Shinhan Bank Kazakhstan JSC

IFRS Financial Statements
For the Year Ended 31 December 2018

And Independent Auditors' Report

Shinhan Bank Kazakhstan JSC

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Shinhan Bank Kazakhstan JSC

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2018

The following statement, which should be read in conjunction with the description of the auditors' responsibilities contained in the Independent Auditors' Report, is made with a view to distinguishing the respective responsibilities of the auditors and management of the Bank with respect to the financial statements of Shinhan Bank Kazakhstan JSC (hereinafter referred to as the "Bank").

Management of the Bank is responsible for the preparation of the financial statements that present fairly in all material respects the financial position of the Bank as at 31 December 2018, as well as its financial performance, cash flows and changes in equity for the year then ended, in accordance with the International Financial Reporting Standards (hereinafter "IFRS").

In preparing the financial statements, management is responsible for:

- Selecting appropriate accounting principles and applying them consistently;
- Applying reasonable judgments and estimates;
- Ensuring compliance with the IFRS, or disclosing all significant deviations from the IFRS in notes to the financial statements; and
- Preparing the financial statements based on the assumption that the Bank will continue as a going concern in the foreseeable future, unless such assumption is illegal.

Management is also responsible for:

- Designing, implementing and maintaining effective and reliable internal controls within the Bank;
- Maintaining an accounting system, which allows preparing at any time, with reasonable accuracy, the information on the financial position of the Bank and ensuring compliance of the financial statements with the IFRS requirements;
- Maintaining accounting records in compliance with the laws of the Republic of Kazakhstan;
- Taking such steps as are reasonably available within its range of powers to safeguard assets of the Bank;
- Detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2018 were approved by management of Shinhan Bank Kazakhstan JSC on 15 April 2019.

On behalf of Management:

Chairman of the Management Board	Chief Accountant
Mr. Kim Hyoung Whan	Ms. G.Sh. Zhaxybayeva

15 April 2019
Almaty, Kazakhstan

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management Board of Shinhan Bank Kazakhstan JSC

Conclusion Based on the Audit Results

Audit Opinion

We have audited the accompanying financial statements of Shinhan Bank Kazakhstan JSC (hereinafter referred to as the "Bank"), consisting of the statement of financial position as at 31 December 2018, statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

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

Basis for Opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are described in the section *Auditor's Responsibilities for the Audit of the Financial Statements* of our report.

We are independent of the Bank, as required by *the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants* (Code of IESBA) and the ethical requirements applicable to our audit of financial statements in Kazakhstan, and we performed other ethical responsibilities of ours in compliance with those requirements and the *Code of Ethics for Professional Accountants*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for the evaluation of the Bank's ability to continue as a going concern, and for disclosure, where appropriate, of information relevant to the going concern, as well as for the preparation of the financial statements based on the assumption of going concern, except when management intends to liquidate the Bank, or discontinue its operations, or where has no other realistic alternatives, other than liquidation or discontinuation of operations.

Those charged with governance are responsible for supervising the preparation of the Bank's financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance whether the financial statements are free from material misstatement due to fraud or error, and to express the audit opinion. Reasonable assurance means a high degree of certainty, but does not guarantee that the audit performed in accordance with the International Standards on Auditing always identifies significant misstatements, if any. Misstatements can be caused by fraud or errors, and are considered material if you can reasonably assume that they, individually or cumulatively, can impact on economic decisions of users made on the basis of the financial statements.

As part of the audit performed in accordance with the International Standards on Auditing, we use professional judgment and maintain professional scepticism throughout the audit. In addition, we perform the following:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or errors; design and perform audit procedures in response to the risks; obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Detection risk of material misstatement resulting from fraud is higher than the detection risk of material misstatement due to errors, since fraud can involve conspiracy, falsification, deliberate omission, misrepresentation of information or override of internal controls;

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

- Evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates, and appropriateness of disclosures prepared by management;

- Make a conclusion with respect to the appropriateness of application of ongoing concern assumption, and based on the audit evidence obtained we make a conclusion whether there is substantial uncertainty due to certain events or conditions that can result in significant doubts about the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion on the financial statements. Our conclusions are based on the audit evidence obtained before the date of our audit opinion. However, future events or conditions can result in the loss of the Bank's ability to continue as a going concern;

- Evaluate the overall presentation of the financial statements, its structure and content, including disclosures, we also evaluate whether the financial statements present the underlying transactions and events so as to ensure their fair presentation.

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

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

Irina Litvinchik

Auditor Qualifying Certificate No. 0000223
issued by the Qualification Commission
for Certification of Auditors of the Republic of Kazakhstan on 22.12.2014

BDO Kazakhstan LLP

State license No.1503448 dated 19 February 2015 for audit activities as issued by the Committee on Financial Monitoring of the Ministry of Finance of the Republic of Kazakhstan.

T. A. Omarov
Director of BDO Kazakhstan LLP

Almaty

15 April 2019

SHINHAN BANK KAZAKHSTAN JSC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2018

KZT thousand	Notes	For the year ended 31.12.2018	For the year ended 31.12.2017
Interest income	4	2,821,428	2,156,401
Interest expense	4	(1,229,413)	(587,550)
Net interest income	4	**1,592,015**	**1,568,851**
Fee and commission income	5	83,327	61,283
Commission expense	6	(69,523)	(44,749)
Net fee and commission income		**13,804**	**16,534**
Net foreign exchange gain	7	260,648	133,607
Other operating income (expenses), net		27,629	(18,354)
Operating income		**1,894,096**	**1,700,638**
Reversal of impairment losses/ (impairment losses)	9	62,401	(425,516)
Personnel costs	8	(659,360)	(644,392)
Other general administrative expenses	10	(459,217)	(410,402)
Profit before income tax		**837,920**	**220,328**
Income tax expense	11	**(62,801)**	(35,046)
Profit for the year		**775,119**	**185,282**
Other comprehensive income net of income tax			
Items that have been reclassified or may subsequently be reclassified to profit or loss:			
Revaluation reserve for financial assets at fair value through other comprehensive income			
- Net change in fair value		48,567	94,146
Other comprehensive income for the year net of income tax		**48,567**	**94,146**
Total comprehensive income for the year		**823,686**	**279,428**
Earnings per share			
Basic and diluted earnings per share (in KZT)	24	**772.90**	**184.75**

On behalf of Management:

Chairman of the Management Board
Mr. Kim Hyoung Whan

Chief Accountant
Ms. G.Sh. Zhaxybayeva

15 April 2019
Almaty, Kazakhstan

STATEMENT OF FINANCIAL POSITION as at 31 December 2018

KZT thousand	Notes	31.12.2018	31.12.2017
ASSETS			
Cash and cash equivalents	12	24,882,525	13,317,576
Accounts and deposits due from other banks	13	72,957	320
Financial assets at fair value through other comprehensive income/ available-for-sale	14	1,178,855	1,134,941
Loans issued to corporate customers:			
- Loans to large entities	15	467,810	2,210,981
- Loans to small and medium size entities	15	6,151,496	6,499,147
- Loans to retail customers	15	3,377,973	2,552,141
Financial assets carried at amortised cost/ held-to-maturity	16	4,778,038	3,720,500
Current corporate income tax assets		43,246	73,012
Long-term assets held for sale	17	494,529	-
Property, plant and equipment and intangible assets	18	208,192	241,678
Deferred tax assets	11	15,513	-
Other assets	19	339,485	152,970
Total assets		**42,010,619**	**29,903,266**
LIABILITIES			
Accounts and deposits due to other banks	20	1,498,027	249,717
Current accounts and deposits due to customers			
- Current accounts and deposits due to corporate customers	21	16,849,796	9,319,094
- Current accounts and deposits due to retail customers	21	3,185,278	2,584,283
Loans from international financial organisations	22	6,472,871	4,794,954
Deferred tax liabilities	11	-	34,777
Other liabilities	23	484,625	211,471
Total liabilities		**28,490,597**	**17,194,296**
EQUITY			
Share capital	24	10,028,720	10,028,720
Additional paid-in capital	24	144,196	144,196
Capital reserves		279,516	279,516
Revaluation reserve for financial assets at fair value through other comprehensive income/ available-for-sale		(166,197)	(215,420)
Retained earnings		3,233,787	2,471,958
Total equity		**13,520,022**	**12,708,970**
Total liabilities and equity		**42,010,619**	**29,903,266**

KZT thousand	For the year ended 31.12.2018	For the year ended 31.12.2017
Cash flows from operating activities		
Interest income earned	3,075,381	2,164,598
Interest expense paid	(1,181,885)	(575,354)
Fee and commission income earned	61,136	60,058
Fee and commission expense paid	(69,158)	(39,889)
Net foreign exchange gains	242,333	116,320
Other operating income/(expenses)	67,506	(14,308)
Employee benefits	(684,505)	(588,343)
Other general administrative expenses paid	(317,223)	(248,083)
Provisions charge	62,401	(425,516)
(Increase)/ decrease in operating assets		
Accounts and deposits due from other banks	(97,937)	665,520
Loans to other banks	-	660,140
Loans to customers	1,319,331	803,322
Increase/ (decrease) in operating liabilities		
Accounts and deposits due to other banks	1,178,969	(1,806,245)
Current accounts and deposits due to customers	6,864,175	3,643,175
Net cash flows received from operating activities before income tax	**10,520,524**	**4,415,395**
Income tax paid	(81,664)	(85,717)
Net cash flows received from operating activities	**10,438,860**	**4,329,678**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(4,618)	(38,032)
Acquisition of financial assets at fair value through other comprehensive income/ available-for-sale	(494,529)	(1,590,700)
Acquisition of financial assets carried at amortised cost	(1,159,500)	-
Net cash flows used in investing activities	**(1,658,647)**	**(1,628,732)**
Cash flows from financing activities		
Loans obtained	1,632,600	4,796,350
Net cash flows received from financing activities	**1,632,600**	**4,796,350**
Net change in cash and cash equivalents	**10,412,813**	**7,497,296**
Effect of changes in exchange rate on cash and cash equivalents	1,152,136	41,938
Cash and cash equivalents at the year-beginning	13,317,576	5,778,342
Cash and cash equivalents at the year-end	**24,882,525**	**13,317,576**

STATEMENT OF CHANGES IN EQUITY for the Year Ended 31 December 2018

KZT thousand	Share capital	Additional paid-in capital	Capital reserves	Revaluation reserve for financial assets at fair value through other comprehensive income/ available-for-sale	Retained earnings	Total equity
At 1 January 2017	10,028,720	144,196	279,516	(309,566)	2,286,676	12,429,542
Profit for the year	-	-	-	-	185,282	185,282
Net change in the fair value of available-for-sale financial assets	-	-	-	94,146	-	94,146
Total other comprehensive loss	-	-	-	94,146	-	94,146
Total comprehensive income for the year	**-**	**-**	**-**	**94,146**	**185,282**	**279,428**
At 31 December 2017	**10,028,720**	**144,196**	**279,516**	**(215,420)**	**2,471,958**	**12,708,970**
Effect of adoption of IFRS 9	-	-	-	656	(13,290)	(12,634)
Restated opening balance under IFRS 9	**10,028,720**	**144,196**	**279,516**	**(214,764)**	**2,458,668**	**12,696,336**
Profit for the year	-	-	-	-	775,119	775,119
Net change in the fair value of financial assets at fair value through other comprehensive income	-	-	-	48,567	-	48,567
Total other comprehensive income	-	-	-	48,567	-	48,567
Total comprehensive income for the year	-	-	-	48,567	775,119	823,686
At 31 December 2018	**10,028,720**	**144,196**	**279,516**	**(166,197)**	**3,233,787**	**13,520,022**

1. BACKGROUND

(a) Organisation and Operations

The Bank was established in Kazakhstan as a Joint Stock Company in 2008. The principal activities of the Bank include attracting deposits, maintaining customer accounts, providing loans and guarantees, cash and settlement operations, and transactions with securities and foreign currencies. Bank's operations are regulated by the National Bank of the Republic of Kazakhstan ("NBRK").

