the Annual report of the Group for 2018

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

The annual report is expected to be made available to us after the date of this audit report.

Our opinion on the consolidated financial statements does not cover other information and we do not express any conclusion providing assurance in any form with regard to this information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available to us 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.

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Responsibility of management and the Board of Directors 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.

The Board of Directors is responsible for the supervision of the Group's financial reporting process.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 judgement and maintain professional scepticism throughout the audit. Besides, we perform the following:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to these risks, obtain audit evidence, which is sufficient and appropriate to serve as a basis for our audit 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 determine the existence of material uncertainty, we shall draw attention in our opinion to the related disclosure in the consolidated financial statements or, if such disclosure is inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may result in the Group's loss of ability to continue as a going concern;
- evaluate the overall presentation of the consolidated financial statements, their structure and content, including disclosure of information, 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.

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

We also provide the Board of Directors with the statement that we complied with all respective ethical requirements with regard to independence and communicated to them all relations and other matters that may be reasonably considered as affecting the auditor's independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, 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 auditor's 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 partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

Ernst & Young LLP

Paul Cohn
Audit Partner

Olga Khegay
Auditor

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

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

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13 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

(millions of tenge)

	Notes	*2018*	*2017*
Interest revenue calculated using the effective interest rate	5	**122,542**	101,615
Other interest revenue	5	**395**	18,731
Interest expense	5	**(73,543)**	(75,907)
Net interest income		**49,394**	44,439
Fee and commission income	6	**20,206**	12,002
Fee and commission expense		**(5,845)**	(3,514)
Net (losses)/gains from financial instruments at fair value through profit or loss		**(426)**	1,335
Net gains from derecognition of investment securities at fair value through other comprehensive income		**875**	–
Net gains from derecognition of available-for-sale investment securities		**–**	345
Net gains from foreign currencies	7	**1,255**	965
Gain from return of instruments unclaimed by creditors	19	**–**	3,139
Gain from derecognition of financial liabilities	21	**9,160**	–
Other income	10	**5,656**	4,411
Non-interest income		**30,881**	18,683
Credit loss expense	8	**(5,000)**	(86)
General and administrative expenses	9	**(35,861)**	(35,218)
Other expenses	10	**(5,415)**	(3,061)
Non-interest expense		**(46,276)**	(38,365)
Profit before corporate income tax expense		**33,999**	24,757
Corporate income tax expense	11	**(4,891)**	(5,006)
Profit for the year		**29,108**	19,751
Attributable to:			
- shareholders of the Bank		**29,038**	19,655
- non-controlling interests		**70**	96
		29,108	19,751

The accompanying notes on pages 7 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

	Notes	*2018*	*2017*
Other comprehensive income			
Other comprehensive income to be reclassified subsequently to profit or loss			
Net change in fair value of available-for-sale securities		–	1,979
Realised gains from change in fair value of available-for-sale securities reclassified to profit or loss		–	(345)
Net change in fair value of debt instruments at fair value through other comprehensive income		**(2,342)**	–
Change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		**1,412**	–
Reclassification of cumulative loss on derecognition of debt instruments at fair value through other comprehensive income to profit or loss		**(875)**	–
Income tax relating to components of other comprehensive income		**323**	–
Other comprehensive (loss)/income for the year, net of tax		**(1,482)**	1,634
Total comprehensive income for the year		**27,626**	21,385
Attributable to:			
- shareholders of the Bank		**27,556**	21,289
- non-controlling interests		**70**	96
		27,626	21,385
Basic and diluted earnings per share (in tenge)	24	**0.32**	0.21

Guram Andronikashvili
Chairman of the Management Board

13 March 2019

Yetekbayeva Yerkin Altynbekovna
Chief accountant

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

(millions of tenge)

	Notes	*31 December 2018*	*31 December 2017*
Assets			
Cash and cash equivalents	12	**224,121**	231,820
Amounts due from financial institutions	13	**18,215**	6,393
Trading securities	14	**9,511**	290,919
Loans to customers	15	**689,645**	671,851
Investment securities	16	**570,475**	82,398
Property and equipment	17	**51,496**	49,009
Intangible assets		**5,441**	3,741
Deferred income tax assets	11	**2,279**	6,740
Other assets	18	**117,540**	101,769
Total assets		**1,688,723**	1,444,640
Liabilities			
Current accounts and deposits of customers	19	**1,075,628**	981,225
Amounts due to banks and other financial institutions	20	**72,128**	75,894
Amounts payable under repurchase agreements	27	**56,392**	36,639
Debt securities issued	21	**253,584**	125,121
Deferred income tax liabilities	11	**183**	122
Subordinated debt	22	**22,648**	22,740
Other liabilities		**7,521**	8,698
Total liabilities		**1,488,084**	1,250,439
Equity			
Share capital	23	**331,504**	331,522
Additional paid-in capital		**21,116**	21,116
Fair value reserve		**2,359**	598
Accumulated losses		**(155,051)**	(159,676)
Total equity attributable to shareholders of the Bank		**199,928**	193,560
Non-controlling interests		**711**	641
Total equity		**200,639**	194,201
Total equity and liabilities		**1,688,723**	1,444,640

The accompanying notes on pages 7 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

(millions of tenge)

	Notes	*2018*	*2017*
Cash flows from operating activities			
Interest income received		**108,373**	114,714
Interest expense paid		**(67,997)**	(68,888)
Fee and commission income received		**19,688**	11,505
Fee and commission expense paid		**(5,845)**	(3,514)
Net realised losses from financial instruments at fair value through profit or loss		**(348)**	(378)
Net realised gains/(losses) on dealing in foreign currencies		**886**	(385)
General and administrative expenses paid		**(33,379)**	(37,619)
Other operating expenses paid		**(1,012)**	2,614
(Increase)/decrease in operating assets			
Amounts due from financial institutions		**(11,178)**	5,219
Trading securities		**(1,934)**	(89,937)
Derivative financial assets		**–**	28,920
Loans to customers		**(29,673)**	(52,051)
Other assets		**6,739**	7,619
(Decrease)/increase in operating liabilities			
Current accounts and deposits of customers		**(46,022)**	170,522
Amounts due to banks and other financial institutions		**4,405**	6,705
Amounts payable under repurchase agreements		**19,741**	36,609
Other liabilities		**1,423**	270
Net cash (used in) / from operating activities before income tax		**(36,133)**	131,925
Corporate income tax paid		**(46)**	(68)
Net cash (used in) / from operating activities		**(36,179)**	131,857
Cash flows from investing activities			
Purchase of investment securities at fair value through other comprehensive income (previously classified as held-to-maturity)		**(149,748)**	(22,493)
Proceeds from sale of investment securities at fair value through other comprehensive income		**20,001**	–
Redemption of investment securities at fair value through other comprehensive income		**935,445**	–
Purchase of investment securities at fair value through other comprehensive income		**(982,173)**	–
Proceeds from sale of available-for-sale investment securities		**–**	9,314
Proceeds from redemption of available-for-sale investment securities		**–**	5,037
Purchase of available-for-sale investment securities		**–**	(48,164)
Purchase of property and equipment and intangible assets		**(12,279)**	(5,951)
Proceeds from sale of property and equipment and intangible assets		**952**	62
Net cash used in investing activities		**(187,802)**	(62,195)
Cash flows from financing activities			
Proceeds from return of instruments unclaimed by creditors		**1,647**	–
Repurchase of own shares	23	**(18)**	(572)
Dividends paid to shareholders of the Bank	23	**(7,748)**	(4,534)
Proceeds from placement of debt securities issued		**220,154**	21
Repurchase of debt securities issued	21	**(10,870)**	–
Redemption of debt securities issued		**(7,903)**	(8,133)
Net cash from / (used in) financing activities		**195,262**	(13,218)

The accompanying notes on pages 7 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	*2018*	*2017*
Effect of exchange rate changes on cash and cash equivalents		**21,022**	(1,865)
Effect of expected credit losses on cash and cash equivalents		**(2)**	–
Net change in cash and cash equivalents		**(7,699)**	54,579
Cash and cash equivalents, beginning		**231,820**	177,241
Cash and cash equivalents, ending	12	224,121	231,820
Non-monetary transactions			
Repossession of collateral on loans to customers	15	**16,322**	17,119
Transfer of property and equipment to assets held for sale within other assets		**–**	5,047

The accompanying notes on pages 7 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

(millions of tenge)

	Equity attributable to the shareholders of the Bank						
	Share capital	*Additional paid-in capital*	*Fair value reserve*	*Accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
At 1 January 2018	331,522	21,116	598	(159,676)	193,560	641	194,201
Impact of adopting IFRS 9 *(Note 2)*	–	–	3,243	(16,665)	(13,422)	–	(13,422)
Restated balance in accordance with IFRS 9 at the beginning of the year (unaudited)	331,522	21,116	3,841	(176,341)	180,138	641	180,779
Profit for the year	–	–	–	**29,038**	**29,038**	**70**	**29,108**
Other comprehensive income for the year	–	–	**(1,482)**	–	**(1,482)**	–	**(1,482)**
Total comprehensive income for the year	–	–	**(1,482)**	**29,038**	**27,556**	**70**	**27,626**
Transactions with owners recorded directly in equity							
Repurchase of own shares *(Note 23)*	**(18)**	–	–	–	**(18)**	–	**(18)**
Distribution of dividends *(Note 23)*	–	–	–	**(7,748)**	**(7,748)**	–	**(7,748)**
At 31 December 2018	**331,504**	**21,116**	**2,359**	**(155,051)**	**199,928**	**711**	**200,639**
At 1 January 2017	332,094	21,116	(1,036)	(174,797)	177,377	545	177,922
Profit for the year	–	–	–	19,655	19,655	96	19,751
Other comprehensive income for the year	–	–	1,634	–	1,634	–	1,634
Total comprehensive income for the year	–	–	1,634	19,655	21,289	96	21,385
Transactions with owners recorded directly in equity							
Repurchase of own shares *(Note 23)*	(572)	–	–	–	(572)	–	(572)
Distribution of dividends *(Note 23)*	–	–	–	(4,534)	(4,534)	–	(4,534)
At 31 December 2017	331,522	21,116	598	(159,676)	193,560	641	194,201

The accompanying notes on pages 7 to 78 are an integral part of these consolidated financial statements.

(millions of tenge)

1. General information

Corporate structure and activities

These consolidated financial statements include financial statements of ForteBank Joint Stock Company (hereinafter – the "Bank") and its subsidiaries (together, the "Group").

The Bank was established in 1999 under the laws of the Republic of Kazakhstan. On 10 February 2015, the Bank was reregistered to ForteBank JSC (formerly, Alliance Bank JSC).

Legal address of the Bank's head office: 8/1, Dostyk str., 010017, Astana, Republic of Kazakhstan. The Bank's activities are regulated by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK"). The Bank operates under license No. 1.2.29/197/36 for conducting banking and other activities and operations on securities market stipulated by the banking legislation, issued by the NBRK on 27 February 2015.

The Group's primary business is related to commercial banking activities, granting of loans and guarantees, accepting deposits, exchanging foreign currencies, dealing with securities, transferring cash payments, as well as providing other banking services. Certain debt securities issued by the Bank are listed on the London Stock Exchange, the Luxembourg Stock Exchange and the Kazakhstan Stock Exchange (hereinafter – the "KASE").

The Bank is a participant of the Kazakhstan Deposit Insurance Fund (hereinafter – the "KDIF"). The primary objective of the KDIF is to protect interests of depositors in the event of forced liquidation of the participant bank. As at 31 December 2018 and 2017, depositors can receive limited insurance coverage for deposits, depending on the currency of the deposit: in tenge – up to KZT 10 million, in foreign currencies – up to KZT 5 million.

As at 31 December 2018 and 2017, the Group includes the following subsidiaries:

			Ownership, Note	
Name	*Country of incorporation*	*Principal activities*	*31 December 2018*	*31 December 2017*
ForteLeasing JSC	Republic of Kazakhstan	Leasing operations	**80.6**	80.6
OUSA Alliance LLP	Republic of Kazakhstan	Management of doubtful and bad assets	**100.0**	100.0
OUSA-F LLP	Republic of Kazakhstan	Management of doubtful and bad assets	**100.0**	100.0

Shareholders

As at 31 December 2018, Mr. Utemuratov B.Zh. owns 88.47% of the outstanding common shares of the Bank and is an ultimate controlling shareholder of the Group (as at 31 December 2017: 88.23%). The rest of the shares are held by other shareholders, none of which owns more than 5% of the outstanding common shares.

2. Basis of preparation

General

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

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for trading securities, derivative financial assets and investment securities available-for-sale and at fair value through other comprehensive income, which have been measured at fair value.

Functional and presentation currency of consolidated financial statements

The functional currency of the Bank and its subsidiaries is tenge, as being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of the Group's transactions and circumstances relevant to them affecting its activities.

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

Financial information of the consolidated financial statements is rounded to the nearest million.

(millions of tenge)

2. Basis of preparation (continued)

Reclassification

The following reclassifications have been made in the consolidated income statement for the year ended 31 December 2017, to conform to the 2018 presentation:

Consolidated income statement	*As previously reported*	*Reclassification*	*As reclassified*
Other operating income, net	2,614	(2,614)	–
Other operating income	–	4,411	4,411
Non-interest income	16,886	**1,797**	**18,683**
General and administrative expenses	(36,482)	1,264	(35,218)
Other operating expenses	–	(3,061)	(3,061)
Non-interest expense	(36,568)	**(1,797)**	**(38,365)**

3. Summary of accounting policies

Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The nature and the effect of these changes are disclosed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

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

(a) Classification and measurement

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

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

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

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

(b) Impairment

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

(millions of tenge)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment (continued)

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in *Note 25*. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(c) Effect of adopting IFRS 9

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

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

		IAS 39 measurement		*Reclassifi-*	*Remeasu-rement due*	*IFRS 9*	
Financial assets	***Ref***	***Category***	***Amount***	***cation***	***to ECL***	***Amount***	***Category***
Cash and cash equivalents		L&R[1]	231,820	–	(1)	231,819	Amortised cost
Amounts due from financial institutions		L&R	6,393	–	(71)	6,322	Amortised cost
Trading securities		FVPL	290,919	(284,278)	–	6,641	FVPL
To category: investment securities measured at FVOCI	A			284,278			
Loans to customers		L&R	671,851	–	(12,843)	659,008	Amortised cost
Investment securities, including those pledged under repurchase agreements, at FVOCI		AFS[2]	58,559	284,278	–	342,837	FVOCI (debt instruments)
From category: trading securities	A			(284,278)			
Held-to-maturity investment securities		HTM[3]	23,839	–	(164)	23,675	Amortised cost
Total assets			**1,444,640**	**–**	**(13,079)**	**1,431,561**	
Non-financial liabilities							
Other liabilities (provisions)			–	–	343	343	
Total liabilities			**1,250,439**	**–**	**343**	**1,250,782**	

1 L&R – loans and receivables.

2 AFS – available-for-sale.

3 HTM – held-to-maturity.

A As at 1 January 2018, the Group has classified a significant portion of its previous trading securities as debt instruments at FVOCI. These instruments met the SPPI criterion, were not actively traded and were held with the intention to collect cash flows or to sell.

(millions of tenge)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(c) Effect of adopting IFRS 9 (continued)

The impact of transition to IFRS 9 on reserves and accumulated losses is as follows:

	Reserves and accumulated losses
Fair value reserve	
Balance as at the end of the period under IAS 39 (31 December 2017)	598
Reclassification of debt securities from trading to investment securities at FVOCI	2,955
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	288
Deferred tax in relation to the above	–
Restated opening balance in accordance with IFRS 9 (1 January 2018)	**3,841**
Accumulated losses	
Balance as at the beginning of the period under IAS 39 (31 December 2017)	**(159,676)**
Re-measurement impact of reclassifying trading securities to investment securities at FVOCI	(2,955)
Recognition of IFRS 9 ECLs including those measured at FVOCI	(13,710)
Deferred tax in relation to the above	–
Restated balance in accordance with IFRS 9 (1 January 2018)	**(176,341)**
Total change in equity due to adopting IFRS 9	**(13,422)**

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

	Loan loss allowance / provision under IAS 39 / IAS 37 at 31 December 2017	*Remeasu-rement*	*ECL allowance under IFRS 9 at 1 January 2018*
Impairment allowance for			
Cash and cash equivalents	–	(1)	(1)
Amounts due from financial institutions	(541)	(71)	(612)
Loans to customers at amortised cost	(52,783)	(12,843)	(65,626)
Held-to-maturity investment securities per IAS 39 investment securities at amortised cost under IFRS 9	–	(164)	(164)
Available-for-sale debt investment securities per IAS 39 / debt financial assets at FVOCI under IFRS 9	–	(288)	(288)
	(53,324)	**(13,367)**	**(66,691)**
Financial guarantees and letters of credit	–	(322)	(322)
Credit line commitments	–	(21)	(21)
	–	**(343)**	**(343)**
	(53,324)	**(13,710)**	**(67,034)**

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Group's revenue including interest income, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the majority of the Group's income are not impacted by the adoption of this standard.

(millions of tenge)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

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

Basis of consolidation

Subsidiaries, which are those entities that are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, 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. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns;

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

(millions of tenge)

3. Summary of accounting policies (continued)

Fair value measurement

The Group measures certain financial instruments such as trading and available-for-sale securities, derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in *Note 32*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

In the event of assets and liabilities recognised in the financial statements on a recurring basis, the Group determines the fact of transfer between levels of hierarchy sources by re-assessing categorization (based on the lowest level input that is significant for fair value measurement in whole) at the end of each reporting period.

Financial instruments

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

(millions of tenge)

3. Summary of accounting policies (continued)

Financial instruments (continued)

Initial recognition (continued)

Measurement categories of financial assets and liabilities (continued)

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

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

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

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

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

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

(millions of tenge)

3. Summary of accounting policies (continued)

Financial instruments (continued)

Initial recognition (continued)

The SPPI test

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

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

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

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

Debt instruments at FVOCI

From 1 January 2018, the Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

From 1 January 2018, upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

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

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

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

(millions of tenge)

3. Summary of accounting policies (continued)

Financial instruments (continued)

Initial recognition (continued)

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognised in other comprehensive income until the investment was derecognised or until the investment was determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to profit or loss. However, interest calculated using the effective interest method was recognised in profit or loss.

Reclassification of financial assets and liabilities

From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets and liabilities in 2017.

Cash and cash equivalents

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

Repurchase and reverse repurchase agreements and securities lending

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

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in profit or loss. The obligation to return them is recorded at fair value as a trading liability.

(millions of tenge)

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of comprehensive income as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

From 1 January 2018, with the introduction of IFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

Borrowings

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

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is 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 to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

(millions of tenge)

3. Summary of accounting policies (continued)

Renegotiated loans

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

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

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

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

For modifications not resulting in derecognition, the Group also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

Impairment of financial assets under IAS 39

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

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

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

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

(millions of tenge)

3. Summary of accounting policies (continued)

Impairment of financial assets under IAS 39 (continued)

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that had not affected the years on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist currently. Estimates of changes in future cash flows reflected, and were directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that were indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Information on impairment assessment under IFRS 9 is presented in *Note 25*.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Write-off

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Government grants

Government grants are recognized if it is virtually certain that they will be received and all conditions associated with them will be met. If a grant is issued to finance a specific expenditure, it must be recognized as income on a systematic basis in the same periods in which the corresponding expenses incurred that it must compensate. Such subsidies are deducted from the related expenses when they are recorded in the consolidated financial statements.

(millions of tenge)

3. Summary of accounting policies (continued)

Government grants (continued)

When the Group receives subsidies in the form of non-monetary assets, the asset and the subsidy are accounted for at nominal amounts and are recorded in profit or loss in equal parts annually in accordance with the structure of consumption of the benefits from the underlying asset during the expected useful life.

The benefit received from a loan provided by the government at an interest rate below the market rate is recorded as a government grant. The loan is recognized and measured in accordance with IFRS 9. The benefit from using interest rates below market is estimated as the difference between the initial carrying amount of the loan, determined in accordance with IFRS 9, and the funds received.

Leases

Operating – group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into general and administrative expenses.

Operating – group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised on a straight-line basis over the lease term within other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred in connection with operating lease agreement are added to the carrying amount of a leased out asset.

Property and equipment

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of an asset begins when it is available for use, that is, when its location and state allow it to operate in a mode consistent with the intentions of the Group's management. Land, construction in progress and assets for installation are not depreciated. The estimated useful lives are as follows:

	Years
Buildings	30-40
Computer hardware	3-7
Vehicles	5-7
Other	2-15

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

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

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 profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are 1 to 8 years.

(millions of tenge)

3. Summary of accounting policies (continued)

Inventories

Inventories are valued at the lower of acquisition cost and net realizable value. Net realisable value is the estimated asset's selling price in the ordinary course of the Group's business, less the estimated costs to sell.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan, which requires withholdings by the employer calculated as a percentage from current gross salary payments. Such expense is charged in the period the related salaries are accrued, and is included to "General and administrative expenses" in the consolidated statement of comprehensive income. The Group contributes social tax to the budget of the Republic of Kazakhstan for its employees. The Group has no post-retirement benefits.

Provisions

Provisions are recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources 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.

Contingencies

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

Equity

Share capital

Common shares and non-redeemable preferred shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries acquire the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

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

Taxation

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

Current income 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.

Deferred tax assets and deferred tax 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 assets and deferred tax liabilities are not recognised in respect of the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(millions of tenge)

3. Summary of accounting policies (continued)

Taxation (continued)

The measurement of deferred tax assets and liabilities 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 deferred tax liabilities are 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.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

Kazakhstan also has various operating taxes that are imposed on activities of the Bank and some of its subsidiaries. These taxes are included in the consolidated statement of comprehensive income within taxes other than corporate income tax.

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar revenue and expense

From 1 January 2018, the Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying EIR to the amortized cost of financial assets). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

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

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in profit or loss.

Fee and commission income

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

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

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

Fee income from providing transaction services

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

(millions of tenge)

3. Summary of accounting policies (continued)

Income and expense recognition (continued)

Customer loyalty programs

The Group offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. For point-based programs, the Group generally recognized a liability for the accumulated points that are expected to be utilized by the customers, which is reversed to profit or loss as the points expire. Cashbacks on plastic card transactions reduce fee and commission income.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Segment reporting

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

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate established by the KASE on the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of comprehensive income as net gains/(losses) from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the KASE exchange rate on the date of the transaction are included in Net gains/(losses) from foreign currencies.

As at 31 December 2018, the official exchange rate used for translation of monetary balances on foreign currency accounts was KZT 384.2 for 1 US dollar (as at 31 December 2017: KZT 332.33 to 1 US dollar).

Standards issued but not yet effective

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

(millions of tenge)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

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

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

Preliminary estimated effect of adoption of IFRS 16 on Group's consolidated statement of financial position is as follows:

	1 January 2019
Assets	
Property and equipment (right of use assets)	5,453
Deferred tax asset	106
Total assets	**5,559**
Liabilities	
Other liabilities (lease liabilities)	5,984
Total liabilities	**5,984**
Net impact on equity	**(425)**

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

(millions of tenge)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (continued)

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

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

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

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

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

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

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

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. The amendments will not have an impact on the Group's consolidated financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

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

(millions of tenge)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (continued)

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

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

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

These improvements include:

IFRS 3 Business Combinations

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

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

IFRS 11 Joint Arrangements

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

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

IAS 12 Income Taxes

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

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

IAS 23 Borrowing Costs

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

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

(millions of tenge)

4. Significant accounting judgements and estimates

Estimation uncertainty

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 outcomes could differ from these estimates.

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

Fair value of financial instruments

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

Collateral assessment

The Bank management performs monitoring of collateral on a regular basis. The management of the Bank uses experienced judgements or an independent assessment in order to adjust the cost of collateral considering the current market conditions.

Impairment losses on financial assets

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

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

The amount of allowance for loan impairment recognised in consolidated statement of financial position at 31 December 2018 was KZT 73,153 million (2017: KZT 52,783 million). More details are provided in *Notes 15* and *25*.

Taxation

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or non-existent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

The management believes that the Bank's tax position as at 31 December 2018 and 2017 was in compliance with tax laws of the Republic of Kazakhstan regulating its activities. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

Assessment of recoverability of deferred income tax assets requires to use subjective judgements by the Group's management around the likely timing and the level of future taxable profit together with the tax planning strategy.

The management believes that deferred tax assets as at 31 December 2018 are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised, and deferred income tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

(millions of tenge)

5. Net interest income

Net interest income is presented as follows:

	2018	*2017*
Interest revenue calculated using the effective interest rate		
Loans to customers	**92,779**	95,130
Debt investment securities at FVOCI	**22,963**	–
Available-for-sale investment securities	**–**	4,128
Investment securities at amortised cost (previously classified as held-to-maturity)	**4,763**	706
Amounts due from financial institutions	**1,157**	1,415
Amounts receivable under reverse repurchase agreements	**880**	236
	122,542	101,615
Other interest income		
Trading securities	**395**	18,731
	122,937	120,346
Interest expense		
Current accounts and deposits of customers	**(50,030)**	(57,033)
Debt securities issued	**(18,077)**	(13,771)
Amounts due to banks and other financial institutions	**(3,021)**	(3,180)
Subordinated debt	**(1,792)**	(1,792)
Amounts payable under repurchase agreements	**(623)**	(131)
	(73,543)	(75,907)
Net interest income	**49,394**	44,439

Interest income for the year ended 31 December 2018 includes interest income of KZT 7,852 million accrued on impaired financial assets (2017: KZT 8,739 million).

6. Fee and commission income

Fee and commission income is presented as follows:

	2018	*2017*
Card operations	**9,591**	3,839
Settlement transactions	**5,640**	4,112
Cash operations	**2,732**	1,949
Guarantees and letters of credit	**1,137**	903
Foreign currency transactions and transactions with securities	**256**	526
Trust management, custody and other fiduciary services	**54**	69
Other	**796**	604
	20,206	12,002

7. Net gains from foreign currencies

Net gains from foreign currencies are presented as follows:

	2018	*2017*
Dealing transactions, net	**886**	(385)
Translation differences, net	**369**	1,350
	1,255	965

(millions of tenge)

8. Credit loss expense

Credit loss expense for 2018 is presented as follows:

	2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Amounts due from financial institutions	(20)	–	–	–	(20)
Loans to customers *(Note 15)*	(1,699)	3,831	(5,266)	574	(2,560)
Investment securities at amortised cost	(15)	(489)	–	–	(504)
Investment securities at FVOCI	(521)	(891)	–	–	(1,412)
Other financial assets	–	–	(670)	–	(670)
Financial guarantees, letters of credit and loan commitment	166	–	–	–	166
	(2,089)	**2,451**	**(5,936)**	**574**	**(5,000)**

Credit loss expense for 2017 is presented as follows:

	2017
Loans to customers *(Note 15)*	280
Amounts due from financial institutions	(3)
Other assets	(363)
	(86)

9. General and administrative expenses

General and administrative expenses are presented as follows:

	2018	*2017*
Personnel expenses and related taxes	**(19,005)**	(19,616)
Depreciation and amortisation	**(4,164)**	(3,936)
Taxes other than corporate income tax	**(2,375)**	(2,177)
Repair and maintenance	**(1,716)**	(1,583)
Rent *(Note 29)*	**(1,579)**	(1,579)
Maintenance of buildings	**(1,323)**	(1,327)
Advertising and marketing	**(1,290)**	(981)
Telecommunication and information services	**(1,071)**	(1,026)
Security	**(873)**	(911)
Charity and sponsorship	**(748)**	–
Encashment	**(395)**	(410)
Transportation	**(358)**	(370)
Business trips	**(265)**	(262)
Other professional services	**(217)**	(223)
Legal services	**(10)**	(141)
Other	**(472)**	(676)
	(35,861)	(35,218)

(millions of tenge)

10. Other income and expenses

Other income and expenses are presented as follows:

	2018 год	*2017 год*
Other income		
Income from operating lease	**2,332**	1,924
Gain from purchase of investment securities	**2,209**	–
Net gain from sale of repossessed collateral	**–**	1,068
Other	**1,115**	1,419
	5,656	4,411
Other expenses		
Other expense on non-banking operations	**(1,430)**	(1,656)
Net loss on sale of inventory	**(861)**	–
Loss on modification of loans to customers	**(783)**	–
Loss on repurchase of debt securities issued	**(628)**	–
Net loss on derecognition of mortgage loans	**(361)**	–
Other	**(1,352)**	(1,405)
	(5,415)	(3,061)

The net loss from derecognition of mortgage loans includes a loss recognised as a result of a significant modification of mortgage loans less gain from government subsidy under the state program for refinancing mortgage loans. In accordance with the terms of this program, the Group attracted long-term deposits from Kazakhstan Sustainability Fund JSC at below-market interest rates to compensate losses from refinancing mortgage loans in foreign currency on non-market terms. The fair value of deposits at initial recognition was determined by the Group using market rates from 13.2% to 14.5% per annum. The fair value of mortgage loans as a result of significant modification upon initial recognition was determined by the Group using market rates from 17.2% to 18.5% per annum.

11. Corporate income tax expense

Corporate income tax expense comprises:

	2018	*2017*
Current corporate income tax change	**(46)**	(72)
Deferred corporate income tax charge – origination and reversal of temporary differences	**(4,845)**	(4,934)
Corporate income tax expense	**(4,891)**	(5,006)

The Bank and its subsidiaries are subject to taxation in the Republic of Kazakhstan. Kazakhstan legal entities are required to file independently income tax returns with the tax authorities, and the statutory corporate income tax rate in 2018 and 2017 was 20%.