The legal status of the Bank was established by the State Registration with the Ministry of Justice of the Republic of Kazakhstan (Legal Entity State Registration Certificate No. 5037-1900-АО (ИУ)). The Bank is authorised to carry out banking operations by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (banking license No. 1.1.258 dated 28 November 2008).

In January 2015, following the entry into force of the Law of the Republic of Kazakhstan *On Introduction of Amendments and Addenda to Certain Legislative Acts of the Republic of Kazakhstan on the Issues of Permit System*, the name of the banking operation of "organisation of foreign exchange transactions" was changed to "organisation of foreign exchange transactions including organisation of exchange transactions with foreign currency cash". The license held by the Bank was re-issued (License issued by the National Bank of the Republic of Kazakhstan No. 1.1.258 dated 20 January 2015). In January 2017, due to the changed registered office address, the license held by the Bank was re-issued (License issued by the National Bank of the Republic of Kazakhstan No. 1.1.258 dated 27 January 2017).

The registered office address of the Bank: 38 Dostyk Avenue, Almaty 050010, Kazakhstan.

The Bank has no branches. The majority of the assets and liabilities are located in Kazakhstan.

The Bank is fully owned by Shinhan Bank JSC (Seoul, Republic of Korea) (hereinafter referred to as the "Parent Bank" or the "Shareholder"). The ultimate parent company is Shinhan Financial Group Co. Ltd (Korea), which has the power to direct the activities of the Bank at its own discretion and in its own interests.

Details of related party transactions are disclosed in Note 29.

(b) Business Environment

The Bank operates mainly in Kazakhstan. Accordingly, the Bank is exposed to risks specific to economic and financial markets of Kazakhstan, whose economy shows specific features of an emerging economy. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes, which together with other legal and financial impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, significant depreciation of the tenge and reduced oil prices increased the risk of uncertainty in the business environment.

As at 31 December 2018, the base rate of NBRK stood at 9.25% ± 1% (as at 31 December 2017: 10.25% ± 1%). In view of the relatively high cost of funding, in 2018 the demand for new loans remained relatively sluggish, meanwhile the tenge liquidity in the banking system showed excessive levels. The main instrument to sterilise the tenge is still short-term notes of NBRK.

The accompanying financial statements reflect Bank management's estimate of the possible impact of existing business environment on the Bank's performance and financial position. However, currently it is difficult to determine the effect of changes in the economic situation on the future performance and financial position of the Bank.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement of Compliance with IFRS

The accompanying financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") in the version approved by the International Accounting Standards Board ("IASB").

(b) Basis of Measurement

These financial statements were prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income.

(c) Functional Currency and Presentation Currency

The Bank's functional currency is Kazakhstani tenge (hereinafter "tenge" and "KZT"); being the national currency of the Republic of Kazakhstan, it best reflects the economic substance of the most of Bank's transactions and related circumstances that affect Bank's operations.

Tenge is also the presentation currency of these financial statements. All the figures presented in tenge are rounded to the nearest thousand, unless otherwise indicated.

(d) The Use of Professional Judgments, Estimates and Assumptions

Preparation of the financial statements in accordance with the IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets and liabilities, income and expenses reported in the financial statements. Actual results could differ from those estimates.

Estimates and underlying assumptions are regularly reviewed. Revisions to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected.

The following notes present information about significant areas of estimation uncertainty and critical judgments in applying accounting policies:

- Note 15 - Assessment of loan impairment;
- Note 16 - Classification of financial assets carried at amortised cost;
- Note 30 - Fair value of financial instruments.

(e) Going Concern

These financial statements were prepared on a going concern basis, which implies the realisation of assets and settlement of liabilities in the normal course of Bank's business. In making the related assessment, management of the Bank has considered a wide range of information regarding current and future economic conditions, including forecasts of cash flows, profit and capital resources.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been consistently applied by the Bank in all reporting periods presented in these financial statements, except for the new standards. The Bank has applied for the first time IFRS 15 and IFRS 9. The nature and impact of changes resulting from the application of those standards are described below.

(a) Foreign Currency Transactions

Foreign currency transactions are translated into the Bank's functional currency at the exchange rates prevailing at the transaction dates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Foreign Currency Transactions (continued)

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into the functional currency at the exchange rate prevailing at the reporting date. Gains or losses from transactions with monetary assets and liabilities denominated in foreign currencies is the difference between the amortised cost in the functional currency as at the period-beginning adjusted for the amount of accrued interest and payments over the period at the effective interest rate, and the amortised cost in the foreign currency translated to the functional currency at the exchange rate prevailing at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies at fair value are translated into the functional currency at the exchange rates prevailing at the fair value measurement dates. Non-monetary assets and liabilities denominated in foreign currencies and recognised at actual costs are translated into the functional currency at the exchange rates prevailing at the transaction dates.

Exchange differences arising from foreign currency translation are recognised in profit or loss.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash banknotes and coins, unrestricted balances (Nostro-like accounts) with NBRK and other banks, and highly liquid financial assets with original maturities of less than three months that are not exposed to a substantial risk of change in their fair values and are used by the Bank to settle its short-term liabilities. Compulsory reserves with NBRK are not treated as cash and cash equivalents due to restrictions on their use. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Accounts and Deposits due from Other Banks

In the course of its business, the Bank opens current accounts or places deposits for various time-periods with other banks. Cash with fixed maturities are subsequently measured at amortised cost using the effective interest method. Cash that do not have fixed maturities are carried at original cost. Those assets are accounted for less any provision for impairment.

(d) Financial Instruments

(i) Recognition and Measurement of Financial Instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position, where the Bank becomes a party to a contract in respect of the relevant financial instrument. The Bank records regular purchases and sales of financial assets and liabilities using the settlement date accounting method. Financial instruments acquired so, which will subsequently be measured at fair value, are accounted for in the same way as purchased instruments from the transaction time and till the settlement date.

Financial assets and financial liabilities are initially recorded at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are charged directly to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

(i) Recognition and Measurement of Financial Instruments (continued)

Accounting principles used for the subsequent measurement of financial assets and liabilities are disclosed in the relevant accounting policies set out below.

Financial Assets

All financial assets are recognised and derecognised on the transaction date when the purchase or sale of a financial asset is made under a contract which requires the delivery of the financial asset within the time frame set by the relevant market and are initially measured at fair value plus transaction costs, except for those financial assets that are classified as measured at fair value through profit or loss. Transaction costs that are directly attributable to acquisition of financial assets at fair value through profit or loss are immediately recognised in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 Financial Instruments should be subsequently measured either at amortised cost or at fair value based on the Bank's business model for managing financial assets and the contractual characteristics of cash flows of the financial assets.

- *Holding an asset to collect contractual cash flows.*

Objective of this business model is to generate contractual cash flows of financial assets through collecting payments of principal and interest over the life of a financial instrument. Within this business model holding a financial asset to maturity is preferred; however, its early realisation is not prohibited;

- *Holding an asset to collect contractual cash flows and sell financial assets.*

Under the 'hold to collect and sell' business model, the objective is to both collect the contractual cash flows and sell the financial assets. In contrast to the 'hold to collect' business model, sales are integral rather than incidental, and consequently this business model typically involves a greater frequency and volume of sales;

- *Holding an asset for other purposes.*

Under this business model, the objectives of managing financial assets may include:

a. Managing for generating cash flows through the sale of financial assets;
b. Managing liquidity to satisfy the daily needs for funding;
c. Portfolio which is managed and performance evaluated on a fair value basis;
d. Portfolio that is qualified as held for trading. Financial assets are deemed to be held for trading if they are acquired mainly to be sold in the near term (up to 180 days), to obtain short-term profits, or are derivative financial instruments (except for financial guarantees or derivative financial instruments that have been designated as a hedging instrument).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

(i) Recognition and Measurement of Financial Instruments (continued)

Under IFRS 9, financial assets of the Bank are classified as follows:

- Loans issued to customers are classified as assets measured at amortised cost; they are held within a business model intended to collect contractual cash flows that represent solely payments of principal and interest ("SPPI");
- Balances of correspondent accounts, interbank loans/ deposits, REPO transactions are typically classified as assets measured at amortised cost, since they are managed under a business model intended to obtain contractual cash flows that include SPPI;
- Debt securities can be classified into any of the three classification categories, taking into consideration the business model chosen and subject to meeting SPPI qualifying criteria;
- Equity securities are typically classified as instruments at fair value through profit or loss;
- Trading securities and derivative financial instruments are classified as financial assets at fair value through profit or loss.

Financial Liabilities

Financial liabilities are classified either as financial liabilities at fair value through profit or loss, or as other financial liabilities.

A financial liability is classified as intended for trading, where:

- It was undertaken with the purpose of repurchasing it in the near future;
- Upon initial recognition, it is part of a portfolio of identified financial instruments that are managed by the Bank together as an entire portfolio, which has recent history of short-term purchases and resales; or
- It is a derivative instrument that is not classified and not used as a hedging instrument.

A financial liability, other than held-for-trading financial liabilities or a contingent consideration that may be paid by a purchaser in the business combination, may qualify as a financial liability at fair value through profit or loss at the time of recognition, where:

- Such designation eliminates or considerably reduces inconsistency in the measurement or recognition of assets or liabilities that would otherwise appear;
- The financial liability forms part of a group of financial assets or financial liabilities, or group of financial assets and financial liabilities, which is managed and measured based on the fair value in accordance with the Bank's formalised risk management strategy or investment strategy, and information about such group of financial liabilities is provided internally on that basis;
- The financial liability forms part of an instrument containing one or more embedded derivatives, and IFRS 9 permits classifying the entire instrument (asset or liability) as the instrument at fair value with changes thereof recognised in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

(i) Recognition and Measurement of Financial Instruments (continued)

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at their fair values. Changes in fair value are recorded in net (loss)/ gains on financial assets and liabilities at fair value through profit or loss. Interest earned or incurred is recorded in interest income or expense, respectively, in accordance with the terms of a contract, while dividend income is recorded in the “Other Income” line item once the right to receive dividends is established.

Debt Instruments Measured at Amortised Cost or at Fair Value Through Other Comprehensive Income.

The Bank classifies and measures a financial asset based on the characteristics of contractual cash flows and the Bank’s business model used to manage the asset.

To classify and measure an asset at amortised cost or at fair value through other comprehensive income, the terms of the relevant contract should give rise to cash flows that are solely payments of principal and interest on the outstanding principal amount.

When testing the contractual cash flows for meeting the above requirements, the principal amount is considered as the fair value of the financial asset at initial recognition. During the life of the financial asset, the principal amount may change (for example, in the case of repayments of the principal amount). Interest includes compensation for the time value of money and credit risk of the principal amount outstanding for a certain time-period, and also includes compensation for other lending risks and costs and a profit margin. Payments of principal and interest are measured in the currency of the financial asset.