Below is the reconciliation of corporate income tax expense based on statutory rate with corporate income tax expense recorded in the consolidated financial statements:

	2018	*2017*
Profit before corporate income tax expense	**33,999**	24,757
Statutory corporate income tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**(6,800)**	(4,951)
Non-taxable income on government securities and securities officially listed at the KASE	**5,166**	4,988
Change in unrecognised deferred tax assets	**(875)**	(5,496)
Adjustment of corporate income tax (expense)/benefit for prior years	**(575)**	759
Non-deductable expected credit losses	**(1,024)**	–
Other	**(783)**	(306)
Corporate income tax expense	**(4,891)**	(5,006)

(millions of tenge)

11. Corporate income tax expense (continued)

Deferred tax assets and liabilities as at 31 December, as well as their movements for the respective years comprise the following:

	2016	*Origination and reversal of temporary differences in profit or loss*	*2017*	*Origination and reversal of temporary differences in profit or loss*	*Origination and reversal of temporary differences in other comprehensive income*	*2018*
Tax losses carried forward	44,575	(3,593)	40,982	**(9,722)**	–	**31,260**
Loans to customers	(158)	(38)	(196)	**1,974**	–	**1,778**
Investment securities at FVOCI	–	14	14	**(831)**	323	**(494)**
Investment securities measured at amortised cost	–	–	–	**(110)**	–	**(110)**
Debt securities issued	(128)	(139)	(267)	**(16,401)**	–	**(16,668)**
Dynamic reserve	(7,809)	–	(7,809)	**7,809**	–	–
Current accounts and deposits of customers	(17,408)	1,411	(15,997)	**13,520**	–	**(2,477)**
Property and equipment and intangible assets	(1,786)	3,549	1,763	**647**	–	**2,410**
Other	1,341	(601)	740	**(795)**	–	**(55)**
Deferred tax assets	18,627	603	19,230	**(3,909)**	**323**	**15,644**
Unrecognised deferred corporate income tax assets	(6,994)	(5,496)	(12,490)	**(875)**	–	**(13,365)**
Deferred tax assets, net	11,633	(4,893)	6,740	**(4,784)**	**323**	**2,279**
Other deferred tax liabilities	(81)	(41)	(122)	**(61)**	–	**(183)**
Deferred tax liabilities	(81)	(41)	(122)	**(61)**	–	**(183)**

12. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2018	*31 December 2017*
Cash on hand	**54,463**	31,732
Cash on current accounts with the NBRK rated BBB-	**54,365**	144,748
Cash on current accounts with other banks		
- rated from A- to A+	**32,813**	36,787
- rated from BBB- to BBB+	**2,908**	1,744
- rated from BB- to BB+	**664**	1,910
- rated below B+	**443**	191
- not rated	**150**	43
Time deposits with other banks with contractual maturity of 90 days or less		
- rated from BBB- to BBB+	–	6,659
Time deposits with the NBRK rated BBB- with contractual maturity of 90 days or less	–	8,006
Amounts receivable under reverse repurchase agreements *(Note 27)*	**78,317**	–
	224,123	231,820
Allowance for impairment	**(2)**	–
Cash and cash equivalents	**224,121**	231,820

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

Cash and cash equivalents are neither impaired nor overdue.

(millions of tenge)

12. Cash and cash equivalents (continued)

As at 31 December 2018, the Group entered into reverse repurchase agreements at the Kazakhstan Stock Exchange. The subject of these agreements are the government bonds with the fair value of KZT 79,739 million as at 31 December 2018. There were no such agreements as at 31 December 2017.

Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a percentage of specified banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (cash in local currency and on accounts with the NBRK) equal or in excess of the average minimum requirements. As at 31 December 2018, minimum reserve requirements of the Bank amount to KZT 17,876 million (as at 31 December 2017: KZT 15,913 million).

Concentration of cash and cash equivalents

As at 31 December 2018, the Group has accounts with two banks which balances exceed 10% of total cash and cash equivalents (as at 31 December 2017: one bank). The total balance on the accounts with the above counterparties as at 31 December 2018 and 2017 amounts to KZT 82,657 million and KZT 152,754 million, respectively.

13. Amounts due from financial institutions

Amounts due from financial institutions comprise:

	31 December 2018	*31 December 2017*
Current accounts with the NBRK rated BBB-, restricted in use	**1,263**	120
Loans and deposits with other banks:		
- rated below B+	**3,250**	3,041
- not rated	**591**	541
Contingent deposits and deposits pledged as a collateral:		
- rated from AA- to AA+	**19**	17
- rated from A- to A+	**3,879**	2,789
- rated from BB- to BB+	**8,343**	–
- not rated	**1,658**	426
Amounts due from financial institutions before allowance for impairment	**19,003**	6,934
Allowance for impairment	**(788)**	(541)
Amounts due from financial institutions	**18,215**	6,393

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

Amounts on current accounts with the NBRK restricted in use represent funds received by the Bank as part of participation in the state program of lending to businesses.

As at 31 December 2018 contingent deposits and deposits pledged as collateral include contingent deposits, restricted for use on transactions with providers of payment operation services in the amount of KZT 5,512 million (31 December 2017: KZT 3,205 million) and deposits pledged as collateral under counter-guarantees, issued to the clients of the Group, in the amount of KZT 8,343 million (31 December 2017: nil).

Concentration of amounts due from financial institutions

As at 31 December 2018 and 2017, the Group has amounts due from three financial institutions which balances exceed 10% of total amounts due from financial institutions (as at 31 December 2017: three). The total value of these balances as at 31 December 2018 is KZT 15,377 million (as at 31 December 2017: KZT 5,747 million).

(millions of tenge)

14. Trading securities

Trading securities comprise:

	31 December 2018	*31 December 2017*
Debt instruments		
Government bonds		
Treasury bills of the United States of America rated AAA	–	36,285
Notes of the NBRK rated BBB-	–	204,370
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan rated BBB	–	29,894
Total government bonds	–	270,549
Corporate bonds		
- rated from AA- to AA+	–	656
- rated from BBB- to BBB+	–	3,348
Total corporate bonds	–	4,004
Bonds of banks		
- rated from BBB- to BBB+	–	1,072
- rated from BB- to BB+	–	8,654
- rated from B- to B+	8,046	5,196
Total bonds of banks	8,046	14,922
Equity instruments	1,465	1,444
	9,511	290,919

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

As at 31 December 2017, notes of the NBRK with the fair value of KZT 43,145 million are pledged under the repurchase agreements entered into on KASE *(Note 27)*.

15. Loans to customers

Loans to customers comprise:

	31 December 2018					*31 December*
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*	*2017*
Individually significant corporate loans						
Loans to large entities	190,875	15,999	45,765	–	252,639	216,385
Total individually significant corporate loans	190,875	15,999	45,765	–	252,639	216,385
Individually insignificant corporate loans and loans to individuals						
Corporate loans	86,701	5,884	22,475	69	115,129	128,313
Mortgage loans	37,512	1,826	32,796	5,644	77,778	93,135
Consumer loans	120,789	1,756	9,755	–	132,300	84,161
Car loans	1,401	5	2,120	–	3,526	3,480
Credit cards	2,114	56	217	–	2,387	483
Other loans secured by collateral	99,135	6,816	66,365	6,723	179,039	198,677
Total individually insignificant corporate loans and loans to individuals	347,652	16,343	133,728	12,436	510,159	508,249
Loans to customers before allowance for impairment	538,527	32,342	179,493	12,436	762,798	724,634
Allowance for impairment	(4,326)	(1,369)	(68,032)	574	(73,153)	(52,783)
Loans to customers	534,201	30,973	111,461	13,010	689,645	671,851

(millions of tenge)

15. Loans to customers (continued)

Quality of individually significant corporate loans

Information on the quality of individually significant corporate loans at 31 December 2018 is presented in the table below:

	31 December 2018			
	Loans before allowance for impairment	*Allowance for impairment*	*Loans net of allowance for impairment*	*Allowance for impairment to loans before allowance for impairment, (%)*
Individually significant corporate loans				
Stage 1 loans	**190,875**	**(1,635)**	**189,240**	**0.86**
Stage 2 and 3 loans				
- not overdue	**19,661**	**(2,618)**	**17,043**	**13.32**
- overdue for less than 90 days	**3,939**	**(68)**	**3,871**	**1.73**
- overdue for 90 days to 360 days	**8,952**	**(3,038)**	**5,914**	**33.94**
- overdue for more than 360 days	**29,212**	**(21,797)**	**7,415**	**74.62**
Total Stage 2 and 3 loans	**61,764**	**(27,521)**	**34,243**	**44.56**
Total individually significant corporate loans	**252,639**	**(29,156)**	**223,483**	**11.54**

Information on the quality of individually significant corporate loans at 31 December 2017 is presented in the table below:

	Loans before allowance for impairment	*Allowance for impairment*	*Loans net of allowance for impairment*	*Allowance for impairment to gross loans (%)*
Individually significant corporate loans				
Loans without individual signs of impairment	155,563	(273)	155,290	0.18
Impaired loans:				
- not overdue	32,234	(2,406)	29,828	7.46
- overdue for less than 90 days	1,122	(728)	394	64.88
- overdue for 90 to 360 days	7,275	(2,495)	4,780	34.30
- overdue for more than 360 days	20,191	(12,615)	7,576	62.48
Total impaired loans	60,822	(18,244)	42,578	30.00
Total individually significant corporate loans	216,385	(18,517)	197,868	8.56

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

	2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2018	151,290	59,693	27,942	–	238,925
New assets originated or purchased	**122,980**	–	–	–	**122,980**
Assets derecognised or repaid (excluding write-offs)	**(89,888)**	**(28,027)**	**(9,485)**	–	**(127,400)**
Transfers to Stage 1	**6,279**	**(6,279)**	–	–	–
Transfers to Stage 2	**(12,796)**	**15,383**	**(2,587)**	–	–
Transfers to Stage 3	–	**(21,473)**	**21,473**	–	–
Net change in accrued interest	**(102)**	**(3,483)**	**7,017**	–	**3,432**
Changes to contractual cash flows due to modifications not resulting in derecognition	–	–	**(783)**	–	**(783)**
Recoveries	–	–	**4,191**	–	**4,191**
Write-offs	–	–	**(3,886)**	–	**(3,886)**
Effect from changes in exchange rates	**13,112**	**185**	**1,883**	–	**15,180**
At 31 December 2018	**190,875**	**15,999**	**45,765**	–	**252,639**

(millions of tenge)

15. Loans to customers (continued)

	2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2018	(2,038)	(2,265)	(19,495)	–	(23,798)
New assets originated or purchased	**(259)**	–	–	–	**(259)**
Assets derecognised or repaid (excluding write-offs)	**370**	**986**	**6,079**	–	**7,435**
Transfers to Stage 1	**(61)**	**61**	–	–	–
Transfers to Stage 2	**159**	**(3,867)**	**3,708**	–	–
Transfers to Stage 3	–	**482**	**(482)**	–	–
Impact on period end ECL of exposures transferred between stages during the period	**(96)**	**4,125**	**(7,404)**	–	**(3,375)**
Changes to models and inputs used for ECL calculations	**443**	**(38)**	**(6,746)**	–	**(6,341)**
Changes to contractual cash flows due to modifications not resulting in derecognition	–	–	**783**	–	**783**
Unwinding of discount	–	–	**(1,922)**	–	**(1,922)**
Recoveries	–	–	**(4,191)**	–	**(4,191)**
Write-offs	–	–	**3,886**	–	**3,886**
Effect from changes in exchange rates	**(153)**	**(42)**	**(1,179)**	–	**(1,374)**
At 31 December 2018	**(1,635)**	**(558)**	**(26,963)**	–	**(29,156)**

Movements in the allowance for impairment of corporate loans that are individually significant for the year ended 31 December 2017 are as follows:

	2017
At 1 January 2017	(24,870)
Net reversal	3,061
Write-offs	10,985
Recoveries of amounts previously written-off	(7,615)
Effect of changes in exchange rates	(78)
At 31 December 2017	**(18,517)**

(millions of tenge)

15. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals

The following table provides information on the credit quality of corporate loans that are individually insignificant and loans to individuals collectively assessed for impairment as at 31 December 2018:

	Loans before allowance for impairment	*Allowance for impairment*	*Loans net of allowance for impairment*	*Allowance for impairment to loans before allowance for impairment, (%)*
Individually insignificant corporate loans				
Not overdue	92,694	(222)	92,472	0.24
Overdue for less than 30 days	1,527	(42)	1,485	2.75
Overdue for 30 to 89 days	1,507	(27)	1,480	1.79
Overdue for 90 to 179 days	441	(4)	437	0.91
Overdue for 180 to 360 days	958	(56)	902	5.85
Overdue for more than 360 days	18,002	(5,547)	12,455	30.81
Total individually insignificant corporate loans	115,129	(5,898)	109,231	5.12
Mortgage loans				
Not overdue	41,558	(230)	41,328	0.55
Overdue for less than 30 days	2,163	(41)	2,122	1.90
Overdue for 30 to 89 days	1,309	(52)	1,257	3.97
Overdue for 90 to 179 days	546	(77)	469	14.10
Overdue for 180 to 360 days	629	(50)	579	7.95
Overdue for more than 360 days	31,573	(9,643)	21,930	30.54
Total mortgage loans	77,778	(10,093)	67,685	12.98
Consumer loans				
Not overdue	117,058	(1,711)	115,347	1.46
Overdue for less than 30 days	3,849	(410)	3,439	10.65
Overdue for 30 to 89 days	1,699	(692)	1,007	40.73
Overdue for 90 to 179 days	1,283	(1,084)	199	84.49
Overdue for 180 to 360 days	1,798	(1,509)	289	83.93
Overdue for more than 360 days	6,613	(5,023)	1,590	75.96
Total consumer loans	132,300	(10,429)	121,871	7.88
Car loans				
Not overdue	1,406	(2)	1,404	0.14
Overdue for less than 30 days	3	–	3	0.00
Overdue for 30 to 89 days	5	–	5	0.00
Overdue for 90 to 179 days	4	–	4	0.00
Overdue for 180 to 360 days	2	(1)	1	50.00
Overdue for more than 360 days	2,106	(480)	1,626	22.79
Total car loans	3,526	(483)	3,043	13.70
Credit cards				
Not overdue	1,953	(380)	1,573	19.46
Overdue for less than 30 days	164	(76)	88	46.34
Overdue for 30 to 89 days	56	(47)	9	83.93
Overdue for 90 to 179 days	49	(42)	7	85.71
Overdue for 180 to 360 days	32	(27)	5	84.38
Overdue for more than 360 days	133	(113)	20	84.96
Total credit cards	2,387	(685)	1,702	28.70
Other loans secured by collateral				
Not overdue	101,973	(121)	101,852	0.12
Overdue for less than 30 days	7,022	(7)	7,015	0.10
Overdue for 30 to 89 days	4,790	(11)	4,779	0.23
Overdue for 90 to 179 days	2,416	(212)	2,204	8.77
Overdue for 180 to 360 days	3,011	(138)	2,873	4.58
Overdue for more than 360 days	59,827	(15,920)	43,907	26.61
Total other loans secured by collateral	179,039	(16,409)	162,630	9.17
Total individually insignificant corporate loans and loans to individuals	510,159	(43,997)	466,162	8.62

(millions of tenge)

15. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals (continued)

The following table provides information on the credit quality of corporate loans that are individually insignificant and loans to individuals collectively assessed for impairment as at 31 December 2017:

	Loans before allowance for impairment	*Allowance for impairment*	*Loans net of allowance for impairment*	*Allowance for impairment to gross loans, (%)*
Individually insignificant corporate loans				
Not overdue	97,574	(498)	97,076	0.51
Overdue for less than 30 days	1,225	(5)	1,220	0.41
Overdue for 30 to 89 days	1,131	(5)	1,126	0.44
Overdue for 90 to 179 days	1,706	(28)	1,678	1.64
Overdue for 180 to 360 days	1,505	(240)	1,265	15.95
Overdue for more than 360 days	25,172	(5,876)	19,296	23.34
Total individually insignificant corporate loans	128,313	(6,652)	121,661	5.18
Mortgage loans				
Not overdue	49,133	(7)	49,126	0.01
Overdue for less than 30 days	2,429	(3)	2,426	0.12
Overdue for 30 to 89 days	1,218	(1)	1,217	0.08
Overdue for 90 to 179 days	1,182	(464)	718	39.26
Overdue for 180 to 360 days	1,087	(227)	860	20.88
Overdue for more than 360 days	38,086	(8,028)	30,058	21.08
Total mortgage loans	93,135	(8,730)	84,405	9.37
Consumer loans				
Not overdue	73,108	(213)	72,895	0.29
Overdue for less than 30 days	2,919	(159)	2,760	5.45
Overdue for 30 to 89 days	1,017	(357)	660	35.10
Overdue for 90 to 179 days	1,033	(668)	365	64.67
Overdue for 180 to 360 days	1,733	(1,293)	440	74.61
Overdue for more than 360 days	4,351	(3,258)	1,093	74.88
Total consumer loans	84,161	(5,948)	78,213	7.07
Car loans				
Not overdue	1,453	–	1,453	0.00
Overdue for less than 30 days	18	–	18	0.00
Overdue for 30 to 89 days	–	–	–	0.00
Overdue for 90 to 179 days	6	–	6	0.00
Overdue for 180 to 360 days	11	(1)	10	9.09
Overdue for more than 360 days	1,992	(123)	1,869	6.17
Total car loans	3,480	(124)	3,356	3.56
Credit cards				
Not overdue	347	(1)	346	0.29
Overdue for less than 30 days	19	(1)	18	5.26
Overdue for 30 to 89 days	2	(1)	1	50.00
Overdue for 90 to 179 days	1	(1)	–	100.00
Overdue for 180 to 360 days	2	(1)	1	50.00
Overdue for more than 360 days	112	(82)	30	73.21
Total credit cards	483	(87)	396	18.01
Other loans secured by collateral				
Not overdue	111,730	(42)	111,688	0.04
Overdue for less than 30 days	8,519	(4)	8,515	0.05
Overdue for 30 to 89 days	6,386	(1,047)	5,339	16.40
Overdue for 90 to 179 days	2,481	(115)	2,366	4.64
Overdue for 180 to 360 days	3,003	(138)	2,865	4.60
Overdue for more than 360 days	66,558	(11,379)	55,179	17.10
Total other loans secured by collateral	198,677	(12,725)	185,952	6.40
Total individually insignificant corporate loans and loans to individuals	508,249	(34,266)	473,983	6.74

(millions of tenge)

15. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals (continued)

Analysis of movements in gross carrying value and ECL

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

Individually insignificant corporate loans	***2018***				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value at 1 January 2018	70,285	14,261	24,009	–	108,555
New assets originated or purchased	**158,642**	–	–	**70**	**158,712**
Assets derecognised or repaid (excluding write-offs)	**(140,362)**	**(6,365)**	**(8,481)**	**(2)**	**(155,210)**
Transfers to Stage 1	**5,531**	**(5,531)**	–	–	–
Transfers to Stage 2	**(7,346)**	**8,158**	**(812)**	–	–
Transfers to Stage 3	–	**(3,722)**	**3,722**	–	–
Net change in accrued interest	**(260)**	**(917)**	**1,254**	**1**	**78**
Recoveries	–	–	**2,545**	–	**2,545**
Write-offs	–	–	**(3,184)**	–	**(3,184)**
Effect from changes in exchange rates	**211**	–	**3,422**	–	**3,633**
At 31 December 2018	**86,701**	**5,884**	**22,475**	**69**	**115,129**

Individually insignificant corporate loans	***2018***				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL at 1 January 2018	(45)	(62)	(7,215)	–	(7,322)
New assets originated or purchased	**(261)**	–	–	–	**(261)**
Assets derecognised or repaid (excluding write-offs)	**479**	**72**	**5,479**	**13**	**6,043**
Transfers to Stage 1	**(54)**	**54**	–	–	–
Transfers to Stage 2	**56**	**(87)**	**31**	–	–
Transfers to Stage 3	–	**124**	**(124)**	–	–
Impact on period end ECL of exposures transferred between stages during the period	**(183)**	**29**	**(1,922)**	–	**(2,076)**
Changes in models and inputs used for ECL calculations	**42**	**(160)**	**(1,020)**	–	**(1,138)**
Unwinding of discount	–	–	**(538)**	–	**(538)**
Recoveries	–	–	**(2,545)**	–	**(2,545)**
Write-offs	–	–	**3,184**	–	**3,184**
Effect from changes in exchange rates	**(34)**	–	**(1,211)**	–	**(1,245)**
At 31 December 2018	**–**	**(30)**	**(5,881)**	**13**	**(5,898)**

(millions of tenge)

15. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals (continued)

Analysis of movements in gross carrying value and ECL (continued)

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

	2018				
Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value at 1 January 2018	41,209	4,060	40,196	5,606	91,071
New assets originated or purchased	8,269	–	–	340	8,609
Assets derecognised or repaid (excluding write-offs)	(6,351)	(210)	(22,253)	(436)	(29,250)
Transfers to Stage 1	1,717	(1,717)	–	–	–
Transfers to Stage 2	(6,245)	6,654	(409)	–	–
Transfers to Stage 3	–	(6,351)	6,351	–	–
Net change in accrued interest	(1,178)	(615)	6,857	134	5,198
Recoveries	–	–	8,018	–	8,018
Write-offs	–	–	(8,396)	–	(8,396)
Effect from changes in exchange rates	91	5	2,432	–	2,528
At 31 December 2018	37,512	1,826	32,796	5,644	77,778

	2018				
Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL at 1 January 2018	(42)	(47)	(10,580)	–	(10,669)
New assets originated or purchased	(788)	–	–	–	(788)
Assets derecognised or repaid (excluding write-offs)	769	32	13,256	108	14,165
Transfers to Stage 1	(33)	33	–	–	–
Transfers to Stage 2	16	(23)	7	–	–
Transfers to Stage 3	–	34	(34)	–	–
Impact on period end ECL of exposures transferred between stages during the period	(22)	(49)	(9,376)	–	(9,447)
Changes in models and inputs used for ECL calculations	8	(2)	(1,689)	–	(1,683)
Unwinding of discount	–	–	(1,817)	–	(1,817)
Recoveries	–	–	(8,018)	–	(8,018)
Write-offs	–	–	8,396	–	8,396
Effect from changes in exchange rates	–	–	(232)	–	(232)
At 31 December 2018	(92)	(22)	(10,087)	108	(10,093)

(millions of tenge)

15. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals (continued)

Analysis of movements in gross carrying value and ECL (continued)

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

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
			2018		
Gross carrying value at 1 January 2018	74,920	2,064	7,176	–	84,160
New assets originated or purchased	124,706	–	–	–	124,706
Assets derecognised or repaid (excluding write-offs)	(74,877)	(796)	(1,657)	–	(77,330)
Transfers to Stage 1	3,441	(3,441)	–	–	–
Transfers to Stage 2	(7,810)	7,963	(153)	–	–
Transfers to Stage 3	–	(4,066)	4,066	–	–
Net change in accrued interest	409	32	2,228	–	2,669
Recoveries	–	–	759	–	759
Write-offs	–	–	(2,664)	–	(2,665)
Effect from changes in exchange rates	–	–	–	–	–
At 31 December 2018	120,789	1,756	9,755	–	132,300

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
			2018		
ECL at 1 January 2018	(1,248)	(493)	(6,177)	–	(7,918)
New assets originated or purchased	(1,189)	–	–	–	(1,189)
Assets derecognised or repaid (excluding write-offs)	309	202	1,508	–	2,019
Transfers to Stage 1	(571)	571	–	–	–
Transfers to Stage 2	917	(1,056)	139	–	–
Transfers to Stage 3	–	1,328	(1,328)	–	–
Impact on period end ECL of exposures transferred between stages during the period	(219)	(867)	(1,936)	–	(3,022)
Changes in models and inputs used for ECL calculations	(73)	(373)	–	–	(446)
Unwinding of discount	–	–	(1,778)	–	(1,778)
Recoveries	–	–	(759)	–	(759)
Write-offs	–	–	2,664	–	2,664
Effect from changes in exchange rates	–	–	–	–	–
At 31 December 2018	(2,074)	(688)	(7,667)	–	(10,429)

(millions of tenge)

15. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals (continued)

Analysis of movements in gross carrying value and ECL (continued)

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

	2018				
Car loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value at 1 January 2018	1,436	–	2,009	–	3,445
New assets originated or purchased	571	–	–	–	571
Assets derecognised or repaid (excluding write-offs)	(591)	(5)	(226)	–	(822)
Transfers to Stage 1	10	(10)	–	–	–
Transfers to Stage 2	(25)	25	–	–	–
Transfers to Stage 3	–	(5)	5	–	–
Net change in accrued interest	–	–	315	–	315
Recoveries	–	–	195	–	195
Write-offs	–	–	(312)	–	(312)
Effect from changes in exchange rates	–	–	134	–	134
At 31 December 2018	**1,401**	**5**	**2,120**	–	**3,526**

	2018				
Car loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL at 1 January 2018	(1)	(1)	(240)	–	(242)
New assets originated or purchased	(1)	–	–	–	(1)
Assets derecognised or repaid (excluding write-offs)	2	1	287	–	290
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Impact on period end ECL of exposures transferred between stages during the period	–	–	(361)	–	(361)
Changes in models and inputs used for ECL calculations	–	–	(220)	–	(220)
Unwinding of discount	–	–	(57)	–	(57)
Recoveries	–	–	(195)	–	(195)
Write-offs	–	–	312	–	312
Effect from changes in exchange rates	–	–	(9)	–	(9)
At 31 December 2018	–	–	**(483)**	–	**(483)**

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

	2018				
Credit cards	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value at 1 January 2018	338	16	119	–	473
New assets originated or purchased	4,137	–	–	–	4,137
Assets derecognised or repaid (excluding write-offs)	(2,187)	(14)	(35)	–	(2,236)
Transfers to Stage 1	74	(74)	–	–	–
Transfers to Stage 2	(248)	306	(58)	–	–
Transfers to Stage 3	–	(178)	178	–	–
Net change in accrued interest	–	–	12	–	12
Recoveries	–	–	43	–	43
Write-offs	–	–	(42)	–	(42)
Effect from changes in exchange rates	–	–	–	–	–
At 31 December 2018	**2,114**	**56**	**217**	–	**2,387**

(millions of tenge)

15. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals (continued)

Analysis of movements in gross carrying value and ECL (continued)

			2018		
Credit cards	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL at 1 January 2018	(63)	(13)	(55)	–	(131)
New assets originated or purchased	**(239)**	–	–	–	**(239)**
Assets derecognised or repaid (excluding write-offs)	**245**	**2**	**63**	–	**310**
Transfers to Stage 1	**(65)**	**65**	–	–	–
Transfers to Stage 2	**88**	**(92)**	**4**	–	–
Transfers to Stage 3	–	**71**	**(71)**	–	–
Impact on period end ECL of exposures transferred between stages during the period	**(314)**	**(72)**	**(90)**	–	**(476)**
Changes in models and inputs used for ECL calculations	**(105)**	**(9)**	–	–	**(114)**
Unwinding of discount	–	–	**(34)**	–	**(34)**
Recoveries	–	–	**(43)**	–	**(43)**
Write-offs	–	–	**42**	–	**42**
Effect from changes in exchange rates	–	–	–	–	–
At 31 December 2018	**(453)**	**(48)**	**(184)**	–	**(685)**

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

			2018		
Other loans secured by collateral	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value at 1 January 2018	106,124	10,230	74,464	5,919	196,737
New assets originated or purchased	**34,109**	–	–	**1,120**	**35,229**
Assets derecognised or repaid (excluding write-offs)	**(18,841)**	**(2,897)**	**(37,120)**	**(493)**	**(59,351)**
Transfers to Stage 1	**2,278**	**(2,278)**	–	–	–
Transfers to Stage 2	**(24,886)**	**25,497**	**(611)**	–	–
Transfers to Stage 3	–	**(23,744)**	**23,744**	–	–
Net change in accrued interest	–	**(5)**	**4,654**	**177**	**4,826**
Recoveries	–	–	**11,058**	–	**11,058**
Write-offs	–	–	**(15,040)**	–	**(15,040)**
Effect from changes in exchange rates	**351**	**13**	**5,216**	–	**5,580**
At 31 December 2018	**99,135**	**6,816**	**66,365**	**6,723**	**179,039**

(millions of tenge)

15. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals (continued)

Analysis of movements in gross carrying value and ECL (continued)

Other loans secured by collateral	*2018* Stage 1	Stage 2	Stage 3	POCI	Total
ECL at 1 January 2018	(73)	(46)	(15,427)	–	(15,546)
New assets originated or purchased	**(1,079)**	**–**	–	–	**(1,079)**
Assets derecognised or repaid (excluding write-offs)	**676**	**93**	**16,297**	–	**17,066**
Transfers to Stage 1	**(21)**	**21**	–	–	–
Transfers to Stage 2	**639**	**(672)**	**33**	–	–
Transfers to Stage 3	**–**	**722**	**(722)**	–	–
Impact on period end ECL of exposures transferred between stages during the period	**(212)**	**(143)**	**(16,570)**	–	**(16,925)**
Changes in models and inputs used for ECL calculations	**(2)**	**2**	**(1,684)**	**453**	**(1,231)**
Unwinding of discount	–	–	**(2,236)**	–	**(2,236)**
Recoveries	–	–	**(11,058)**	–	**(11,058)**
Write-offs	–	–	**15,040**	–	**15,040**
Effect from changes in exchange rates	–	–	**(440)**	–	**(440)**
At 31 December 2018	**(72)**	**(23)**	**(16,767)**	**453**	**(16,409)**

Movements in the loan impairment allowance by classes of corporate loans that are not individually significant and loans to individuals for 2017 are as follows:

	Individually insignificant corporate loans	*Mortgage loans*	*Consumer loans*	*Car loans*	*Credit cards*	*Other loans secured by collateral*	*Total*
At 1 January 2017	(6,962)	(7,803)	(3,754)	(56)	(99)	(12,390)	(31,064)
Net (charge)/reversal	(359)	616	(2,051)	(52)	51	(986)	(2,781)
Write-offs	4,454	2,836	923	126	4	7,418	15,761
Recoveries of amounts previously written-off	(3,797)	(4,385)	(1,066)	(142)	(41)	(6,776)	(16,207)
Effect of changes in exchange rates	12	6	–	–	(2)	9	25
At 31 December 2017	**(6,652)**	**(8,730)**	**(5,948)**	**(124)**	**(87)**	**(12,725)**	**(34,266)**

The amount of undiscounted ECL at initial recognition on purchased credit-impaired loans and advances to customers that were initially recognised during the year ended 31 December 2018 was as follows:

	2018
Individually insignificant corporate loans	16
Mortgage loans	1,511
Other loans secured by collateral	1,855
Total undiscounted ECL at initial recognition of POCI	**3,382**

Modified and restructured loans

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification loss suffered by the Group.

	2018
Loans modified during the period	
Amortised cost before modification	12,420
Net modification loss	(783)

(millions of tenge)

15. Loans to customers (continued)

Analysis of collateral and other enhancements

Individually significant corporate loans are subject to assessment and impairment testing on an individual basis. The creditworthiness of a corporate customer is generally the main indicator of the issued loan quality. However, collateral represents additional securities, and the Group generally asks corporate borrowers for its provision.

Guarantees and suretyship from individuals including shareholders of borrowers represented by small and medium-sized businesses are not taken into account in impairment assessment. Recoverability of neither past due nor individually impaired loans mainly depends on creditworthiness of the borrower rather than on value of collateral.

For certain mortgage loans and other loans to individuals, the Group updates the estimated values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also carry out a specific individual valuation of collateral at each reporting date where indications of impairments exist.

As at 31 December 2018, loans net of allowance with overdue over 90 days amount to KZT 102,267 million (as at 31 December 2017: KZT 130,454 million). As at 31 December 2018 total fair value of collateral securing such loans, limited to the amount of the before provision for impairment book value of the respective loan, was equal to KZT 139,834 million (as at 31 December 2017: KZT 146,361 million).

Repossessed collateral

During 2018, the Group repossessed collateral on loans to customers, represented by real estate, with a carrying amount totalling to KZT 16,322 million (2017: KZT 17,119 million). The Group's policy assumes sale of these assets as soon as it is practicable.