Contractual cash flows that are solely payments of principal and interest are consistent with a basic lending arrangement. Contractual terms resulting in risks or volatility of contractual cash flows that are not related to the basic lending arrangement, such as the risk of changes in the prices of shares or goods, do not give rise to the contractual cash flows that are solely payments of principal and interest. An originated or purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

Assessment of business models used to manage financial assets was carried out at the date of the first-time adoption of the IFRS 9 for the financial asset classification. The business model was applied retrospectively to all financial assets recognised on the balance sheet of the Bank as at the date of first-time adoption of IFRS 9. The business model used by the Bank is determined at a level that reflects the mechanism for managing the financial assets grouped to achieve a certain business objective. Since the Bank’s business model does not depend on the management’s intentions in respect of an individual instrument, the assessment is carried out not at the level of individual instruments, but at a higher aggregated level.

To manage its financial instruments, the Bank uses several business models that describe a mechanism for managing financial assets in order to generate cash flows. These business models determine whether the Bank’s cash flows will be generated through receiving the contractual cash flows, or selling financial assets, or both.

In assessing the business model the Bank takes into consideration all available information. However, the assessment is not made on the basis of scenarios that the Bank can reasonably expect, such as the “worst case” scenario or the “stressful” scenario. The Bank takes into consideration all relevant data such as:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

(i) Recognition and Measurement of Financial Instruments (continued)

- Mechanism for evaluating the efficiency of the business model and financial assets held within that business model, and reporting to key management personnel;
- Risks affecting the efficiency of the business model (and financial assets held within that business model) and the method of managing those risks; and
- Mechanism for paying compensation to management (for example, the grounds to pay compensations are analysed: the fair value of the relevant assets or the contractual cash flows received).

On initial recognition of a financial asset, the Bank determines whether the newly recognised financial assets are part of an existing business model or they give rise to a new business model. The Bank reviews its business models in each reporting period in order to identify any changes from the prior period. In the current reporting period, the Bank has identified no changes in its business models.

Upon derecognition of a debt instrument at fair value through other comprehensive income, the profit or loss accumulated that was previously recognised in other comprehensive income is reclassified from equity to profit or loss. Debt instruments which are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment.

Accounting Policies Applied to Financial Assets prior to 1 January 2018

Under IAS 39, financial assets are subsequently classified as financial assets at fair value through profit or loss; loans and receivables; investments held-to-maturity; and financial assets available-for-sale. On initial recognition of financial assets, the Bank classifies them appropriately, and can subsequently reclassify them in certain circumstances, as described below.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for the ones, which the Bank:

- Intends to sell immediately or in the nearest future;
- Classified on the initial recognition as financial assets at fair value through profit or loss for the period;
- Classified on the initial recognition as available-for-sale; or
- In respect of which the Bank cannot recover all of its initial investment for the reasons other than loan impairment.

Securities sold under repurchase agreements (hereinafter “REPO transactions”) are recorded as transactions to raise funding secured by securities, while the securities continue to be recorded in the statement of financial position, and liabilities to counterparties included in accounts payable under REPO transactions are reported in deposits and accounts due to other banks or current accounts and deposits due to customers, as appropriate. The difference between the selling price and repurchase price is an interest expense and is recognised in profit or loss over the period of the REPO transaction duration using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

(i) Recognition and Measurement of Financial Instruments (continued)

Securities purchased under reverse repurchase agreements (reverse REPO transactions) included in accounts receivable under reverse REPO transactions are recorded within loans to other banks or loans to customers, as appropriate. The difference between the purchase price and reverse selling price is an interest income and is recognised in profit or loss over the duration of the reverse REPO transaction using the effective interest method. If the assets acquired under reverse repurchase agreements are sold to third parties, the obligation to return securities is recorded as a liability held-for-trading and measured at fair value.

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank intends and is able to hold to maturity, except for those that:

- Are classified by the Bank on the initial recognition as at fair value through profit or loss for the period;
- Are classified by the Bank as available-for-sale; or
- Meet the definition of loans and receivables.

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

(ii) Derecognition

The Bank derecognises a financial asset when it loses the contractual rights to the cash flows from the financial asset, or it transfers the financial asset in a transaction under which all substantial risks and rewards of ownership of the asset are transferred to the other party, or under which the Bank neither transfers, nor retains substantially all the risks and rewards of ownership of the financial asset, nor retains control over the financial asset. Any interest in transferred financial assets (that qualify for derecognition), which is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when the related contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereunder it transfers assets recognised in its statement of financial position, while retains either all risks and rewards of ownership of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised by the Bank.

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

If the Bank retains control of the transferred asset, it continues to recognise the transferred asset to the extent of its continuing involvement. The extent of the Bank’s continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

The Bank writes-off assets that are recognised as uncollectible.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

(iii) Offsetting Assets and Liabilities

Financial assets and liabilities are offset with the net amount presented in the statement of financial position only when, the Bank at that time has a legally enforceable right to offset the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set-off, provided that the right is not conditional on a future event and is enforceable both in the normal course of business, and in the event of default, insolvency or bankruptcy of the Bank or any of its counterparties.

(iv) Impairment

Impairment loss on financial assets is calculated considering the following factors:

- To calculate the expected credit losses ("ECLs"), the Bank assesses loans on an individual basis and on a group basis grouping assets based on the common characteristics of credit risk;
- ECLs represent estimated present value of the credit losses considering their probability. Those losses estimated represent the present value (discounted at the effective interest rate of the relevant asset) of the difference between the cash flows due to the Bank under a contract and the cash flows that the Bank expects to receive based on an analysis of probable economic scenarios;
- The calculation is made based on the reasonable and supportable information that can be obtained without undue cost or effort. Calculation of the present value of the expected future cash flow of a secured financial asset represents cash flows, which may result from the foreclosure minus the cost of obtaining and realising the collateral, regardless of whether the foreclosure is likely or not. The provisions made are based on the analysis of the Bank's past experience of losses and management's assumptions regarding the level of losses that are most likely to be recognised on assets in each category of credit risk, based on the borrower's debt servicing abilities and his credit report.
- Impairment for treasury transactions (investments in debt securities, reverse REPO transactions, interbank loans and deposits, correspondent account transactions, receivables under treasury transactions) is calculated taking into account the counterparty's rating, probability of default, term of the transaction and the loss given default;
- Expected credit losses on treasury operations are estimated on an individual basis (except for certain assets represented in the form of receivables).

Financial assets are segments into categories in accordance with the following approach:

- Stage 1: there is no significant increase in credit risk since the asset is recognised; impairment is recognised in the amount of 12-month expected credit losses;
- Stage 2: there is significant increase in credit risk since the asset is recognised, impairment is recognised in the amount of lifetime expected credit losses;
- Stage 3: financial asset is in default or has indications of impairment.

Provisions for Expected Credit Losses

Expected credit losses should be estimated using a loss provision, which is equal to:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

(iv) Impairment (continued)

- To the amount of credit losses expected within the next 12 months, i.e. that portion of the lifetime credit losses of the financial instrument that represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date ("Stage 1").
- The amount of lifetime expected credit losses on the financial instrument, which result from default events on the instrument that are possible within the instrument lifetime ("Stage 2" and "Stage 3");

It is required to make a provision for ECLs on an instrument in the amount of its lifetime ECLs, where credit risk on the instrument significantly increases since the initial recognition thereof. In all other cases the provisions for ECLs are to be made in the amount of 12-month ECLs.

- With respect to undrawn credit facilities, ECLs represent the difference between the present value of the difference between the cash flows due to the Bank under the contract in the event of drawdown of the credit facilities by the obligation holder and the cash flows that the Bank expects to receive in the event of drawdown of the credit facilities.
- With respect to financial guarantees, ECLs represent the difference between the expected payments to pay interest to the holder of a secured debt instrument minus any amounts that the Bank expects to receive from the holder, borrower or any other party.

ECLs are estimated for individual loans and portfolios of loans with similar risk characteristics. Provision for ECLs (whether on an individual or group basis) is calculated on the basis of the present value of cash flows expected for the asset using the original effective interest rate (hereinafter "EIR").

In determining the amount of ECLs it is extremely important to apply a default definition. The definition of default is used to estimate the ECLs amount and determine whether the provision is calculated for the next 12 months or for the entire lending period, since the concept of default is part of the concept of probability of default, which affects both the estimation of ECLs and identification of a significant increase in credit risk. The definition of default under IFRS 9 as at 31 December 2018 has not changed compared with the definition under IAS 39 as at 31 December 2017.

Impairment of Financial Assets before 1 January 2018

As at 31 December 2017, the Bank analysed its financial assets or groups of financial assets for impairment as follows:

A financial asset or group of financial assets is considered impaired, and the impairment losses take place only in cases where there is objective evidence of impairment resulting from one or more events that occurred after the initial recognition of the financial asset ("loss event"), provided that the loss event (loss events) had an impact on the expected future cash flows from the financial asset or group of financial assets, and such impact can be reliably measured.

Objective evidence of impairment of financial assets may include default or delinquency by a debtor, violation of contractual terms or obligations, restructuring of a financial asset or group of financial assets on terms that in any other case the Bank would not consider, indications of the debtor's or issuer's potential bankruptcy, disappearance of an active market for a security, decrease in the value of collateral or other observable indications related to the group of assets, such as deterioration of the solvency of debtors within a group, or changes in economic conditions that correlate with defaults by debtors that are within the group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

(iv) Impairment (continued)

Significant or prolonged decline in the fair value of investment in an equity security available-for-sale to a value lower than the actual costs of the security is objective evidence of impairment.

Financial Assets Carried at Amortised Cost

Financial assets carried at amortised cost consist mainly of loans and other receivables (hereinafter "loans and receivables"). The Bank regularly analyses its loans and receivables for any indications of possible impairment.

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

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

In some cases the available information required to estimate the amount of impairment loss on a loan or receivables may be limited or no longer fully relevant to current conditions and circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgments to determine the amount of impairment loss.

All impairment losses on loans and receivables are recognised in profit or loss and reverse only where a subsequent increase in the recoverable amount can be attributed objectively to an event that occurs after the recognition of impairment loss.

Where a loan is uncollectible, it is written off against the relevant provision for loan impairment. The Bank writes off such loans (and any related provisions for loan impairment) as soon as management determines that the loans are uncollectible and all necessary steps to collect the loan debts are completed.

Available-for-sale Financial Assets

Impairment losses on available-for-sale financial assets are recognised by transferring the accumulated loss that is recognised in other comprehensive income into profit or loss as a reclassification adjustment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

(iv) Impairment (continued)

The accumulated loss that is reclassified from other comprehensive income into profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in provision for impairment attributable to the time value of money are recorded as a component of interest income.

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

(v) Credit-impaired Financial Assets

A financial asset is considered credit-impaired if one or more events occur that adversely affect the estimated future cash flows of the financial asset. Credit-impaired financial assets are called the “Stage 3 assets”. Indications of credit impairment include observable information on the following events:

- Significant financial difficulties of the borrower or lender;
- Breach of contract, such as default or delinquency in payments;
- Granting by the lender concessions to the borrower due to economic reasons or contractual terms in connection with the financial difficulties of the borrower, which the lender would not grant otherwise;
- Disappearance of an active market for a security as a result of financial difficulties; or
- Purchase of a financial asset with a large discount, which reflects credit losses incurred.

In some cases, it is impossible to identify an individual event, since credit impairment of a financial asset might be caused by the cumulative effect of several events. As at each reporting date, the Bank assesses whether its debt instruments that are financial assets measured at amortised cost or at fair value through other comprehensive income are credit-impaired. The Bank considers factors such as bond yields, credit ratings and the borrower’s ability to raise funding in assessing whether government and corporate debt instruments are credit-impaired.

The loan is considered to be credit-impaired if a borrower is granted a concession due to the deteriorated financial situation, provided that there is no evidence that the concession granted has resulted in significant reduction of the payment risk of contractual cash flows, and other indications of impairment do not exist. Financial assets in respect of which the Bank has considered but did not provide a concession are considered credit-impaired where there are observable indications of impairment of loans, including those that correspond to the definition of default. The definition of default (see below) includes indications of a lack of likelihood of payment and the expiration of maturity (past due for 90 days and more). The decision to use cross-default is based on case-by-case assessment of customer’s facility conditions such as collateral and materiality of credit exposure.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, Plant and Equipment

(i) Owned Assets

Items of property, plant, and equipment (hereinafter "PPE") are recorded in the financial statements at actual cost less accumulated depreciation and accumulated impairment losses. Where an item of PPE consists of several components with different useful lives, such components are accounted for as separate items of PPE.

(ii) Depreciation

Depreciation of property, plant and equipment is accrued using the reducing balance method at the rates not exceeding 20% for all types of property, plant and equipment, except for cases when the useful life of an asset is determined by special conditions of the use of the asset and is recognised in profit or loss. Depreciation begins from the date of acquisition of an asset, and for items of property, plant and equipment constructed in-house - from the time of construction completion and readiness thereof for use. Land is not depreciated.

If the Bank invests in leaseholds, those costs are amortised on a straight-line basis over the shorter of the lease duration and the useful life of the leasehold improvements.

(f) Intangible Assets

Acquired intangible assets are recognised in the financial statements at actual cost less accumulated amortisation and impairment losses. Costs of acquisition of licenses for specially designed software and its implementation are capitalised in the value of the relevant intangible asset.

Amortisation of intangible assets is accrued using the reducing balance method at the rates not exceeding 20% for all types of intangible assets, except for cases when the useful life of an asset is determined by special conditions of the use of the asset and is recognised in profit or loss.

(g) Assets Held-for-sale

Long-term assets and the liabilities directly associated with long-term assets are classified as held-for-sale ("disposal group"), if it is highly probable that the net asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must have a firm intention to sell such assets within one year from the time of qualifying thereof as held-for-sale.

Assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held-for-sale is lower than its carrying amount, the entity should recognise an impairment loss in its statement of profit and loss as the loss on the assets held-for-sale. Any subsequent increase in asset's fair value less costs to sell is recognised to the extent of the cumulative impairment loss that was previously recognised in relation to that specific asset.

(h) Impairment of Non-financial Assets

Non-financial assets, other than deferred tax assets, are reviewed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In determining the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate, which reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets,

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of Non-financial Assets (continued)

the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

All impairment losses on non-financial assets are recognised in profit or loss and reverse only where the estimates used to determine the recoverable amount change. Any impairment loss can reverse to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of amortisation); if no impairment loss had been recognised in the financial statements.

(i) Provisions

Provisions are recognised in the statement of financial position, when the Bank has a legal or constructive obligation arising from past events, and it is probable that outflow of resources will be required to settle the obligation. If the amount of such obligation is significant, provisions are determined by discounting the estimated future cash flows at the pre-tax discount rate that reflects the current market assessment of the time value of money and, where applicable, risks specific to the obligation.

(k) Credit-related Contingent Liabilities

In the normal course of business, the Bank undertakes credit-related commitments, comprising undrawn credit lines, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder of a financial guarantee for losses incurred for the reason that a specified debtor failed to make payment in time in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value less associated transaction costs, and is measured subsequently at the greater of the amount initially recognised less accumulated amortisation and the provision for potential losses on the guarantee. Provisions for potential losses under financial guarantees and other credit-related commitments are recognised where losses are considered highly probable and can be measured reliably.

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

Loan commitments are not recognised in the financial statements except for the following:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Share Capital

(i) Common Shares

Common shares are classified as equity. Costs directly attributable to the issue of common shares and share options are recognised as a reduction of capital, net of any tax effects.

(ii) Dividends

Ability of the Bank to declare and distribute dividends is regulated by the current laws and regulations of the Republic of Kazakhstan.

Dividends on common shares are reported in the financial statements as the use of retained earnings as they are declared.

(m) Taxation

Income tax includes the current tax and deferred tax. Income tax is recognised in profit or loss in full, except for amounts related to transactions recorded in other comprehensive income or to transactions with owners directly recorded in equity, which are accordingly recorded in other comprehensive income or directly in equity.

Current income tax expense is calculated based on the estimated taxable profit for the year at the income tax rates that were in effect at the reporting date, as well as the amount of liabilities arising from the adjustment of income tax amounts for prior reporting years.

Deferred tax assets and deferred tax liabilities are recorded for temporary differences arising between carrying amounts of assets and liabilities determined for financial reporting purposes and their tax bases. Deferred tax assets and deferred tax liabilities are not recognised for the following temporary differences: differences related to assets and liabilities, initial recognition of which affects neither the accounting nor taxable profit. Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the future, at the time of reversal of temporary differences, based on the enacted or substantively enacted laws as at the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Bank plans, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recorded to the extent that it is probable to earn in the future taxable profit sufficient to cover temporary differences, non-recorded tax expenses and unused tax benefits. Deferred tax assets are reduced to the extent of likelihood that taxable profit will be available against which the deductible temporary differences can be utilised.

(n) Recognition of Income and Expense in the Financial Statements

Interest income and expense on all financial instruments, except for financial assets at fair value through profit or loss, are recognised using the effective interest method in *Net Interest Income* as *Interest Income Calculated Using the Effective Interest Method* and *Interest Expense* in the statement of profit and loss.

The effective interest rate is the rate of discounting the estimated future cash flows of a financial instrument to the net carrying amount over the expected lifetime of a financial asset or liability or (if applicable) over a shorter period.

Future cash flows are estimated considering all contractual terms of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Recognition of Income and Expense in the Interim Financial Statements (continued)

If a financial asset or a group of financial assets is written-off (or written down) as a result of impairment, interest income is determined at the rate of interest used to discount the future cash flows to the net amortised cost of the financial asset for the purpose of measuring the impairment loss. If a financial asset is no longer in default and is no longer credit-impaired, the Bank returns to the calculation of interest income based on the gross value.

Fee and commission income is recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services. The Bank identifies a performance obligation, i.e. the services agreed with a customer, and the consideration, and recognises income in line with the transfer of services, the performance obligation agreed with the customer.

For each performance obligation identified, the Bank determines at contract inception whether it satisfies the performance obligation over time or at a point in time, and whether the consideration is fixed or variable, including whether consideration is constrained by, for instance, external factors outside the Bank's influence. The consideration is subsequently allocated to the identified performance obligation.

Other fees and commissions and other income and expenses are recognised in profit or loss on the date of delivery of the service.

For the year ended 31 December 2018, fee and commission income transactions were recognised in accordance with IFRS 15 *Revenue from Contracts with Customers*, whereas for the years ended 31 December 2017 - in accordance with IAS 18 *Revenue*.

The adoption of IFRS 15 has not had any material impact on the disclosures or on the amounts reported in the financial statements.

Operating lease payments are recognised in profit or loss of the period on a straight-line basis over the lease duration. Lease incentives obtained reduce the total lease expense over the whole lease duration.

(o) Financial Guarantee Contracts

Financial guarantees and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due under the original or modified terms of a debt instrument. Such financial guarantees and letters of credit are initially recognised at fair value. Subsequently, they are measured at the higher of (a) the amount recognised as a provision and (b) the amount initially recognised less, where appropriate, cumulative amortisation of deferred premium revenue received under the financial guarantee contracts or letters of credit issued.

(p) New and Amended IFRS That are Effective for the Current Year

The following new and revised standards and interpretations were adopted for the first time in the current period and had an impact on financial indicators presented in these financial statements.

- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers;*
- Amendments to IAS 40 *Transfers of Investment Property*;
- Annual Improvements to IFRS, 2015-2017 cycle IFRS 16 *Leases*;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration.*

IFRS 9 *Financial Instruments*

From 1 January 2018, the Bank started applying IFRS 9 *Financial Instruments*, which replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) New and Amended IFRS That are Effective for the Current Year (continued)

In accordance with the transitional provisions of IFRS 9, the Bank has decided not to restate the figures for the prior periods. Differences between the previous carrying amounts of financial assets and financial liabilities and their carrying amounts under IFRS 9 as at 1 January 2018 are recorded in revaluation reserves of financial assets at fair value through other comprehensive income and in retained earnings.

Classification and Measurement of Financial Assets

According to IFRS 9, for the purposes of classifying and determining a measurement category, all financial assets, except for equity instruments and derivatives, should be evaluated on the basis of the business model used by the Bank to manage the financial assets, combined with the instrument characteristics associated with the contractual cash flows.

On initial recognition, the Bank includes a financial asset in one of the three core measurement categories provided by IFRS 9:

1. Financial assets subsequently measured at amortised cost;
2. Financial assets subsequently measured at fair value through other comprehensive income (FVTOCI);
3. Financial assets subsequently measured at fair value through profit or loss (FVTPL).

A financial asset is subsequently measured at amortised cost, if the following conditions are met:

- The financial asset is held within the business model, whose objective is holding financial assets to collect contractual cash flows; and
- Contractual terms of the financial asset provide for the receipt on specified dates of cash flows that are solely payments of principal and interest on the outstanding principal, i.e. the financial asset meets the SPPI test.

SPPI test is a test that the Bank makes on the initial recognition of financial assets in order to determine whether the contractual terms of the financial asset provide for origination within the timeframes established of cash flows that represent solely payments of principal and interest.

The Bank recognises initially the financial assets included in this measurement category at fair value and subsequently accounts for at amortised cost.

A financial asset is subsequently carried at fair value through other comprehensive income (FVTOCI) if the following conditions are met:

- The financial asset is held within the business model, whose objective is to both collect contractual cash flows and sell financial assets; and
- Contractual terms of the financial asset provide for the receipt on specified dates of cash flows that are solely payments of principal and interest on the outstanding principal, i.e. the financial asset meets the SPPI test.

A financial asset is classified and measured at FVTPL where:

- The financial asset is held-for-trading;
- The debt instrument is not subject to measurement at amortised cost or at FVTOCI;
- Equity investments, which were not designated by the Bank as the assets to be measured at FVTOCI;
- The financial asset that was measured by the Bank at FVTPL using the fair value option;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) New and Amended IFRS That are Effective for the Current Year (continued)

- The financial asset (1) does not meet the requirements of the business model whose objective is to hold financial assets to collect contractual cash flows or to hold financial assets to both collect contractual cash flows and to sell the assets, and (2) fails the SPPI test, or the fair value option is applied.

Classification of Financial Liabilities

Financial liabilities are classified as follows:

1) Financial liabilities carried at amortised cost; or

2) Financial liabilities carried at fair value through profit or loss (FVTPL).