Industry and geographical analysis of loans

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

	31 December 2018	*31 December 2017*
Loans to retail customers	**395,030**	379,936
Metallurgy	**65,710**	44,781
Real estate activities	**59,870**	71,363
Wholesale trading	**53,986**	53,932
Construction	**39,405**	37,061
Services provided by small and medium businesses	**31,743**	29,856
Retail services	**22,928**	20,877
Food industry	**18,293**	26,334
Financial services	**13,093**	11,024
Transportation	**10,639**	11,191
Production of crude oil and natural gas	**6,402**	43
Textile production	**5,956**	3,153
Agriculture	**3,657**	3,787
Production of metal goods	**3,069**	2,707
Manufacturing	**3,042**	3,043
Chemical industry	**1,286**	804
Post and communication	**1,068**	821
Machine-engineering	**441**	585
Other	**27,180**	23,336
	762,798	724,634
Allowance for impairment	**(73,153)**	(52,783)
	689,645	671,851

Concentration of loans to customers

As at 31 December 2018, the concentration of loans issued by the Group to the ten largest independent borrowers amounted to KZT 140,662 million or 18.4% of the total loan portfolio (as of 31 December 2017: KZT 127,755 million or 17.6% of the total loan portfolio). Allowance for impairment for these loans is KZT 2,199 million (as at 31 December 2017: KZT 103 million).

(millions of tenge)

16. Investment securities

Investment securities, including those pledged under repurchase agreements, comprise:

	31 December 2018	*31 December 2017*
Debt investment securities measured at amortised cost (previously classified as held-to-maturity)		
Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan rated BBB-	**15,703**	13,610
Bonds of foreign countries rated BB+	**776**	672
Total government bonds	**16,479**	14,282
Corporate bonds		
Rated from BB- to BB+	**160,369**	5,377
Total corporate bonds	**160,369**	5,377
Bonds of banks		
Rated from BB- to BB+	**4,807**	4,180
Total bonds of banks	**4,807**	4,180
Investment securities measured at amortised cost (previously classified as held-to-maturity) before allowance for impairment	**181,655**	23,839
Allowance for impairment	**(715)**	–
Investment securities measured at amortised cost (previously classified as held-to-maturity)	**180,940**	23,839
Debt securities at FVOCI		
Government bonds		
Treasury bills of the United States of America rated AAA	**19,185**	–
Notes of the NBRK rated BBB-	**121,320**	–
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan rated BBB-	**85,848**	–
Bonds of the Sultanate of Oman rated BB	**4,756**	–
Total government bonds	**231,109**	–
Corporate bonds		
Rated from AA- to AA+	**732**	–
Rated from BBB- to BBB+	**92,072**	–
Total corporate bonds	**92,804**	–
Bonds of banks		
Rated from BBB- to BBB+	**25,865**	–
Rated from BB- to BB+	**38,084**	–
Rated below B+	**1,673**	–
Total bonds of banks	**65,622**	–
Investment securities at FVOCI	**389,535**	–

On 25 September 2018 and 28 September 2018 the Group purchased corporate bonds of National Welfare Fund "Samruk-Kazyna" JSC and "Kazakhstan Temir Zholy" JSC recorded at KZT 75,274 million and KZT 75,275 million, correspondingly. Both investment securities were classified as securities measured at amortised cost maturing on 15 November 2024.

(millions of tenge)

16. Investment securities (continued)

On 11 October 2018, the Group acquired bonds of NAC Kazatomprom JSC, indexed to the US Dollar and maturing on 11 November 2019 with fair value at the date of initial recognition in the amount of KZT 71,407 million. The Group classified these bonds as investment securities measured at FVOCI. Debt securities issued by the Group, which are held by NWF Samruk-Kazyna JSC *(Note 21)*, with a total nominal value of KZT 220,000 million, act as a collateral for obligations to the Group on the above listed bonds.

Available-for-sale investment securities	*31 December 2018*	*31 December 2017*
Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan rated BBB-	–	47,109
Total government bonds	–	47,109
Corporate bonds		
Rated from BBB- to BBB+	–	6,027
Total corporate bonds	–	6,027
Bonds of banks		
Rated from BB- to BB+	–	3,762
Rated below B+	–	1,661
Total bonds of banks	–	5,423
	–	58,559

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

As at 31 December 2018, investment securities at FVOCI (31 December 2017: available-for-sale investment securities), represented by treasury bills of the Ministry of Finance of the Republic of Kazakhstan with the fair value of KZT 57,994 million were pledged under the repurchase agreements entered into on KASE (as at 31 December 2017: KZT 10,421 million) *(Note 27)*.

(millions of tenge)

17. Property and equipment

The movements in property and equipment were as follows:

	Land	*Buildings*	*Computers*	*Vehicles*	*Construction-in-progress and equipment for installation*	*Other*	*Total*
Cost							
1 January 2017	1,835	34,191	2,958	448	11,096	14,626	65,154
Additions	–	505	556	2	1,992	4,038	7,093
Recovery of amounts previously written-off	–	–	–	–	–	366	366
Transfers	–	4,359	208	(3)	(8,928)	4,364	–
Disposals	(81)	(6,374)	(545)	(50)	–	(1,685)	(8,735)
31 December 2017	1,754	32,681	3,177	397	4,160	21,709	63,878
Additions	**11**	**2,717**	804	**51**	**7**	**3,317**	**6,907**
Recovery of amounts previously written-off	–	–	–	–	–	–	–
Transfers	–	**1,255**	–	–	**(1,255)**	–	–
Disposals	**(151)**	**(902)**	**(590)**	**(41)**	–	**(4,582)**	**(6,266)**
31 December 2018	**1,614**	**35,751**	**3,391**	**407**	**2,912**	**20,444**	**64,519**
Accumulated depreciation							
1 January 2017	–	(2,245)	(2,138)	(219)	–	(9,854)	(14,456)
Depreciation charge	–	(954)	(317)	(58)	–	(2,024)	(3,353)
Disposals	–	900	544	46	–	1,450	2,940
31 December 2017	–	(2,299)	(1,911)	(231)	–	(10,428)	(14,869)
Depreciation charge	–	**(866)**	**(422)**	**(51)**	–	(2,248)	**(3,587)**
Transfers	–	–	–	–	–	–	–
Disposals	–	**278**	**589**	**35**	–	**4,531**	**5,433**
31 December 2018	–	**(2,887)**	**(1,744)**	**(247)**	–	**(8,145)**	**(13,023)**
Net book value							
1 January 2017	1,835	31,946	820	229	11,096	4,772	50,698
31 December 2017	**1,754**	**30,382**	**1,266**	**166**	**4,160**	**11,281**	**49,009**
31 December 2018	**1,614**	**32,864**	**1,647**	**160**	**2,912**	**12,299**	**51,496**

(millions of tenge)

18. Other assets

Other assets comprise:

	31 December 2018	*31 December 2017*
Repossessed collaterals	**65,774**	61,346
Other receivables from banking activities	**25,802**	15,520
Prepayments and other receivables	**18,543**	13,164
Long-term assets held for sale	**4,566**	5,047
Prepaid taxes, other than corporate income tax	**3,303**	4,333
Accrued receivables on return of instruments unclaimed by creditors	**–**	3,139
Investment property	**1,256**	1,404
Inventory	**687**	462
Current corporate income tax assets	**–**	24
Other	**1,106**	107
Total other assets	**121,037**	104,546
Allowance for impairment	**(3,497)**	(2,777)
	117,540	101,769

In 2018, the Group took possession of collaterals with a total value of KZT 16,322 million (2017: KZT 17,119 million). Even though the Bank is currently working actively to dispose these assets, most of them have not been sold within short period of time. Management still intends to sell the repossessed collateral.

On 15 December 2017, a three-year period, during which creditors could submit their settlement instructions to receive entitlements under the Bank's 2014 restructuring, including cash, Eurobonds denominated in US dollars and GDRs, expired. In 2017, the Group recognised amounts receivable on return of instruments unclaimed by creditors of KZT 3,139 million, including gain from return of cash in the amount of KZT 1,647 million and gain from return of Eurobonds issued in the amount of KZT 1,492 million, which were recognised as gain from return of instruments unclaimed by creditors in the consolidated statement of comprehensive income. On 4 January and 5 January 2018, cash, Eurobonds issued and GDRs were transferred by the distribution agent to the Bank's accounts.

19. Current accounts and deposits of customers

Current accounts and deposits of customers comprise:

	31 December 2018	*31 December 2017*
Current accounts and demand deposits		
- Retail customers	**56,364**	39,941
- Corporate customers	**276,719**	178,949
Time deposits		
- Retail customers	**439,744**	405,416
- Corporate customers	**237,853**	293,706
Guarantee deposits		
- Retail customers	**15,642**	9,801
- Corporate customers	**49,306**	53,412
	1,075,628	981,225
Held as collateral under letters of credit and guarantees	**(144)**	(125)

Concentration of current accounts and deposits of customers

As at 31 December 2018 total amount of account balances of top 10 clients amounted to KZT 226,872 million or 21% of total current accounts and deposits of customers (as at 31 December 2017: KZT 398,038 million or 40%).

As at 31 December 2018 time deposits include deposits of individuals in the amount of KZT 511,750 million (as at 31 December 2017: KZT 459,906 million), which are guaranteed by KFGD on behalf of the government.

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

(millions of tenge)

20. Amounts due to banks and other financial institutions

Amounts due to banks and other financial institutions include the following:

	31 December 2018	*31 December 2017*
Loans from governmental organizations	**56,483**	52,705
Loans from other financial institutions	**14,946**	21,848
Current accounts and deposits of banks	**699**	1,341
	72,128	75,894

As at 31 December 2018, loans from governmental organisations included loans from Entrepreneurship Development Fund "Damu" JSC and Kazakhstan Development Bank JSC in the amount of KZT 22,840 million and KZT 9,683 million, respectively (at 31 December 2017: KZT 21,193 million and KZT 9,684 million, respectively), as part of the state program to support small and medium-sized businesses by the banking sector. The loans are denominated in KZT, bear interest rates of 2.0-8.5% per annum and mature in 2018-2035.

As at 31 December 2018 loans from governmental organisations also include deposits in the amount of KZT 31,928 million (as at 31 December 2017: KZT 20,453 million) received from Kazakhstan Sustainability Fund JSC as part of the governmental program for refinancing of mortgage and housing loans to customers. The deposits are denominated in tenge, have an interest rate of 0.1-2.99% per annum (effective rate 13.2-14.5% per annum) and mature in 2035.

As at 31 December 2018 loans from other financial institutions include loans in the amount of KZT 10,653 million (as at 31 December 2017: KZT 18,134 million) received from European Bank for Reconstruction and Development as part of the program for supporting of investments in micro, small and medium businesses in the Republic of Kazakhstan and Women in Business program. The loans are denominated in tenge, bear interest rate of 9.5% per annum and mature in 2019-2020.

21. Debt securities issued

Debt securities issued include the following:

	Maturity date	*Coupon rate*	*31 December 2018*	*31 December 2017*
Eurobonds denominated in US Dollars				
Eurobonds issued in 2014	2024	11.75%	**50,539**	62,361
Eurobonds issued in 2010	2022	14%	**13,781**	11,912
			64,320	74,273
Bonds denominated in tenge				
Bonds issued in 2018	2024	4%	**137,966**	–
Bonds issued in 2015	2025	10.13%	**47,306**	46,856
Bonds issued in 2010	2020	8% (1% + inflation index)	**3,992**	3,992
			189,264	50,848
			253,584	125,121

In September 2018, the Group issued debt securities with a total nominal value of KZT 220,000 million, a coupon rate of 4% per annum and maturity in 2024. The bonds were transferred to NWF Samruk-Kazyna JSC in exchange for a deposit in the amount of KZT 220,000 million tenge placed with the Bank on similar terms. The difference between the carrying amount of the deposit and the fair value of the bonds at initial recognition in the amount of KZT 9,160 million was recognized by the Group in the consolidated statement of comprehensive income as "gain from derecognition of financial liabilities".

During 2018, the Group repurchased issued debt securities with a carrying value at the date of the transaction of KZT 10,242 million for KZT 10,870 million. The loss resulting from this transaction amounted to KZT 628 million and was recognized in other expenses of the consolidated statement of comprehensive income.

Bonds denominated in tenge and issued in 2010 are secured by the Group's mortgage loans issued to customers with a total value of KZT 11,142 million (31 December 2017: KZT 11,021 million).

22. Subordinated debt

As at 31 December 2018 and 2017 subordinated debt included bonds denominated in tenge, maturing in 2020-2031 with a fixed coupon rate of 8% per annum. The coupon is paid semi-annually.

(millions of tenge)

23. Share capital

The number of authorised, issued and outstanding common shares and share capital as at 31 December 2018 and 2017 are as follows:

	31 December 2018	*31 December 2017*
Common shares		
Number of authorised shares	**150,003,000,000**	150,003,000,000
Number of issued shares	**92,387,104,089**	92,387,104,089
Number of re-acquired shares	**(1,246,952,788)**	(1,005,510,843)
Number of outstanding shares	**91,140,151,301**	91,381,593,246
Total share capital, millions of tenge	**331,504**	331,522

Movements in outstanding, placed and fully paid shares were as follows:

	Number of common shares	*Placement value*
At 1 January 2017	91,836,075,713	332,094
Repurchase of own shares	(454,482,467)	(572)
At 31 December 2017	91,381,593,246	331,522
Return of shares not claimed by creditors	**(223,792,003)**	**–**
Repurchase of own shares	**(17,649,942)**	**(18)**
At 31 December 2018	**91,140,151,301**	**331,504**

Based on the decision taken at the annual general meeting of shareholders held on 2 April 2018, the Bank declared dividends on common shares for the year ended 31 December 2017 in the amount of KZT 7,748 million or KZT 0.085 per common share. In 2017, the Bank declared dividends on common shares for the year ended 31 December 2016 in the amount of KZT 4,534 million or KZT 0.05 per share.

24. Earnings per share

The following table reflects net profit and share information used in the basic and diluted earnings per share computations:

	2018	*2017*
Net profit	**29,038**	19,655
The weighted average number of common shares for the year	**91,155,112,522**	91,466,718,199
Basic and diluted earnings per share, in tenge	**0.32**	0.21

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

25. Risk management

Introduction

Risk management is inherent in the bank activities and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk, liquidity risk and operational risks.

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to monitor continuously 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.

Risk management structure

Board of Directors

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 large exposures.

(millions of tenge)

25. Risk management (continued)

Risk management structure (continued)

Management Board

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

Risk Committees

Credit, market and liquidity risks, both at the portfolio and transactional levels are managed and controlled through a system of credit committees and the Asset and Liability Management Committee ("ALCO"). For improving the efficiency of decision-making process, the Group has established a hierarchy of credit committees depending on the type and amount of risk exposure.

Credit Risk Department

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 determining the level of adequacy of the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Credit Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

Bank Treasury

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

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information collected from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the risk committees, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry and customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

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

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

(millions of tenge)

25. Risk management (continued)

Risk management structure (continued)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

Credit risk

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

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

The maximum exposure to credit risk for the components of the consolidated statement of financial position, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.i

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future because of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in *Note 15*.

Impairment assessment

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

PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

(millions of tenge)

25. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due and more on its contractual payments.

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

- Internal rating of the borrower indicating default or near-default;
- The borrower is deceased;
- A covenant breach not waived by the Group;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy, declared bankrupt by court decision or by the borrower itself;
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties;
- Debt was restructured due to worsening financial condition of the borrower;
- Transfer of the borrower to bad debt recovery division.