Financial liabilities are measured at amortised cost, except when:

1) The financial liability is held for trading purposes and should therefore be measured at on FVTPL (for example, derivative financial instruments that are not designated as hedging instruments), or

2) The Bank decides to measure the financial liability at FVTPL (using the fair value option), while the following conditions must be met:

- Such classification eliminates or significantly reduces the accounting mismatch that could arise from the use of different bases for measuring assets or liabilities, or recognising profits or losses associated therewith.
- The group of financial liabilities or group of financial assets and financial liabilities are managed, and its performance is measured based on the fair value, in line with the Bank's formalised risk management strategy or investment policies. And in this case internal information about the group provided to key management personnel of the Bank is prepared on the same basis.
- If a contract contains one or more embedded derivatives, while the host contract is not a financial asset in the scope of IFRS 9, then the Bank may, at its own discretion, classify the entire hybrid (combined) contract into the measurement category of measured at FVTPL. However, this condition does not apply when the embedded derivative is insignificant, or when it is clear that it would not be permitted to separate the derivative from the host contract.

Under IFRS 9 embedded derivatives are no longer separated from the host financial asset. Instead, financial assets are classified based on the business models and contractual terms of the assets.

Financial assets at fair value through profit or loss are recognised as follows:

- Change in the fair value resulting from a change in the credit risk of this liability is recognised in other comprehensive income;
- The remainder of the fair value change is recognised in profit or loss for the period.

Reclassification

Classification of financial assets does not change after initial recognition, except in the period following the one, in which the Bank changes its business model for managing financial assets. The Bank should reclassify its financial assets only if it has changed the business model used to manage those financial assets. It is expected that such kind of changes will be very rare.

In KZT thousand

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) New and Amended IFRS that are Effective for the Current Year (continued)

Such changes should be determined by management of the Bank in response to external or internal changes and should be material for the Bank's operations and obvious to external parties. Accordingly, the objective of the a business model of the Bank can be changed only when the Bank starts or stops carrying out one or another activity that is material in relation to its operations.

After initial recognition, financial liabilities are not subject to any changes in their classification.

Impairment

IFRS 9 replaces the "incurred losses" model used in IAS 39 with the model of the "expected credit losses" model. The new model for impairment assessment also applies to certain loan commitments and financial guarantee contracts, but does not apply to equity investments.

As at the effective date of the Standard, the application of the expected credit loss model from IFRS 9 has resulted in earlier recognition of credit losses and increased the impairment amount recognised in respect of those items by KZT 14,950 thousand.

Below is a comparison of the provision for impairment calculated under IAS 39 as at the period-end with the provision for losses calculated under IFRS 9 as at the period-beginning:

	Estimated provision for impairment under IAS 39 at 31 December 2017	**Revaluation**	**ECLs under IFRS 9 at 1 January 2018**
Cash and cash equivalents	-	(6 464)	(6 464)
Accounts and deposits due from other banks	-	(1)	(1)
Available-for-sale financial assets under IAS 39/ Equity instruments at fair value through other comprehensive income under IFRS 9	-	(656)	(656)
Investments held-to-maturity under IAS 39/ Financial assets at amortised cost under IFRS 9	-	(1 349)	(1 349)
Loans to customers	(398 666)	(8 300)	(406 966)
Receivables under IAS 39/ Financial assets at amortised cost under IFRS 9 and contractual assets	(23 952)	2 184	(21 768)
Provision for contingent financial liabilities	-	(364)	(364)
Current tax asset associated with the adoption of IFRS 9		1 660	
Total value of the effect of IFRS 9		**(13 290)**	

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was released, which establishes a single comprehensive model of accounting for revenue arising from contracts with customers. As soon as IFRS 15 becomes effective, it will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) New and Amended IFRS that are Effective for the Current Year (continued)

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract (contracts) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when/as the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when/as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Standard contains more detailed requirements in respect of treatment of various types of transactions. In addition, IFRS 15 requires extensive disclosures.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Management of the Bank has applied IFRS 15 since 1 January 2018 using the modified retrospective approach. According to this transition approach, the Standard can be applied either to all contracts at the date of its initial application, or only to those contracts that are not completed at that date. The Bank decided to apply the Standard to all contracts as at 1 January 2018. Except for the requirement to make more detailed disclosures regarding the revenue, adoption of IFRS 15 has had no material effect on the financial position and performance of the Bank's activities.

IFRIC 22 ***Foreign Currency Transactions and Advance Consideration***

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If an entity has multiple payments or receipts in advance, a date of the transaction should be determined for each payment or receipt of advance consideration.

(q) Standards Issued but not yet Effective

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2018, and were not applied in preparing these financial statements. The Bank intends to start applying those standards, amendments and interpretations as from their effective dates.

- IFRS 16 *Leases;*
- IFRS 17 *Insurance Contracts;*
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation;*
- Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures*;
- Annual Improvements to IFRS, 2015-2017 cycle;
- IFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments) - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- IFRIC 23 *Uncertainty over Income Tax Treatments.*

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Standards Issued but not yet Effective (continued)

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. As soon as it becomes effective, IFRS 16 will supersede IAS 17 *Leases* and the related interpretations.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off-balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially recognised at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and accumulated impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as cash flows from operating activities; while under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, IFRS 16 substantially remain unchanged the accounting requirements for lessors as in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Bank plans to apply IFRS 16 retrospectively for each previous reporting period presented. The Bank decided to apply the Standard to those contracts that were previously identified as lease agreements in accordance with IAS 17 and IFRIC 4. So, the Bank will not apply the Standard to those contracts that were not previously identified as containing a lease in accordance with IAS 17 and IFRIC 4.

The Bank decided to use the exemptions provided by the Standard in respect of leases of 12 months or less, as well as leases whose underlying asset has a low value.

IFRS 17 *Insurance Contracts*

The new Standard establishes principles for the recognition, measurement, presentation and disclosure of information related to insurance contracts and supersedes IFRS 4 *Insurance Contracts:*

- IFRS 17 outlines a General Model, which is modified for insurance contracts with direct participation features and described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.
- The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty. The Model takes into account market interest rates and the impact of policyholders' options and guarantees.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Standards Issued but not yet Effective (continued)

- Profit from selling insurance policies is deferred in a separate liability component and aggregated in groups of insurance contracts; it is then reported systematically through profit or loss over the period during which insurers provide cover after making adjustments from changes in assumptions relating to future coverage.
- Taking into account the scope, certain fixed-fee contracts that meet certain requirements can be accounted for under IFRS 15 *Revenue from Contracts with Customers*, instead of FRS 17.

The Standard becomes effective for annual reporting periods beginning on or after 1 January 2021; early adoption is permitted for entities that apply IFRS 9 and IFRS 15 at the date of initial application of IFRS 17 or from the earlier date. Entities should apply IFRS 17 retrospectively, so far as is reasonably practicable, otherwise a modified retrospective approach or fair value accounting should be applied.

Management does not expect that the adoption of the Standard will have a material impact on the Bank's financial statements as the Bank has no insurance contracts.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail the criterion of solely payments of principal and interest.

The amendments apply to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

Management of the Bank does not expect these amendments to have an impact on the Bank's financial statements in the future.

Annual Improvements to IFRS Standards 2015-2017 Cycle The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Standards Issued but not yet Effective (continued)

IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its previously held interest in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

Management of the Bank does not expect these amendments to have an impact on the Bank's financial statements in the future.

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

Amendments to IFRS 10 and IAS 28 apply to the sale or contribution of assets between an investor and its associate or joint venture. In particular, the amendments clarify that the gains or losses from loss of control of a subsidiary that is not a business in a transaction with an equity-accounted associate or joint venture are recognised in profit or loss of the parent company only in the proportion of other unrelated investors in that associate or joint venture. Similarly, gains or losses from fair value revaluation of the remaining interest in former subsidiary (which is classified as investment in associate or joint venture and is accounted for using the equity method) are recognised by the former parent company only in the proportion of unrelated investors into a new associate or joint venture.

The effective date shall be determined by the IASB, however, early adoption is allowed.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 clarifies how to account for income tax when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are to be assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The IFRIC is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

Management of the Bank does not expect these amendments to have a significant impact on the Bank's financial statements.

In KZT thousand

4. NET INTEREST INCOME

	2018	2017
Interest income		
Cash and cash equivalents	1,205,472	534,796
Loans to customers	1,203,871	1,345,460
Financial assets carried at amortised cost/ Investments held-to-maturity	344,329	187,881
Financial assets at fair value through other comprehensive income/ Available-for-sale investments	61,954	72,891
Loans to other banks	-	15,172
Accounts and deposits due from other banks	5,802	201
	2,821,428	**2,156,401**
Interest expense		
Current accounts and deposits due to customers	(735,197)	(414,810)
Interest on loans obtained from international financial institutions	(493,640)	(171,638)
Accounts and deposits due to other banks	(464)	(990)
Accounts payable under repurchase agreements	(112)	(112)
	(1,229,413)	**(587,550)**
	1,592,015	**1,568,851**

5. FEE AND COMMISSION INCOME

	2018	2017
Transfer transactions	53,553	44,422
Cash transactions	12,268	12,452
Guarantees and letters of credit	12,330	1,465
Others	5,176	2,944
	83,327	**61,283**

6. FEE AND COMMISSION EXPENSES

	2018	2017
Guarantees received	29,388	19,116
Transfer transactions	21,522	17,631
Others	18,613	8,002
	69,523	**44,749**

7. NET FOREIGN EXCHANGE GAIN

	2018	2017
Dealing transactions, net	242,333	116,319
Translation differences, net	18,315	17,288
	260,648	**133,607**

8. PERSONNEL COSTS

	2018	2017
Employee benefits	602,059	584,346
Payroll taxes and deductions	57,301	60,046
	659,360	**644,392**

In KZT thousand

9. PROVISIONS FOR EXPECTED CREDIT LOSSES

	Cash and cash equivalents	*Accounts and deposits due from other banks*	*Loans to customers*	*Held-to-maturity investments/ Financial assets carried at amortised cost*	**Financial assets at fair value through other comprehensive income/ available-for-sale**	*Other assets*	*Total*
At 31 December 2016	-	-	-	-	-	-	-
Provisions charge	-	-	401,564	-	-	23,952	425,516
Write-off	-	-	(2,898)	-	-	-	(2,898)
At 31 December 2017	**-**	**-**	**398,666**	**-**	**-**	**23,952**	**422,618**
At 1 January 2018	6,464	1	406,966	1,349	656	21,768	437,204
Provisions charge	28,193	55	264,982	2,497	1,101	4,196	301,024
Provisions recovery	(33,033)	(23)	(324,411)	(2,402)	(1,164)	(3,595)	(364,628)
Write-off		-	(94,773)			(9,244)	(104,017)
Foreign exchange difference	50	8	2,278				2,336
At 31 December 2018	**1,674**	**41**	**255,042**	**1,444**	**593**	**13,125**	**271,919**

During the year ended 31 December 2018, the Bank wrote off part of the loans of certain borrowers to the extent that is not recoverable as per the court ruling totalling KZT 94,773 thousand (2017: KZT 2,898 thousand). The balance of assets on such loans before provisions, as at 31 December 2018, amounted to KZT 186,738 thousand (as at 31 December 2017 - KZT 0).