It is the Group's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been observed as of reporting date, subject to reduction of debt amount for this financial instrument or, in case of restructuring, at least twelve consecutive months passed after restructuring. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Internal rating and PD estimation process

The Group Credit Risk Department operates its internal rating models. For borrowers of corporate business and small and medium-sized businesses, a single rating model is used. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Treasury and interbank relationships

The Group's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group's Strategic Risk Department analyses publicly available information such as external ratings international rating agencies that are used for ECL estimation.

(millions of tenge)

25. Risk management (continued)

Credit risk (continued)

Corporate and small business lending

For corporate loans, the borrowers are assessed by Credit Risk Department of the Group. The credit risk assessment is based on a financial model that takes into account various historical, current and forward-looking information such as:

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

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

Retail lending

Retail lending comprises secured and unsecured loans to individuals and credit cards. These products are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are personal indebtedness, monthly loan payment to salary coefficient, for residential mortgages, LTV ratios and the collateral value in the case of other loans secured by collateral.

Exposure at default

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

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities.

Loss given default

For corporate lending, LGD values are assessed at least monthly by account managers and reviewed and approved by the Group's Credit Risk department.

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

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

(millions of tenge)

25. Risk management (continued)

Credit risk (continued)

Loss given default (continued)

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. Except for retail loans, the Group considers an exposure to have significantly increased in credit risk when there was a decrease in the borrower's rating compared to the rating at the time of initial recognition based on an analysis of the Group's statistics confirming the materiality of such a reduction in relation to the increase in credit risk.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as deterioration of the Bank's communication with the borrower, which, in the Bank's opinion, may lead to difficulties in repaying the loan or granting a grace period of more than 1 month when the client contacts. In certain cases, the Group may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

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

Grouping financial assets measured on a collective basis

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

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

- All Stage 3 assets, regardless of the class of financial assets;
- Stage 2 and Stage 3 corporate lending portfolio;
- The large and unique exposures of the small business lending portfolio;
- The treasury and interbank relationships (such as amounts due from banks, cash equivalents and debt investment securities at amortised cost and FVOCI);
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

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

- The smaller and more generic balances of the Group's small business lending;
- Stage 1 and 2 retail mortgages and consumer lending and Stage 1 corporate lending portfolio;
- Purchased POCI exposures managed on a collective basis.

The Group groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, loan-to-value ratios, or borrower's industry.

(millions of tenge)

25. Risk management (continued)

Credit risk (continued)

Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Volume of oil and gas condensate production;
- Unemployment rates;
- Level of trading in retail industry;
- NBRK base rates;
- Inflation rates;
- Real wage index;
- Foreign exchange rates.

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

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2019*
GDP growth, %			
	Upside	10%	10.07%
	Base case	80%	3.90%
	Downside	10%	1.20%
Index of physical volume of industrial production (in % to the previous year)			
	Upside	10%	111.56%
	Base case	80%	102.90%
	Downside	10%	99.88%
Volume of oil and gas condensate production (million tons)			
	Upside	10%	81.11%
	Base case	80%	88.00%
	Downside	10%	45.12%
Index of physical volume of gross output (services) of agriculture, as % of the previous year			
	Upside	10%	115.32%
	Base case	80%	106.20%
	Downside	10%	91.66%

(millions of tenge)

25. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group by means of analysis of overdue days for loans, for other financial instruments – based on ratings assigned by international rating agencies according to the table below. Credit quality analysis is presented in notes of related financial assets *(Note 15)*.

Rating of external international rating agency (Moody's)	*Rating of external international rating agency (Fitch)*	*Annual PD*
Aa1 to Aaa	AA+ to AAA	
Aa2	AA	
A1 to Aa3	A+ to AA-	0-0.5%
A3 to A2	A- to A	
Baa1	BBB+	
Baa2	BBB	
Baa3	BBB-	
Ba1	BB+	0.45-0.5%
Ba3 to Ba2	BB- to BB	
B3 to B1	B- to B+	
Caa2 to Caa1	CCC to CCC+	0.7-10.6%
Ca to Caa3	C to CCC-	20.4-32.6%
Default	D	100%

See *Note 11* for more detailed information with respect to the allowance for impairment of loans to customers.

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks comprise 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 marker exchange rates.

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

Overall authority for market risk is vested in the ALCO. Market risk limits are approved by the ALCO based on recommendations of the Market Risk Management Division of the Credit Risk Department and subsequently agreed by the Board of Directors.

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

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate movements scenarios.

(millions of tenge)

25. Risk management (continued)

Interest rate risk

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

Interest rate risk is managed principally through monitoring interest rate gaps. As the majority of the financial instruments bear fixed interest rates the interest gap analysis is similar to the maturity analysis.

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit and equity to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis points symmetrical fall or 300 basis points rise in yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 2017 is as follows:

	2018	*2017*
	Effect on profit	*Effect on profit*
Decrease by 100 basis points	**3,430**	1,226
Increase by 300 basis points	**(10,291)**	(3,678)

An analysis of the sensitivity of net profit or loss and equity as a result of changes in fair value of financial instruments at fair value through profit or loss and securities available-for-sale (till 1 January 2018) and debt securities at FVOCI (after 1 January 2018) due to changes in interest rates based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 100 basis points symmetrical fall or 300 basis points rise in yield curves is as follows:

	2018		*2017*	
	Effect on profit	*Effect on other comp-rehensive income*	*Effect on profit*	*Effect on other comp-rehensive income*
Decrease by 100 basis points	**289**	**6,989**	2,926	1,932
Increase by 300 basis points	**(798)**	**(17,725)**	(7,746)	(5,234)

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 due to changes in foreign exchange rates. Despite the fact that the Group hedges its exposure to currency risk, such transactions do not qualify as hedging relationships in accordance with IFRS.

(millions of tenge)

25. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The following table shows financial assets and liabilities by foreign currencies:

At 31 December 2018	*Tenge*	*US Dollar*	*Euro*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	109,406	94,480	16,671	3,564	224,121
Amounts due from financial institutions	4,511	13,704	–	–	18,215
Trading securities	1,465	8,046	–	–	9,511
Loans to customers	533,186	155,976	72	411	689,645
Investment securities	326,553	240,376	3,546	–	570,475
Other financial assets	31,640	1,198	53	1	32,892
Total financial assets	1,006,761	513,780	20,342	3,976	1,544,859
Liabilities					
Current accounts and deposits of customers	553,398	498,058	20,305	3,867	1,075,628
Amounts due to banks and other financial institutions	67,136	4,978	14	–	72,128
Amounts payable under repurchase agreements	56,392	–	–	–	56,392
Debt securities issued	189,264	64,320	–	–	253,584
Subordinated debt	22,648	–	–	–	22,648
Other financial liabilities	5,474	430	135	20	6,059
Total financial liabilities	894,312	567,786	20,454	3,887	1,486,439
Net position	112,449	(54,006)	(112)	89	58,420
Impact of derivative instruments held for the purpose of risk management	(48,353)	48,870	–	–	517
Net position adjusted for impact of derivative instruments held for the purpose of risk management	64,096	(5,136)	(112)	89	58,937

(millions of tenge)

25. Risk management (continued)

Market risk (continued)

Currency risk (continued)

At 31 December 2017	*Tenge*	*US Dollar*	*Euro*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	32,292	185,333	12,455	1,740	231,820
Amounts due from financial institutions	3,171	3,222	–	–	6,393
Trading securities	213,393	77,526	–	–	290,919
Loans to customers	520,256	151,080	95	420	671,851
Available-for-sale investment securities	47,184	11,375	–	–	58,559
Held-to-maturity investment securities	–	23,839	–	–	23,839
Other financial assets	18,123	4,436	378	–	22,937
Total financial assets	834,419	456,811	12,928	2,160	1,306,318
Liabilities					
Current accounts and deposits of customers	607,730	358,855	12,744	1,896	981,225
Amounts due to banks and other financial institutions	70,840	4,880	174	–	75,894
Amounts payable under repurchase agreements	36,639	–	–	–	36,639
Debt securities issued	50,848	74,273	–	–	125,121
Subordinated debt	22,740	–	–	–	22,740
Other financial liabilities	6,625	482	30	5	7,142
Total financial liabilities	795,422	438,490	12,948	1,901	1,248,761
Net position	38,997	18,321	(20)	259	57,557
Impact of derivative instruments held for the purpose of risk management	18,240	(18,278)	–	–	(38)
Net position adjusted for impact of derivative instruments held for the purpose of risk management	57,237	43	(20)	259	57,519

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. This analysis was made on a before tax basis and is based on foreign currency exchange rate movements 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. Negative amounts in the table reflect a potential net reduction in profit or equity, while a positive amount reflects a net potential increase.

	2018		*2017*	
Currency	*Increase in currency rate, %*	*Effect on profit before tax*	*Increase in currency rate, %*	*Effect on profit before tax*
US Dollar	**14**	**(719)**	10	4
Euro	**14**	**(16)**	13.5	(3)

	2018		*2017*	
Currency	*Decrease in currency rate, %*	*Effect on profit before tax*	*Decrease in currency rate, %*	*Effect on profit before tax*
US Dollar	**(10)**	**514**	(10)	(4)
Euro	**(10)**	**11**	(9.5)	2

(millions of tenge)

25. Risk management (continued)

Operational risk

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

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting the 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 risk management. Due to diversity of transactions and a related uncertainty, exact matching of maturities of assets and liabilities is not a usual practice for financial institutions. 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 meet all cash flow obligations as they become due. Liquidity risk management policy is reviewed and approved by the Board of Directors.

The Group seeks to actively support a diversified and stable funding base comprising issued debt securities, long-term and short-term loans from other banks, deposits of the main corporate customers and individuals as well as diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity risk management includes the following procedures:

- Projecting cash flows by major currencies and considering 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 liquidity gaps;
- Maintaining liquidity and funding contingency plans;
- Monitoring compliance with liquidity ratios implied by regulatory requirements.

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

The daily liquidity position is monitored by the Treasury and regular liquidity stress testing under a variety of scenarios covering both normal and more unfavorable market conditions is performed by the Credit Risk Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a monthly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury.

(millions of tenge)

25. Risk management (continued)

Liquidity risk (continued)

The following tables show the undiscounted contractual cash flows on financial assets, liabilities and 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 assets, liabilities or credit related commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial assets and liabilities and contingent and contractual liabilities based on undiscounted contractual cash flows as at 31 December 2018 is as follows:

	On demand and less than 1 months	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Without maturity*	*Total*	*Carrying amount*
Non-derivative financial assets								
Cash and cash equivalents	224,121	–	–	–	–	–	224,121	224,121
Amounts due from financial institutions	–	–	5,054	10,483	2,849	–	18,386	18,215
Trading securities	9,511	–	224	1,344	–	–	11,079	9,511
Loans to customers	111,536	50,517	203,826	749,830	204,452	–	1,320,161	689,645
Investment securities	86,423	13,063	151,674	137,609	247,769	–	636,538	570,475
Other financial assets	1,525	505	20,053	10,020	3,427	–	35,530	32,892
Total non-derivative financial assets	433,116	64,085	380,831	909,286	458,497	–	2,245,815	1,544,859
Non-derivative financial liabilities								
Current accounts and deposits of customers	(477,674)	(48,165)	(360,225)	(176,480)	(59,408)	–	(1,121,952)	(1,075,628)
Amounts due to banks and other financial institutions	(946)	(2,620)	(9,068)	(15,059)	(62,571)	–	(90,264)	(72,128)
Amounts payable under repurchase agreements	(56,439)	–	–	–	–	–	(56,439)	(56,392)
Debt securities issued	(1,515)	(156)	(21,538)	(115,603)	(214,435)	–	(353,247)	(253,584)
Subordinated debt	(25)	–	(1,674)	(14,226)	(18,754)	–	(34,679)	(22,648)
Other financial liabilities	(5,997)	(30)	(16)	(14)	(2)	–	(6,059)	(6,059)
Total non-derivative financial liabilities	(542,596)	(50,971)	(392,521)	(321,382)	(355,170)	–	(1,662,640)	(1,486,439)
Net liquidity gap on financial assets and financial liabilities	(109,480)	13,114	(11,690)	587,904	103,327	–	583,175	47,833
Contingent liabilities	(4,900)	(3,960)	(6,400)	(18,215)	(110)	–	(33,585)	

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the right to receive the accrued interest income. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay. Accordingly, in the above table, deposits of individuals are presented in accordance with contractual terms with consideration of this assumption.

(millions of tenge)

25. Risk management (continued)

Liquidity risk (continued)

Management expects that the repayment of liabilities and disposal of assets may 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 on these financial assets and liabilities may differ from contractual terms.

The maturity analysis for financial assets and liabilities and contingent and contractual liabilities based on undiscounted contractual cash flows as at 31 December 2017 is as follows:

	On demand and less than 1 months	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Without maturity*	*Total*	*Carrying amount*
Non-derivative financial assets								
Cash and cash equivalents	231,836	–	–	–	–	–	231,836	231,820
Amounts due from financial institutions	9	41	3,267	2,806	546	–	6,669	6,393
Trading securities	104,353	40,065	101,610	27,294	28,338	73	301,733	290,919
Loans to customers	141,227	43,835	168,217	666,837	421,951	–	1,442,067	671,851
Available-for-sale investment securities	1,428	285	5,369	54,268	14,780	–	76,130	58,559
Held-to-maturity investment securities	77	110	970	5,291	35,653	–	42,101	23,839
Other financial assets	16,481	389	2,128	5,228	12	–	24,238	22,937
Total non-derivative financial assets	495,411	84,725	281,561	761,724	501,280	73	2,124,774	1,306,318
Non-derivative financial liabilities								
Current accounts and deposits of customers	(360,040)	(44,934)	(283,808)	(179,421)	(225,210)	–	(1,093,413)	(981,225)
Amounts due to banks and other financial institutions	(1,401)	(1,767)	(9,084)	(24,301)	(58,897)	–	(95,450)	(75,894)
Amounts payable under repurchase agreements	(36,704)	–	–	–	–	–	(36,704)	(36,639)
Debt securities issued	(1,697)	(156)	(18,661)	(96,188)	(101,661)	–	(218,363)	(125,121)
Subordinated debt	(25)	–	(1,674)	(14,789)	(19,983)	–	(36,471)	(22,740)
Other financial liabilities	(7,109)	(30)	(2)	–	(1)	–	(7,142)	(7,142)
Total non-derivative financial liabilities	(406,976)	(46,887)	(313,229)	(314,699)	(405,752)	–	(1,487,543)	(1,248,761)
Net liquidity gap on financial assets and financial liabilities	88,435	37,838	(31,668)	447,025	95,528	73	637,231	57,557
Contingent liabilities	(6,604)	(2,622)	(2,279)	(8,853)	–	–	(20,358)	

(millions of tenge)

26. Maturity analysis of assets and liabilities

The following table shows the expected maturities of assets and liabilities as at 31 December 2018 and 2017:

At 31 December 2018	*Less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Without maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	224,121	–	–	–	–	–	–	224,121
Amounts due from financial institutions	–	–	4,884	10,482	2,849	–	–	18,215
Trading securities	9,511	–	–	–	–	–	–	9,511
Loans to customers	23,491	36,931	139,025	335,295	70,394	–	84,509	689,645
Investment securities	86,152	12,770	131,920	110,316	229,317	–	–	570,475
Property and equipment	–	–	–	–	–	51,496	–	51,496
Intangible assets	–	–	–	–	–	5,441	–	5,441
Deferred tax assets	–	–	–	2,279	–	–	–	2,279
Other assets	16,288	807	91,266	5,696	3,427	–	56	117,540
Total assets	359,563	50,508	367,095	464,068	305,987	56,937	84,565	1,688,723
Liabilities								
Current accounts and deposits of customers	(475,408)	(43,686)	(346,375)	(155,623)	(54,536)	–	–	(1,075,628)
Amounts due to banks and other financial institutions	(753)	(2,394)	(7,708)	(9,455)	(51,818)	–	–	(72,128)
Amounts payable under repurchase agreements	(56,392)	–	–	–	–	–	–	(56,392)
Debt securities issued	(1,135)	(91)	(8,510)	(45,370)	(198,478)	–	–	(253,584)
Deferred tax liabilities	–	–	–	(183)	–	–	–	(183)
Subordinated debt	(25)	–	(229)	(8,189)	(14,205)	–	–	(22,648)
Other liabilities	(6,816)	(30)	(52)	(581)	(3)	–	(39)	(7,521)
Total liabilities	(540,529)	(46,201)	(362,874)	(219,401)	(319,040)	–	(39)	(1,488,084)
Net position	(180,966)	4,307	4,221	244,667	(13,053)	56,937	84,526	200,639
Net accumulated position	(180,966)	(176,659)	(172,438)	72,229	59,176	116,113	200,639	

(millions of tenge)

26. Maturity analysis of assets and liabilities (continued)

At 31 December 2017	*Less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Without maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	231,820	–	–	–	–	–	–	231,820
Amounts due from financial institutions	–	–	3,041	2,806	546	–	–	6,393
Trading securities	290,919	–	–	–	–	–	–	290,919
Loans to customers	21,044	30,618	106,549	309,152	91,172	–	113,316	671,851
Derivative financial assets	–	–	–	–	–	–	–	–
Available-for-sale investment securities	1,278	216	2,694	41,717	12,654	–	–	58,559
Held-to-maturity investment securities	68	70	156	674	22,871	–	–	23,839
Property and equipment	–	–	–	–	–	49,009	–	49,009
Intangible assets	–	–	–	–	–	3,741	–	3,741
Deferred tax assets	–	–	–	6,740	–	–	–	6,740
Other assets	32,377	103	67,237	100	12	1,404	536	101,769
Total assets	577,506	31,007	179,677	361,189	127,255	54,154	113,852	1,444,640
Liabilities								
Current accounts and deposits of customers	(356,876)	(39,334)	(266,001)	(122,228)	(196,786)	–	–	(981,225)
Amounts due to banks and other financial institutions	(1,400)	(1,414)	(6,803)	(18,385)	(47,892)	–	–	(75,894)
Amounts payable under repurchase agreements	(36,639)	–	–	–	–	–	–	(36,639)
Debt securities issued	(2,151)	(91)	(8,593)	(44,892)	(69,394)	–	–	(125,121)
Subordinated debt	(25)	–	(321)	(8,189)	(14,205)	–	–	(22,740)
Deferred tax liabilities	–	–	(122)	–	–	–	–	(122)
Other liabilities	(8,243)	(30)	(383)	(41)	(1)	–	–	(8,698)
Total liabilities	(405,334)	(40,869)	(282,223)	(193,735)	(328,278)	–	–	(1,250,439)
Net position	172,172	(9,862)	(102,546)	167,454	(201,023)	54,154	113,852	194,201
Net accumulated position	172,172	162,310	59,764	227,218	26,195	80,349	194,201	

(millions of tenge)

27. Offsetting of financial instruments

Disclosures in the tables below include information on financial assets and financial liabilities, which:

- 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 derivative financial assets, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the consolidated statement of financial position.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the repurchase and reverse repurchase agreements. Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned before maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

As at 31 December 2018 the Group has amounts payable under repurchase agreements for KZT 56,392 million, which were collateralized by investment securities with fair value of KZT 57,994 million (treasury bills of the Ministry of Finance and Notes of NBRK with fair value KZT 40,684 million and KZT 17,310 million, correspondingly) *(Notes 14* and *16)*.

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

At 31 December 2018	*Gross amount of recognised financial liabilities*	*Gross amount of recognised financial assets offset in the consolidated statement of financial position*	*Net amount of financial liabilities presented in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*	
				Financial instruments	*Net amount*
Amounts receivable under repurchase agreements *(Note 12)*	**78,317**	–	**78,317**	**(79,739)**	**(1,422)**
Amounts payable under repurchase agreements	**(56,392)**	–	**(56,392)**	**57,994**	**1,602**
	21,925	–	**21,925**	**(21,745)**	**180**

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

At 31 December 2017	*Gross amount of recognised financial assets*	*Gross amount of recognised financial liabilities offset in the consolidated statement of financial position*	*Net amount of financial assets presented in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*	
				Financial instruments	*Net amount*
Reverse repurchase agreements	36,639	–	36,639	(53,566)	(16,927)
	36,639	–	36,639	(53,566)	(16,927)

(millions of tenge)

28. Changes in liabilities arising from financing activities

	Notes	*Debt securities issued*	*Subordinated debt*	*Total liabilities from financing activities*
Carrying amount at 31 December 2016		134,421	22,740	157,161
Proceeds from issue		21	–	21
Redemption		(8,133)	–	(8,133)
Interest accrual		13,771	1,792	15,563
Interest payment		(15,399)	(1,792)	(17,191)
Foreign currency translation		440	–	440
Carrying amount at 31 December 2017		125,121	22,740	147,861
Proceeds from issue		**220,154**	–	**220,154**
Repurchase		**(10,870)**	–	**(10,870)**
Loss on repurchase		**645**	–	**645**
Redemption		**(7,903)**	–	**(7,903)**
Interest accrual		**18,077**	**1,792**	**19,869**
Interest payment		**(16,968)**	**(1,884)**	**(18,852)**
Foreign currency translation		**10,542**	–	**10,542**
Discount		**(83,722)**	–	**(83,722)**
Proceeds from return of instruments unclaimed by creditors		**(1,492)**	–	**(1,492)**
Carrying amount at 31 December 2018		**253,584**	**22,648**	**276,232**

The Group classifies interest paid as cash flows from operating activities.

29. Capital management

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

As at 31 December 2018 and 2017 the Bank had complied in full with all its externally imposed capital requirements.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The NBRK sets and monitors capital requirements for the Bank.

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

a ratio of core capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities (k1) in the value not less than 5.5%;

a ratio of tier 1 capital less investments to the sum of credit risk-weighted assets and contingent liabilities, market risk and a quantitative measure of operational risk weighted assets, contingent assets and liabilities (k1.2) in the value not less than 6.5%;

a ratio of own capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities (k2) in the value not less than 8%.

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

(millions of tenge)

29. Capital management

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

	31 December 2018	*31 December 2017*
Tier 1 capital	**185,528**	187,144
Tier 2 capital	**18,238**	19,876
Deduction of regulatory provisions from capital	**(61)**	(247)
Total regulatory capital	**203,705**	206,773
Risk-weighted statutory assets, contingent liabilities, operational and market risk	**1,142,057**	993,822
Ratio k1	**16.2%**	18.8%
Ratio k1.2	**16.2%**	18.8%
Ratio k.2	**17.8%**	20.8%

30. Commitments and contingencies

Political and economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

Interest rates of attracting funds in KZT remain high in 2018 resulting in limited access to capital, a high cost of capital and increased uncertainty regarding further economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. The management of the Group believes that it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Credit related commitments

The Group has contingent liabilities to provide credit resources. These credit related contingencies take the form of approved loans and credit card limits and overdraft facilities.

The Group provides bank guarantees and issues letters of credit to ensure that their customers' obligations to third parties are met. These agreements have fixed limits and generally extend for a period of up to five years.

In providing financial guarantees, credit related contingencies and letters of credit, the Group applies the same risk management policies and procedures used when issuing loans to customers.

The contractual amounts of credit related contingencies are set out in the table by category. The amounts reflected in the table for credit related contingencies assume that the indicated contingencies will be fully settled. 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 counterparties failed to fulfil their contractual obligations.

	31 December 2018	*31 December 2017*
Loan and credit line commitments	**61,795**	98,319
Guarantees issued	**33,358**	20,224
Letters of credit	**179**	134
	95,332	118,677
Less: current accounts and deposits of customers, held as collateral under letters of credit and guarantees *(Note 19)*	**(144)**	(125)
Less: provisions for ECL	**(223)**	–
	94,965	118,552

The loan commitment agreements stipulate the right of the Group to unilaterally withdraw from the agreement should any conditions unfavourable to the Group arise, including change of the refinance rate, inflation, exchange rates and other conditions.

The total outstanding contractual amount of commitments on issuance of loans, letters of credit and guarantees does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

(millions of tenge)

30. Commitments and contingencies (continued)

Operating lease commitments

Operating lease commitments that could not be unilaterally cancelled could be presented as follows:

	31 December 2018	*31 December 2017*
Not later than 1 year	**1,209**	1,013
1 to 5 years	**4,079**	3,506
Over 5 years	**506**	1,226
	5,794	5,745

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after maturity. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rent.

In 2018, operating lease payments accounted as expense in profit or loss amount to KZT 1,579 million (2017: KZT 1,579 million) *(Note 9)*.

Litigation

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

Management is unaware of any significant actual, pending or threatened claims against the Group.

Taxation contingencies

The taxation system in the Republic of 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. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. The adequacy of tax assessment in the reporting period may be reviewed during the next five calendar years. However, under certain circumstances a tax year may remain open for a longer period of time.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan 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.

31. Related party transactions

Remuneration of members of the Board of Directors and the Management Board

Total remuneration to 11 members of the Management Board and Board of Directors included in general and administrative expenses for 2018 and 2017 is as follows:

	2018	*2017*
Members of the Board of Directors and the Management Board of the Group	**1,668**	1,182
	1,668	1,182

These amounts include cash benefits in respect of the members of the Board of Directors and the Management Board and related taxes.

As at 31 December 2018 total Group's liabilities on remuneration payments to the members of the Board of Directors and the Management Board were equal to KZT 1,639 million (as at 31 December 2017: KZT 1,774 million) and in accordance with the Decree of NBRK No. 74 from 24 February 2012, should be paid during the period of not less than three years, under the specified conditions.

(millions of tenge)

31. Related party transactions (continued)

Transactions with related parties

Other related parties include the key management personnel and entities jointly controlled by the key management personnel. The outstanding balances and the related average effective interest rates as at 31 December 2018 and related income or expense amounts from transactions with related parties for 2018 are as follows:

	2018						
	Shareholders		Entities under common control		Other related parties		Total
	In million tenge	Average effective interest rate (%)	In million tenge	Average effective interest rate (%)	In million tenge	Average effective interest rate (%)	In million tenge
Assets							
Loans to customers	–	–	–	–	170	5.83	170
Liabilities							
Current accounts and deposits of customers	2,790	1.17	10,569	0.20	9,791	0.94	23,150
Amounts due to banks and other financial institutions	–	–	685	–	–	–	685
Other liabilities	–	–	16	–	–	–	16
Contingent liabilities	–	–	–	–	4	–	4

	2018			
	Shareholders	Entities under common control	Other related parties	Total
Income/(expenses)				
Interest income	–	147	14	161
Interest expense	53	27	185	265
Fee and commission income	–	17	11	28
Other income	–	5	–	5
Other expenses	–	231	2	233

(millions of tenge)

31. Related party transactions (continued)

Transactions with related parties (continued)

The outstanding balances and the related average effective interest rates as at 31 December 2017 and related income or expense amounts from transactions with related parties for 2017 are as follows:

	Shareholders		*Entities under common control*		*Other related parties*		*Total*
	In million tenge	*Average effective interest rate, (%)*	*In million tenge*	*Average effective interest rate, (%)*	*In million tenge*	*Average effective interest rate, (%)*	*In million tenge*
Assets							
Amounts due from financial institutions	–	–	2,000	12.5	–	–	2,000
Loans to customers	–	–	–	–	341	8.0	341
Other assets	–	–	–	–	–	–	–
Liabilities							
Current accounts and deposits of customers	278	1.1	2,412	0.3	13,149	1.5	15,839
Amounts due to banks and other financial institutions	–	–	1,341	–	–	–	1,341
Other liabilities	–	–	12	–	67	–	79
Contingent liabilities	–	–	–	–	4	–	4

	Shareholder	*Entities under common control*	*Other related parties*	*Total*
Income/(expense)				
Interest income	–	425	51	476
Interest expense	(36)	(15)	(480)	(531)
Commission income	–	16	12	28

32. Segment information

The Group has five reporting segments and business lines ("Other" segment is indicated separately with description of transactions, which are not related to activities of business lines). These segments / business lines offer a variety of products and services in the financial/banking area. The following is a brief description of transactions of each segment.

Corporate business (CB) – includes issuance of loans, attracting deposits, settlement and cash services, transactions on guarantees and other transactions with corporate clients (large entities and individual entrepreneurs).

Small and medium businesses (SMB) – includes issuance of loans, attracting deposits, settlement and cash services, transactions on guarantees and other transactions with small and medium business clients (legal entities and individual entrepreneurs.

Retail banking (RB) – includes issuance of loans, attracting deposits, settlement and cash services, exchange transactions and other transactions with retail clients (individuals);

Investing activities – responsible for financing the Group's operations (repo operations, raising funds from banks and financial institutions, issuance of bonds, subordinated debt), securities transactions, use of derivative financial instruments and foreign currency transactions;

Other – other transactions with debtors/creditors, fixed assets, amounts on transit accounts and other transactions that are not related to segments / business lines (CB, SMB, RB, Heritage, Investing activities).

(millions of tenge)

32. Segment information (continued)

Performance of each reportable segment is presented below. Performance results of segment / business line are evaluated on the basis of derived profit, which includes the effective management of a portfolio of borrowed and placed funds. Profit from segment / business line is used to measure performance. Pricing is performed on the basis of borrowing / placement rates approved by the authorized body of the Bank.