	Credit-related contingent liabilities	*Total*
At 1 January 2018	364	364
Provisions charge	3,771	3,771
Provisions recovery	(2,568)	(2,568)
At 31 December 2018	**1,567**	**1,567**

	2018				**2017**
Cash and cash equivalents	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Total*
Balance at 1 January	**4,992**	**1,472**	**-**	**6,464**	**-**
Transition to the stage 1	-	-	-	-	-
Transition to the stage 2	(3,178)	3,178			
Transition to the stage 3	-	-	-	-	-
Net change in provisions	(687)	(4,650)	-	(5,337)	-
Acquisition of new financial assets	497	-	-	497	-
Foreign exchange difference	50	-	-	50	-
Balance at 31 December	**1,674**	**-**	**-**	**1,674**	**-**

In KZT thousand

9. PROVISIONS FOR EXPECTED CREDIT LOSSES (continued)

	2018				2017
Accounts and deposits due from other banks	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Total*
Balance at 1 January	**1**	**-**	**-**	**1**	**-**
Transition to the stage 1	-	-	-	-	-
Transition to the stage 2	-	-	-	-	-
Transition to the stage 3	-	-	-	-	-
Net change in provisions	(1)	-	-	(1)	-
Acquisition of new financial assets	33	-	-	33	-
Foreign exchange difference	8	-	-	8	-
Balance at 31 December	**41**	**-**	**-**	**41**	**-**

	2018				2017
Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Total*
Balance at 1 January	**2,199**	**(141)**	**404,908**	**406,966**	**-**
Transition to the stage 1	5	(4)	(1)	-	-
Transition to the stage 2	-	8	(8)	-	-
Transition to the stage 3	(324)	-	324	-	-
Net change in provisions	(2,776)	141	(157,651)	(160,286)	-
Acquisition of new financial assets	6,084	-	-	6,084	-
Foreign exchange difference	2,206	4	68	2,278	-
Balance at 31 December	**7,394**	**8**	**247,640**	**255,042**	**-**

	2018				2017
Held-to-maturity investments/ Financial assets carried at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Total*
Balance at 1 January	**1,349**	**-**	**-**	**1,349**	**-**
Transition to the stage 1	-	-	-	-	-
Transition to the stage 2	-	-	-	-	-
Transition to the stage 3	-	-	-		-
Net change in provisions	(601)	-	-	(601)	-
Acquisition of new financial assets	696	-	-	696	-
Balance at 31 December	**1,444**	**-**	**-**	**1,444**	**-**

In KZT thousand

9. PROVISIONS FOR EXPECTED CREDIT LOSSES (continued)

Financial assets at fair value through other comprehensive income/ available-for-sale	2018				2017
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Total*
Balance at 1 January	**656**	**-**	**-**	**656**	**-**
Transition to the stage 1	-	-	-	-	-
Transition to the stage 2	-	-	-	-	
Transition to the stage 3	-	-	-		-
Net change in provisions	(63)	-	-	(63)	-
Acquisition of new financial assets	-	-	-	-	-
Balance at 31 December	**593**	**-**	**-**	**593**	**-**

Other assets	2018				2017
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Total*
Balance at 1 January	**-**	**-**	**21,768**	**21,768**	**-**
Transition to the stage 1	-	-	-	-	-
Transition to the stage 2	-	-	-	-	-
Transition to the stage 3	-	-	-	-	-
Net change in provisions	-	-	(10,239)	(10,239)	-
Acquisition of new financial assets	-	-	1,596	1,596	-
Balance at 31 December	**-**	**-**	**13,125**	**13,125**	**-**

Credit-related contingent liabilities	2018				2017
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Total*
Balance at 1 January	**364**	**-**	**-**	**364**	**-**
Transition to the stage 1	-	-	-	-	-
Transition to the stage 2	-	-	-	-	-
Transition to the stage 3	-	-	-	-	-
Net change in provisions	(321)	-	-	(321)	-
Acquisition of new credit-related contingent liabilities	1,524	-	-	1,524	-
Balance at 31 December	**1,567**	**-**	**-**	**1,567**	**-**

In KZT thousand

10. OTHER GENERAL ADMINISTRATIVE EXPENSES

	2018	2017
Operating lease expenses	76,876	74,659
Software maintenance	57,059	25,606
Professional services	54,109	64,446
Depreciation and amortisation	48,547	53,602
Communication and information services	42,993	45,484
Taxes, charges and other compulsory payments	38,620	22,585
Operating expenses	18,915	19,404
Insurance costs	15,106	14,309
Security	13,982	6,910
Membership fees	9,698	17,725
Representative expenses	9,351	6,475
Advertising and marketing	8,261	8,197
Transportation costs	6,095	6,991
Stationery	4,814	5,506
Business travel expenses	4,591	5,762
Maintenance and repairs	2,606	2,724
Write-off of property, plant and equipment	1,863	1,669
Others	45,731	28,348
	459,217	**410,402**

11. INCOME TAX EXPENSE

The Bank assesses income tax for the current period based on tax accounting records maintained in compliance with the tax laws of the Republic of Kazakhstan. For the years ended 31 December 2018 and 2017, income tax expenses are detailed below:

	2018	2017
Income tax expense		
Reporting period	(87,226)	(62,576)
Adjustment of prior period	3,323	12,404
Change in deferred taxes resulting from the origination and reversal of temporary differences	21,102	15,126
Total income tax expense	**(62,801)**	**(35,046)**

The statutory rate of income tax rate in Kazakhstan was 20% during 2018 and 2017. Income on government securities and certain other securities are not subject to income tax.

Due to the fact that certain types of expenses are not taken into account for tax purposes, as well as due to the presence of non-taxable income, certain permanent tax differences arise for the Bank.

In KZT thousand

11. INCOME TAX EXPENSE (continued)

Calculation of the effective rate of income tax for the year ended 31 December 2018 and 2017:

	2018	2017
Profit before income tax	**837,920**	**220,328**
Income tax calculated at the applicable income tax rate	167,584	44,066
Non-taxable income from transactions with securities	(81,256)	(52,154)
Other non-deductible expenses	(23,527)	43,134
	62,801	**35,046**
Effective income tax rate	**7.5%**	**15.9%**

Deferred Tax Assets and Liabilities

Temporary differences between the values of assets and liabilities reported in the financial statements and the amounts used to calculate the tax bases gave rise to deferred tax assets at 31 December 2018 and liabilities at 31 December 2017.

Movements in temporary differences during the years ended 31 December 2018 and 2017 are detailed below:

2018	Balance at 1 January 2018	Reported in profit or loss	Reported in equity	Balance at 31 December 2018
Loans to customers	(53,640)	24,452	29,188	-
Property, plant and equipment and intangible assets	(768)	4,404	-	3,636
Other liabilities	19,631	(7,754)	-	11,877
	(34,777)	**21,102**	**29,188**	**15,513**

2017	Balance at 1 January 2017	Reported in profit or loss	Balance at 31 December 2017
Loans to customers	(53,640)	-	(53,640)
Property, plant and equipment and intangible assets	(1,804)	1,036	(768)
Other liabilities	5,541	14,090	19,631
	(49,903)	**15,126**	**(34,777)**

In KZT thousand

12. CASH AND CASH EQUIVALENTS

	31.12.2018	31.12.2017
Cash on hand	671,860	304,984
Nostro accounts with NBRK	6,384,219	843,041
Nostro accounts with other banks		
- with credit rating from A- to A+	*1,598,012*	*2,265,208*
- with credit rating from BBB- to BBB+	-	-
- with credit rating from BB- to BB+	*52,677*	*69,346*
- with credit rating B+	-	*679*
-unrated	*60,633*	*76,188*
Total nostro accounts with other banks	1,711,322	2,411,421
Cash equivalents		
Fixed-term deposits with NBRK	16,116,798	8,759,314
Fixed-term deposits with other banks		
- with credit rating B+	-	*998,816*
Total cash equivalents	16,116,798	9,758,130
Provision for expected credit losses	(1,674)	-
Total cash and cash equivalents	**24,882,525**	**13,317,576**

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

Cash and cash equivalents are not past due.

Minimum Reserve Requirements

As at 31 December 2018, in accordance with the resolution of NBRK, the minimum reserve requirements are calculated as the average of the sum of certain shares of various groups of bank's liabilities for twenty-eight calendar days (31 December 2017: for twenty-eight calendar days). Banks are obliged to comply with those requirements by maintaining average reserve assets (in the form of cash on hand in the national currency and balances on correspondent accounts with the National Bank in the national currency) in an amount equal to or exceeding the average minimum requirements. As at 31 December 2018, the minimum reserve required amounted to KZT 768,332 thousand (31 December 2017: KZT 463,486 thousand).

Concentration of Cash and Cash Equivalents

As at 31 December 2018 and 31 December 2017, the Bank has accounts with two banks, each of which accounts for more than 10% of the equity. The gross value of balances with those banks as at 31 December 2018 amounted to KZT 24,099,029 thousand (31 December 2017: KZT 11,865,806 thousand).

13. ACCOUNTS AND DEPOSITS DUE FROM OTHER BANKS

	31.12.2018	31.12.2017
Restricted cash	72,998	320
Provision for expected credit losses	(41)	-
Total accounts and deposits due from other banks	**72,957**	**320**

In KZT thousand

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE INVESTMENTS

	31.12.2018	31.12.2017
Held by the Bank		
Debt financial instruments:		
- Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	*1,178,855*	*1,134,941*
Total financial assets	**1,178,855**	**1,134,941**

As at 31 December 2018 and 2017, those financial assets are not past due.

15. LOANS TO CUSTOMERS

	31.12.2018	31.12.2017
Loans to corporate customers		
- Loans to large entities	*468,649*	*2,210,981*
- Loans to small and medium-sized entities	*6,404,937*	*6,897,813*
Total loans to corporate customers	**6,873,586**	**9,108,794**
Loans to retail customers		
- Consumer loans	*3,378,735*	*2,552,141*
Total loans to retail customers	**3,378,735**	**2,552,141**
Impairment provision	(255,042)	(398,666)
Total loans to customers, net of impairment provision	**9,997,279**	**11,262,269**

(a) Credit Quality of Loans to Customers

The following table presents information about the quality of the loans provided to customers as at 31 December 2018.

	Loans before impairmen t provision	Impairmen t provision	Loans after impairment provision	Ratio of impairment loss to loans before impairment provision
Loans to corporate customers				
- not past due	*6,559,803*	*(22,304)*	*6,537,499*	*0,00*
- past due for less than 90 days	*11,309*	*-*	*11,309*	*0,00*
- past due for more than 90 days	*302,474*	*(231,976)*	*70,498*	*0,77*
Total loans to corporate customers	**6,873,586**	**(254,280)**	**6,619,306**	**0,04**
Loans to retail customers				
- not past due	*3,324,535*	*(557)*	*3,323,978*	*0,00*
- past due for less than 90 days	*16,676*	*(64)*	*16,612*	*0,00*
- past due for more than 90 days	*37,524*	*(141)*	*37,383*	*0,00*
Total loans to retail customers	**3,378,735**	**(762)**	**3,377,973**	**0,00**

In KZT thousand

15. LOANS TO CUSTOMERS (continued)

The following table presents information about the quality of the loans provided to customers as at 31 December 2017.

	Loans before impairment provision	**Impairment provision**	**Loans after impairment provision**	**Ratio of impairment loss to loans before impairment provision**
Loans to corporate customers				
- not past due	*8,277,273*	*-*	*8,277,273*	*0,00*
- past due for less than 90 days	*151,683*	*(5,907)*	*145,776*	*0,04*
- past due for more than 90 days	*679,838*	*(392,759)*	*287,079*	*0,58*
Total loans to corporate customers	**9,108,794**	**(398,666)**	**8,710,128**	**0,04**
Loans to retail customers				
- not past due	*2,484,064*	*-*	*2,484,064*	*0,00*
- past due for less than 90 days	*50,053*	*-*	*50,053*	*0,00*
- past due for more than 90 days	*18,024*	*-*	*18,024*	*0,00*
Total loans to retail customers	**2,552,141**	**-**	**2,552,141**	**0,00**

In 2018, the amount of the provision for impairment includes provisions for loans assessed on an individual basis in the amount of KZT 247,197 thousand (31 December 2017: KZT 398,666 thousand). The provision for collective impairment amounted to KZT 7,845 thousand. In 2017, the provision for collective impairment was not accrued due to excess in coverage by collateral.

Changes in the estimates can affect the provision for impairment of loans. For example, if the net present value of the estimated cash flows changes by one percent upwards or downwards, the provision for impairment of loans to customers as at 31 December 2018 would be by KZT 99,973 thousand lower/higher (as at 31 December 2017: KZT 112,623 thousand lower/higher).

As at 31 December 2018, the credit portfolio included renegotiated loans to corporate and retail customers in the total amount of KZT 1,500,112 thousand (31 December 2017: KZT 859,920 thousand) that would otherwise be past due or impaired.

15. LOANS TO CUSTOMERS (continued)

(b) Assessment of Expected Credit Losses

For loans issued, the expected credit losses are calculated considering the potential estimated effect of changes in macroeconomic parameters on forecast cash flows, migration of collective loans and collateral coverage.

When measuring the credit losses, the Bank uses reasonable and supportable forward-looking information, which is based on assumptions regarding the future changes in various economic factors and how these factors will affect each other.

The key inputs used for measuring the expected credit losses include the following:

- Probability of default (PD) is a key input in measuring the credit losses. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Probability of default for individually assessed loans of corporate, small and medium-sized businesses is estimated using an internal rating model based on the quantitative and qualitative characteristics of a borrower.
Probability of default of collectively assessed loans is calculated on the basis of historical data using the migration matrices.

- Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

LGD for collectively assessed loans is calculated based on an assessment of the recoverability of debts in case of realisation of collateral using a discounting period that corresponds to the collateral realisation timing.

- Exposure at default (EAD) 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, and expected drawdown of committed facilities. The Bank's modelling approach for EAD reflects
expected changes in the balance outstanding over the repayment period that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and risk mitigation actions taken before default. The Bank uses models that reflect the characteristics of the relevant portfolios to assess credit exposure.

In the financial statements the provisions for ECLs on loans were calculated based on the existing economic and political conditions. The Bank can predict neither the changes that will take place in business environment in the Republic of Kazakhstan, nor their effect on the adequacy of the provisions for ECLs on financial assets in future periods.

(c) Analysis of Collateral and Other Credit Enhancements

(i) Loans to Corporate Customers

Loans to corporate customers are subject to individual assessment and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan provided to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provide information on types of collateral and other credit enhancements securing loans to corporate customers.

In KZT thousand

15. LOANS TO CUSTOMERS (continued)

(c) Analysis of Collateral and Other Credit Enhancements (continued)

(i) Loans to Corporate Customers (continued)

31 December 2018	**Carrying value of loans to customers**	**Fair value of collateral - measured as at the reporting date**	**Fair value of collateral - measured as at the loan issue date**	**Fair value of collateral - not measured**
Loans without individual impairment indications				
Corporate guarantee (provided by a related party with "A-" credit rating)	1,006,065			1,006,065
Real estate	1,685,031	1,685,031	-	-
Other collateral	2,619,110	-	2,619,110	-
	5,310,206	**1,685,031**	**2,619,110**	**1,006,065**
Loans having individual indications of impairment				
Corporate guarantees (provided by the parent bank with A+ credit rating)	230,689			230,689
Real estate	86,538	86,538	-	
Other collateral	991,873		991,873	
	1,309,100	**86,538**	**991,873**	**230,689**
Total loans to corporate customers	**6,619,306**	**1,771,569**	**3,610,983**	**1,236,754**

31 December 2017	**Carrying value of loans to customers**	**Fair value of collateral - measured as at the reporting date**	**Fair value of collateral - measured as at the loan issue date**	**Fair value of collateral - not measured**
Loans without individual impairment indications				
Corporate guarantees (provided by the parent bank with A+ credit rating)	2,645,700	-	-	2,645,700
Real estate	1,833,435	1,833,435	-	-
Cash and deposits	96,417	96,417	-	-
Other collateral	3,769,738	-	3,769,738	-
	8,345,290	**1,929,852**	**3,769,738**	**2,645,700**
Loans having individual indications of impairment				
Other collateral	364,838	364,838	-	-
	364,838	**364,838**	**-**	**-**
Total loans to corporate customers	**8,710,128**	**2,294,690**	**3,769,738**	**2,645,700**

In KZT thousand

15. LOANS TO CUSTOMERS (continued)

(c) Analysis of Collateral and Other Credit Enhancements (continued)

The above tables exclude the value of overcollateralization.

As the recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the collateral value, the Bank does not necessarily update the evaluation of collateral at each reporting date.

For most of the loans the fair value of collateral was measured as at the reporting date. Information on the collateral value is presented based on the measurement date, if such measurement is carried out.

In respect of the loans secured by several types of collateral, information is disclosed for the type that is most material to the measurement of collateral.

(ii) Loans to Retail Customers

Loans to retail customers are secured mainly by residential real estate. According to the Bank's policy, a loan-to-value ratio as at the date of loan issue shall be maximum 60%.

The following tables provide the information on collaterals for the loans to retail customers:

	Carrying value of loans to customers	Fair value of collateral - for the collateral measured as at the reporting date	Fair value of collateral - for the collateral measured as at the loan issue date	Fair value of collateral - not measured
31 December 2018				
Not past due	3,323,978	3,323,978	-	-
Past due	53,995	53,995	-	-
Total loans to retail customers	**3,377,973**	**3,377,973**	**-**	**-**
31 December 2017				
Not past due	2,484,064	2,484,064	-	-
Past due	68,077	68,077	-	-
Total loans to retail customers	**2,552,141**	**2,552,141**	**-**	**-**

The above tables exclude the value of overcollateralization.

(d) Loan Maturities

The maturity of the loan portfolio as at the reporting date is presented in Note 25 (d), which shows the remaining period from the reporting date to the contractual maturities of the loans. Given the short-term nature of loans issued by the Bank, it is possible that many of them will be extended. Accordingly, actual maturities may differ significantly from the maturities stipulated in loan agreements.

In KZT thousand

15. LOANS TO CUSTOMERS (continued)

(e) Analysis of the Loan Portfolio by Industries and Geographic Regions

Loans were issued mainly to customers operating in Kazakhstan in the following areas:

	31.12.2018	31.12.2017
Loans to retail customers	3,377,973	2,552,141
Trading	1,485,003	1,397,817
Real estate	1,655,181	2,326,870
Finance	1,478,510	790,379
Information and communication (manufacture of computers, electronic and optical products)	499,926	1,508,881
Warehousing facilities and support transportation activities	230,689	232,759
Rent, hire and lease	198,408	1,054,737
Construction	178,172	168,650
Individual services provision	164,483	275,576
Advertising activities	162,814	130,502
Manufacture of electrical equipment	151,574	610,348
Vehicles	70,386	-
Veterinary activities	28,353	34,616
Manufacture of other non-metallic mineral products	10,801	81,633
Other	305,006	97,360
	9,997,279	**11,262,269**

(f) Concentration of Loans to Customers

As at 31 December 2018 and 2017, the Bank has one borrower, whose loan balances exceed 10% of the equity. Total aggregate value of the loan balances of the mentioned borrower as at 31 December 2018 and 31 December 2016 amounted to KZT 1,531,665 thousand и KZT 2,211,099 thousand, respectively.

In KZT thousand

16. FINANCIAL ASSETS CARRIED AT AMORTISED COST/ INVESTMENTS HELD-TO-MATURITY

	31.12.2018	31.12.2017
Held by the Bank		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	*2,161,517*	*2,689,086*
- Notes of the National Bank of the Republic of Kazakhstan	*2,617,965*	*1,031,414*
Provision for expected credit losses	(1,444)	-
	4,778,038	**3,720,500**

The entire amount of held-to-maturity investments is represented by the treasury bills of the Ministry of Finance of the Republic of Kazakhstan and notes of the National Bank of the Republic of Kazakhstan denominated in KZT and having a credit rating of "BBB-".

In accordance with the Bank's Investment Policy and business model, management has intention and ability to hold these securities till their maturities. The published price quotations for the same debt securities with identical terms are available on the local stock exchange.

For treasury operations, the Bank calculates expected credit losses on a financial asset based not only on current assessments of the credit quality of a counterparty/ issuer as at the reporting date, but also considering possible deterioration in financial condition in future due to adverse macroeconomic factors of the business environment of the counterparty (issuer).

In particular, the amount of provisions for treasury operations is influenced by the rating outlook (positive, stable, negative) assigned by international rating agencies, which affects the probability of default (PD).

Probability of default for treasury operations is determined according to the Default Study from international rating agencies (S&P, Fitch, Moody's), which publish tabular data with the values of the probabilities of default. The probabilities of default are maintained up to date and are updated on a periodic basis as the default statistics are updated.

Loss given default (LGD) for treasury operations is determined according to the Default Study from international rating agencies (S&P, Fitch, Moody's) and depends on the type of debt on the financial asset: senior secured/unsecured, subordinated, sovereign. In addition, LGD may be adjusted if collateral is provided for the asset, as well as if there are indications of impairment of the financial asset (Stage 2 or Stage 3).

17. NON-CURRENT ASSETS HELD-FOR-SALE

As at 31 December 2018, the carrying amounts of non-current assets held-for-sale amounted to KZT 494,529 thousand (as at 31 December 2017 they were absent). Non-current assets held-for-sale are represented by assets that were accepted by the Bank as repayment of indebtedness on loans to customers. The Bank has developed a realisation plan, according to which the assets are planned to be realised within the next 12 months. Non-current assets held-for-sale were recorded at the purchase price determined on the auction.