31 December 2018	*CB*	*SMB*	*RB*	*Investing activities*	*Other*	*Total*
Assets						
Cash and cash equivalents	62,116	44,685	105,316	–	12,004	224,121
Amounts due from financial institutions	–	–	–	18,215	–	18,215
Trading securities	–	–	–	9,511	–	9,511
Loans to customers	157,636	158,305	284,530	–	89,174	689,645
Investment securities	–	–	–	570,475	–	570,475
Property and equipment	–	–	–	–	51,496	51,496
Intangible assets	–	–	–	–	5,441	5,441
Deferred income tax assets	–	–	–	–	2,279	2,279
Other assets	37	2,000	3,502	78	111,923	117,540
Total assets	219,789	204,990	393,348	598,279	272,317	1,688,723
Liabilities						
Current accounts and deposits of customers	343,483	208,457	523,687	–	1	1,075,628
Amounts due to banks and other financial institutions	8,037	33,492	2,633	4,998	22,968	72,128
Amounts payable under repurchase agreements	–	–	–	56,392	–	56,392
Debt securities issued	–	–	–	–	253,584	253,584
Subordinated debt	–	–	–	–	22,648	22,648
Deferred income tax liabilities	–	–	–	–	183	183
Other liabilities	28	490	1,159	110	5,734	7,521
Total liabilities	351,548	242,439	527,479	61,500	305,118	1,488,084
Equity						
Share capital	–	–	–	–	331,504	331,504
Additional paid-in capital	–	–	–	–	21,116	21,116
Fair value reserve	–	–	–	–	2,359	2,359
Accumulated losses	–	–	–	–	(155,051)	(155,051)
Total equity attributable to shareholders of the Bank	–	–	–	–	199,928	199,928

(millions of tenge)

32. Segment information (continued)

Information on the main reporting segments for 2018 is presented as follows:

	2018						
	CB	*SMB*	*RB*	*Heritage*	*Investing activities*	*Other*	*Total*
Interest income	10,923	20,478	52,214	30,158	9,164	–	122,937
Allocated (internal) income	14,355	10,155	28,357	895	25,848	(79,610)	–
Interest expense	(9,826)	(4,536)	(26,193)	(1,226)	(31,762)	–	(73,543)
Allocated (internal) expense	(7,979)	(12,869)	(26,615)	(26,412)	(8,069)	81,944	–
Net interest income	7,473	13,228	27,763	3,415	(4,819)	2,334	49,394
Fee and commission income	933	9,573	9,635	65	–	–	20,206
Fee and commission expense	(18)	(1,987)	(3,668)	(172)	–	–	(5,845)
Net gains/(losses) from financial instruments at fair value through profit or loss	–	–	–	(426)		–	(426)
Net gains from derecognition of investment securities at fair value through other comprehensive income	–	–	–	875	–	–	875
Net gains/(losses) from foreign currencies	1,852	1,745	1,586	601	(4,529)	–	1,255
Gain on derecognition of financial liabilities	–	–	–	–	9,160	–	9,160
Other income	(59)	35	222	1	5,457	–	5,656
Non-interest income	2,708	9,366	7,775	944	10,088	–	30,881
Credit loss expense	959	(288)	(7,341)	(1,957)	3,627	–	(5,000)
General and administrative expenses	(1,941)	(8,201)	(18,213)	(1,817)	(5,689)	–	(35,861)
Other expense	(688)	(585)	(177)	(665)	(3,300)	–	(5,415)
Non-interest expenses	(1,670)	(9,074)	(25,731)	(4,439)	(5,362)	–	(46,276)
Other allocated (internal) income and expense	(1,360)	(961)	(2,313)	21,069	(14,101)	(2,334)	–
Profit before corporate income tax expense	7,151	12,559	7,494	20,989	(14,194)	–	33,999
Corporate income tax expenses	(665)	(1,145)	(730)	(2,244)	(107)	–	(4,891)
Profit for the period	6,486	11,414	6,764	18,745	(14,301)	–	29,108

In 2018, the Group made changes to the segment information used by operating decision makers to assess the Group's performance and make decisions regarding the allocation of resources. According to the changes made for management reporting purposes, the Group's activities in the loan portfolio of "old" non-performing loans to customers do not represent a separate operating segment, which was previously presented as "Heritage" segment. The Group made appropriate changes to the comparative information.

(millions of tenge)

32. Segment information (continued)

	31 December 2017						
	CB	*SMB*	*RB*	*Heritage*	*Investing activities*	*Other*	*Total*
Assets							
Cash and cash equivalents	–	–	–	–	200,088	31,732	231,820
Amounts due from financial institutions	–	–	–	–	6,393	–	6,393
Trading securities	–	–	–	–	290,919	–	290,919
Loans to customers	152,611	142,966	254,058	122,216	–	–	671,851
Investment securities	–	–	–	–	82,398	–	82,398
Property and equipment	–	–	–	–	–	49,009	49,009
Intangible assets	–	–	–	–	–	3,741	3,741
Deferred income tax assets	–	–	–	–	–	6,740	6,740
Other assets	929	2,584	4,163	64,235	4,375	25,483	101,769
Total assets	153,540	145,550	258,221	186,451	584,173	116,705	1,444,640
Liabilities							
Current accounts and deposits of customers	228,730	156,085	455,525	–	–	140,885	981,225
Amounts due to banks and other financial institutions	8,841	38,523	3,016	20,453	5,061	–	75,894
Amounts payable under repurchase agreements	–	–	–	–	36,639	–	36,639
Debt securities issued	–	–	–	–	–	125,121	125,121
Deferred income tax liabilities	–	–	–	–	–	122	122
Subordinated debt	–	–	–	–	–	22,740	22,740
Other liabilities	1	1,660	2,226	44	91	4,676	8,698
Total liabilities	237,572	196,268	460,767	20,497	41,791	293,544	1,250,439
Equity							
Share capital	–	–	–	–	–	331,522	331,522
Additional paid-in capital	–	–	–	–	–	21,116	21,116
Fair value reserve	–	–	–	–	–	598	598
Accumulated losses	–	–	–	–	–	(159,676)	(159,676)
Total equity attributable to shareholders of the Bank	–	–	–	–	–	193,560	193,560

(millions of tenge)

32. Segment information (continued)

Information on the main reporting segments for 2017 is presented as follows:

	CB	*SMB*	*RB*	*Investing activities*	*Other*	*Elimin-ation*	*Total*
Interest income	9,967	18,013	54,924	25,209	12,233		120,346
Allocated (internal) income	12,854	9,140	28,425	265	27,443	(78,127)	–
Interest expense	(9,176)	(4,540)	(29,804)	(313)	(32,074)		(75,907)
Allocated (internal) expense	(7,969)	(11,393)	(27,856)	(23,071)	(12,182)	82,471	–
Net interest income	5,676	11,220	25,689	2,090	(4,580)	4,344	44,439
Fee and commission income	759	5,826	5,300	117	–	–	12,002
Fee and commission expense	(2)	(1,048)	(2,072)	(392)	–	–	(3,514)
Net gains from financial instruments at fair value through profit or loss	–	–	–	1,335	–	–	1,335
Net gains from available-for-sale securities	–	–	–	345	–	–	345
Net gains/(losses) from foreign currencies	960	1,104	1,306	3,965	(6,370)	–	965
Gain on return of instruments unclaimed by creditors	–	–	–	3,139	–	–	3,139
Other income	86	50	(877)	26	5,126	–	4,411
Non-interest income	1,803	5,932	3,657	8,535	(1,244)	–	18,683
Credit loss expenses	2,248	(981)	(4,682)	3	3,326	–	(86)
General and administrative expenses	(1,419)	(7,424)	(19,067)	(1,002)	(6,306)	–	(35,218)
Other expenses	(1)	(141)	(1,460)	(14)	(1,445)	–	(3,061)
Non-interest expenses	828	(8,546)	(25,209)	(1,013)	(4,425)	–	(38,365)
Other allocated (internal) income and expense	(1,053)	(959)	(2,570)	23,372	(14,446)	(4,344)	–
Profit before corporate income tax expense	7,254	7,647	1,567	32,984	(24,695)	–	24,757
Corporate income tax expense	(950)	(1,152)	(900)	(1,891)	(113)	–	(5,006)
Profit for the year	6,304	6,495	667	31,093	(24,808)	–	19,751

(millions of tenge)

33. Financial assets and liabilities: fair values and accounting classification

Accounting classifications and fair values

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

	31 December 2018				
	Assets and liabilities measured at fair value	Assets and liabilities whose fair value is disclosed	Total carrying amount	Fair values	Unrecognised gain/(loss)
Cash and cash equivalents	–	224,121	224,121	224,121	–
Amounts due from financial institutions	–	18,215	18,215	18,215	–
Trading securities	9,511	–	9,511	9,511	–
Loans to customers	–	689,645	689,645	684,520	(5,125)
Investment securities at FVOCI	389,535	–	389,535	389,535	–
Investment securities at amortised cost	–	180,940	180,940	185,191	4,251
Other financial assets	–	32,892	32,892	32,892	–
	399,046	1,1345,813	1,544,859	1,543,985	(874)
Current accounts and deposits of customers	–	1,075,628	1,075,628	1,075,873	(245)
Amounts due to banks and other financial institutions	–	72,128	72,128	73,198	(1,070)
Amounts payable under repurchase agreements	–	56,392	56,392	56,392	–
Debt securities issued	–	253,584	253,584	293,238	(39,654)
Subordinated debt	–	22,648	22,648	22,432	216
Other financial liabilities	–	6,059	6,059	6,059	–
	–	1,486,439	1,486,439	1,527,192	(40,508)
					(41,382)

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

	31 December 2017				
	Assets and liabilities measured at fair value	Assets and liabilities for which fair values are disclosed	Total carrying amount	Fair values	Unrecognised gain/ (loss)
Cash and cash equivalents	–	231,820	231,820	231,820	–
Amounts due from financial institutions	–	6,393	6,393	6,393	–
Trading securities	290,919	–	290,919	290,919	–
Loans to customers	–	671,851	671,851	668,126	(3,725)
Available-for-sale investment securities	58,559	–	58,559	58,559	–
Held-to-maturity investment securities	–	23,839	23,839	24,806	967
Other financial assets	–	22,937	22,937	22,937	–
	349,478	956,840	1,306,318	1,303,560	(2,758)
Current accounts and deposits of customers	–	981,225	981,225	965,179	16,046
Amounts due to banks and other financial institutions	–	75,894	75,894	75,992	(98)
Amounts payable under repurchase agreements	–	36,639	36,639	36,639	–
Debt securities issued	–	125,121	125,121	137,573	(12,452)
Subordinated debt	–	22,740	22,740	22,459	281
Other financial liabilities	–	7,142	7,142	7,142	–
	–	1,248,761	1,248,761	1,244,984	3,777
					1,019

(millions of tenge)

33. Financial assets and liabilities: fair values and accounting classification (continued)

Accounting classifications and fair values (continued)

The estimate of fair value is intended to approximate the amount 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, considering the uncertainties and the use of judgements, the fair value should not be interpreted as realisable within the framework of an immediate sale of assets or the transfer of liabilities.

The fair value of financial assets and financial liabilities that are traded in active markets is based on quoted market quotes or dealers' prices. The Group determines fair value of all other financial instruments using various valuation techniques.

The purpose of valuation techniques is to achieve a method of fair value measurement that reflects the price of a transaction on an organized market for the sale of an asset or transfer a liability between market participants at the measurement date.

Valuation techniques include net present value valuation models and discounting of cash flows, comparison with similar instruments with known market quotations, as well as other valuation models. Assumptions and inputs used in valuation techniques include risk-free and base interest rates, credit spreads and other adjustments used in estimating discount rates, shares and bonds quotations, and expected price movements and their comparison. Valuation techniques focused on determining the fair value, which reflects the value of a financial instrument as at the reporting date that would have been determined by independent market participants.

The Group uses widely recognised valuation techniques for determining the fair value of standard and more simple financial instruments, such as interest rate and currency swaps, and such techniques use only observable market data and do not require management judgements or estimates. Observable quotations and model inputs are usually available in the market for publicly traded debt and equity securities, derivatives traded on the stock exchange, as well as simple off-market financial derivatives, such as interest rate swaps.

The Group uses its own valuation models for more sophisticated instruments. 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. Certain loans and securities for which there is no active market can be an example of instruments the estimation of which is based on the use of unobservable inputs.

Assets for which fair value approximates carrying value

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

Financial assets and financial liabilities carried at amortized cost

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

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

to discount the future cash flows from loans to corporate customers the discount rate in the range from 4.89% to 14.56% (as at 31 December 2017: 5.23% to 15.95%) was used;

to calculate the future cash flows from loans to individuals the discount rate in the range from 3.81% to 23.05% (as at 31 December 2017: 12.84% to 28.40%) was used.

Fair value hierarchy

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

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

(millions of tenge)

33. Financial assets and liabilities: fair values and accounting classification (continued)

Fair value hierarchy (continued)

The following table analyses financial instruments carried at fair value as at 31 December 2018, by fair value hierarchy, into which the fair value measurement is categorised. The amounts are based on amounts carried in the consolidated statement of financial position.

	Notes	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets					
Trading securities	14	**8,161**	**–**	**1,350**	**9,511**
Investment securities at FVOCI	16	**389,535**	**–**	**–**	**389,535**
		397,696	**–**	**1,350**	**399,046**

The following table analyses financial instruments carried at fair value as at 31 December 2017, by fair value hierarchy, into which the fair value measurement is categorised. The amounts are based on amounts carried in the consolidated statement of financial position.

	Notes	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets					
Trading securities	14	289,569	–	1,350	290,919
Available-for-sale investment securities	16	58,559	–	–	58,559
		348,128	–	1,350	349,478

The following table shows a reconciliation of Level 3 assets for 2018 which are recorded at fair value:

	Trading securities	*Derivative financial assets*
Balance as at 1 January 2018	1,350	–
Net gains/(losses) from financial instruments at fair value through profit or loss	–	–
Balance as at 31 December 2018	**1,350**	**–**

The following table shows a reconciliation of Level 3 assets for 2017 which are recorded at fair value:

	Trading securities	*Derivative financial assets*
Balance as at 1 January 2017	–	30,153
Net gains/(losses) from financial instruments at fair value through profit or loss	1,350	(1,358)
Repayment	–	(28,795)
Balance as at 31 December 2017	1,350	–

Gains and losses on financial instruments of Level 3 included in the consolidated statement of comprehensive income for the years ended 31 December 2018 and 2017 comprise:

	2018		*2017*	
	Realised gain	*Unrealised loss*	*Realised gain*	*Unrealised gain*
(Losses)/gains recognised in profit or loss	–	–	(1,358)	1,350

Gains/(losses) from operations with derivative financial instruments are recognised in profit or loss of the consolidated statement of comprehensive income as "Net gains from financial instruments at fair value through profit or loss".

(millions of tenge)

33. Financial assets and liabilities: fair values and accounting classification (continued)

Fair value hierarchy (continued)

The following table analyses financial instruments not measured at fair value but for which fair value is disclosed as at 31 December 2018, by fair value hierarchy:

	31 December 2018				
	Level 1	***Level 2***	***Level 3***	***Total fair value***	***Total carrying value***
Assets					
Cash and cash equivalents	–	**224,121**	–	**224,121**	**224,121**
Amounts due from financial institutions	–	**18,215**	–	**18,215**	**18,215**
Loans to customers	–	–	**684,520**	**684,520**	**689,645**
Investment securities at amortised cost (previously classified as held-to-maturity investment securities)	**185,191**	–	–	**185,191**	**180,940**
Other financial assets	–	**32,892**	–	**32,892**	**32,892**
Liabilities					
Current accounts and deposits of customers	–	**1,075,873**	–	**1,075,873**	**1,075,628**
Amounts due to banks and other financial institutions	–	**73,198**	–	**73,198**	**72,128**
Amounts payable under repurchase agreements	–	**56,392**	–	**56,392**	**56,392**
Debt securities issued	**293,238**	–	–	**293,238**	**253,584**
Subordinated debt	**22,432**	–	–	**22,432**	**22,648**
Other financial liabilities	–	**6,059**	–	**6,059**	**6,059**

Impact of changes in significant non-observable inputs on evaluation of financial instruments of Level 3 of fair value hierarchy

The following table analyses financial instruments not measured at fair value but for which fair value is disclosed as at 31 December 2017, by fair value hierarchy:

	31 December 2017				
	Level 1	***Level 2***	***Level 3***	***Total fair value disclosed***	***Total carrying value***
Assets					
Cash and cash equivalents	–	231,820	–	231,820	231,820
Amounts due from financial institutions	–	6,393	–	6,393	6,393
Loans to customers	–	–	672,296	672,296	671,851
Held-to-maturity investment securities	24,806	–	–	24,806	23,839
Other financial assets	–	22,937	–	22,937	22,937
Liabilities					
Current accounts and deposits of customers	–	974,234	–	974,234	981,225
Amounts due to banks and other financial institutions	–	75,992	–	75,992	75,894
Amounts payable under repurchase agreements	–	36,639	–	36,639	36,639
Debt securities issued	137,573	–	–	137,573	125,121
Subordinated debt	22,459	–	–	22,459	22,740
Other financial liabilities	–	7,142	–	7,142	7,142