In KZT thousand

18. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Computers	Vehicles	Others	Intangible assets	Leasehold improvements	Total
Actual costs						
Balance at 1 January 2018	81,664	12,586	61,363	86,779	147,544	389,936
Additions	9,866	-	2,056	6,593	-	18,515
Disposals	-	(12,586)	(1,306)	-	-	(13,892)
Balance at 31 December 2018	**91,530**	**-**	**62,113**	**93,372**	**147,544**	**394,559**
Depreciation and amortisation						
Balance at 1 January 2018	(39,343)	(10,805)	(37,665)	(30,395)	(30,050)	(148,258)
Depreciation and amortisation accrued for the year	(8,512)	(187)	(4,355)	(7,575)	(29,508)	(50,137)
Disposals	-	10,992	1,036	-	-	12,028
Balance at 31 December 2018	**(47,855)**	**-**	**(40,984)**	**(37,970)**	**(59,558)**	**(186,367)**
Carrying value At 31 December 2018	**43,675**	**-**	**21,129**	**55,402**	**87,986**	**208,192**
Actual costs						
Balance at 1 January 2017	81,514	12,586	60,305	50,406	147,099	351,910
Additions	150	-	1,058	39,229	445	40,882
Disposals	-	-	-	(2,856)	-	(2,856)
Balance at 31 December 2017	**81,664**	**12,586**	**61,363**	**86,779**	**147,544**	**389,936**
Depreciation and amortisation						
Balance at 1 January 2017	**(29,892)**	**(10,408)**	**(32,194)**	**(22,734)**	**(615)**	**(95,843)**
Depreciation and amortisation accrued for the year	(9,451)	(397)	(5,471)	(8,848)	(29,435)	(53,602)
Disposals	-	-	-	1,187	-	1,187
Balance at 31 December 2017	**(39,343)**	**(10,805)**	**(37,665)**	**(30,395)**	**(30,050)**	**(148,258)**
Carrying value at 31 December 2017	42,321	1,781	23,698	56,384	117,494	241,678

In KZT thousand

19. OTHER ASSETS

	31.12.2018	31.12.2017
Assets under spot transactions	115,260	-
Card account settlements	59,552	85
Fines and penalties charged	6,046	12,385
Other assets	40,804	25,5671
Provision for expected credit losses	(13,125)	(23,952)
Total other financial assets	**208,537**	**14,189**
Fee for participation in the auction	47,948	-
Guarantee deposit	23,863	23,863
Prepayment for rent	21,965	13,927
Other prepayments to the state budget	10,439	10,118
Deferred expenses	8,788	24,464
Other prepayments	4,593	51,484
Receivables from employees	650	1,227
Other assets	12,702	13,698
Total other non-financial assets	**130,948**	**138,781**
Total other assets	**339,485**	**152,970**

20. ACCOUNTS AND DEPOSITS DUE TO OTHER BANKS

	31.12.2018	31.12.2017
Vostro accounts	344,960	249,717
Fixed-term deposits	1,153,067	-
	1,498,027	**249,717**

As at 31 December 2018 and 31 December 2017, the Bank had no other banks' deposits that exceeded 10% of the Bank's equity.

21. CURRENT ACCOUNTS AND DEPOSITS DUE TO CUSTOMERS

	31.12.2018	31.12.2017
Current accounts and on-call deposits		
- Retail customers	*1,245,260*	*879,295*
- Corporate customers	*5,127,516*	*2,405,241*
	6,372,776	3,284,536
Fixed-term deposits		
- Retail customers	*1,940,018*	*1,704,988*
- Corporate customers	*11,722,280*	*6,913,853*
	13,662,298	8,618,841
	20,035,074	**11,903,377**

Blocked Amounts

As at 31 December 2018, deposits of Bank's customers amounting to KZT 7,782 thousand (31 December 2017: KZT 118,284 thousand) secure the loans provided to customers and off-balance-sheet credit instruments issued by the Bank.

In KZT thousand

21. CURRENT ACCOUNTS AND DEPOSITS DUE TO CUSTOMERS (continued)

Concentration of Customers' Current Accounts and Deposits

As at 31 December 2018, the Bank has four customers (31 December 2017: two), whose accounts and deposits account for more than 10% of the equity. The aggregate balance of those accounts and deposits as at 31 December 2018 amounted to KZT 11,604,084 thousand (31 December 2017: KZT 3,695,013 thousand).

22. LOANS FROM INTERNATIONAL FINANCIAL ORGANISATIONS

	31.12.2018	31.12.2017
Loan from EBRD	6,472,871	4,794,954
	6,472,871	**4,794,954**

In 2016, the Bank entered into 2 loan agreements with the European Bank for Reconstruction and Development:

- Loan agreement No. 47953 dated 28 June 2016 to support small and medium-sized business in KZT in the amount equivalent to US dollars 15,000,000 with maturity up to 25 January 2023;
- Loan agreement No. 47954 dated 28 June 2016 to support the project called *Women in Business* in KZT in the amount equivalent to US dollars 5,000,000 with maturity up to 25 January 2023.

Each loan is to be issued in 2 tranches. In accordance with the terms of the loan agreement, it is possible to receive each tranche in two portions. The first tranche and the first portion of the second tranche were received in 2017 in KZT; the remaining portions - in the reporting period.

Interest on the loan is accrued at a floating rate and paid on a quarterly basis, in accordance with the terms of the loan agreement. At the end of the reporting period, the interest rate stood at 7.9%.

The Bank shall comply with certain financial covenants of the above loan agreements. Those covenants include maintenance of the specified ratios of financial performance. The Bank has not breached those covenants as at 31 December 2018 and 2017.

Changes in Liabilities Arising from Financing Activities

The following table shows changes in liabilities arising from financing activities, including both changes arising from cash flows and those not related to cash flows. Liabilities arising from financing activities are those liabilities, whose cash flows were classified or future cash flows will be classified in the cash flow statement as cash flows from financing activities.

	31 December 2017	Cash flows	Other changes*	31 December 2018
Loans from international financial institutions	4,794,954	1,632,600	45,317	6,472,871

* Other changes include interest expense and payments of interest.

In KZT thousand

23. OTHER LIABILITIES

	31.12.2018	31.12.2017
Liabilities under spot transactions	115,440	-
Accounts payable to suppliers	72,653	81,352
Payables for banking transactions	25,432	13,412
Other liabilities	27,780	9,779
Total other financial liabilities	**241,305**	**104,543**
Other transit accounts	148,912	-
Accounts payable to employees	44,600	70,692
Taxes and other compulsory payments to the state budget	23,259	11,576
Provision for vacations	23,104	22,734
Other liabilities	3,445	1,926
Total other non-financial liabilities	**243,320**	**106,928**
Total other liabilities	**484,625**	**211,471**

24. SHARE CAPITAL

(a) Issued and Additional Paid-in Capital

Authorised, issued and outstanding share capital of the Bank consists of 1,002,872 common shares (in 2017: 1,002,872 common shares). All of the shares have a nominal value of KZT 10,000.

Holders of common shares are entitled to receive dividends as declared, and vote (one vote per share) at annual and general shareholders' meetings of the Bank.

(b) Earnings per Share

	31.12.2018	31.12.2017
Net profit for the year	775,119	185,282
Number of issued common shares	1,002,872	1,002,872
Earnings per Share		
Basic earnings per share, KZT	**772.90**	**184.75**

Common shares of the Bank are not traded on the open market, however, the Bank decided to disclose information on the amount of net earnings per share calculated under IAS 33 *Earnings per Share*.

(c) The Nature and Purpose of Reserves

Reserve for General Banking Risks

Until 2013, in accordance with the amendments to the Decree No. 196 dated 31 January 2011 (which became void in 2013) of the Committee for the Control and Supervision of Financial Market and Financial Organisations (hereinafter "FSC") *On Establishment of Minimum Capital Reserves for Second-Tier Banks*, the Bank had to create a capital reserve by transferring an amount from retained earnings to a non-distributable capital reserve.

The amount to be transferred annually was calculated as the net profit for the preceding year before distribution of dividends, attributable to the common shareholders, multiplied by a factor of increase in classified assets and contingent liabilities (in accordance with the Decree No. 296 *On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities* issued by the FSC on 25 December 2006) (which became void in 2013) for the preceding year.

Such increase in percentage had to be at least 10% but no more than 100%.

24. SHARE CAPITAL (continued)

(c) The Nature and Purpose of Reserves (continued)

Reserve for General Banking Risks (continued)

In accordance with the amendments made on 25 December 2013 to the Decree No. 358 *On Approval of the Instruction on Statutory Values and Prudential Standards Calculation Method for Second Tier Banks*, the statutory capital reserve is not subject to distribution.

During the year ended 31 December 2018 and 2017, the Bank made no transfers to the reserve for general banking risks.

(d) Reserve for Revaluation of Financial Assets at Fair Value through Other Comprehensive Income/ Available-for-sale

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

(e) Dividends

The ability of the Bank to declare and distribute dividends is subject to the laws and regulations of the Republic of Kazakhstan.

Dividends on common shares are recognised as a distribution of retained earnings for the period in which they are declared. No dividends were declared for 2018 and 2017.

25. RISK MANAGEMENT

Risk management is fundamental to the activities of the Bank and is an essential element of the Bank's operations. Market risk, credit risk and liquidity risk are the main risks that the Bank faces in the course of its business.

(a) Risk Management Policies and Procedures

The Bank's risk management policies are aimed at identifying, analysing and managing the risks faced by the Bank, and at establishing appropriate risk limits and controls, as well as at continuous monitoring the risk levels and ensuring that they comply with the limits established. Risk management policies and procedures are reviewed regularly in response to changes in market conditions, offered banking products and services and new best practices.

The Bank's Board of Directors is responsible for ensuring the proper functioning of the risk management control system, for managing key risks, and approving policies and procedures for risk management, as well as for approving major transactions.

Management Board of the Bank is responsible for monitoring and implementing risk mitigation measures and ensuring that the Bank operates within the established risk limits. Management Board of the Bank is responsible for the overall risk management and control over the compliance with requirements of the current laws and regulations, and supervision over the application of common principles and methods for identifying, assessing, managing and reporting both financial and non-financial risks.

Credit, market and liquidity risks are managed and controlled by Credit Committee and Assets and Liabilities Management Committee both at the portfolio level and at the level of individual transactions.

Both external and internal risk factors are identified and managed within the Bank. Special attention is paid to identifying the full list of risk factors and determining the level of adequacy of current risk mitigation procedures.

25. RISK MANAGEMENT (continued)

(a) Risk Management Policies and Procedures (continued)

In addition to the standard credit and market risk analysis, Management Board of the Bank monitors financial and non-financial risks by holding regular meetings with operational departments in order to obtain expert judgments in their areas of expertise.

(b) Market Risk

Market risk is the risk that changes in market prices will cause fluctuations of the fair value or future cash flows from financial instruments. Market risk includes currency risk, interest rate risk, and other price risks. Market risk arises from net foreign exchange positions in respect of interest-bearing foreign currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and ensure that exposure to market risk is within the acceptable parameters, while optimise the profitability to be reached at the accepted level of risk. Assets and Liabilities Management Committee headed by the Chairman is responsible for managing market risk and liquidity risk. Market risk and liquidity risk limits are approved by the Assets and Liabilities Management Committee based on recommendations of the Risk Management Department.

The Bank manages market risk by setting open position limits in respect of the amount of certain financial instruments portfolio, terms for change of interest rates, currency position, stop-loss limits and by regular monitoring of compliance therewith, the results of which are considered and approved by the Management Board.

(i) Interest Rate Risk

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

Interest rate risk is managed primarily through monitoring interest rate changes. Summarised information on the terms of revision of interest rates on major interest-bearing financial instruments as at 31 December 2018 is presented below:

In KZT thousand

25. RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

(i) Interest Rate Risk (continued)

Analysis of the Terms for Interest Rates Review

Interest rate risk is managed primarily through monitoring interest rate changes. Summarised information on the terms of revision of interest rates on major interest-bearing financial instruments as at 31 December 2018 is presented below:

	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Interest-free	Total
ASSETS							
Cash and cash equivalents	16,116,281	-	-	-	-	8,766,244	24,882,525
Accounts and deposits due from other banks	-		-	-	-	72,957	72,957
Financial assets at fair value through other comprehensive income	-	-	43,541	1,135,314	-	-	1,178,855
Loans to customers	254,393	727,123	3,642,567	3,756,922	1,616,274	-	9,997,279
Financial assets carried at amortised cost	-	20,596	3,777,416	980,026	-	-	4,778,038
	16,370,674	**747,719**	**7,463,524**	**5,872,262**	**1,616,274**	**8,839,201**	**40,909,654**
LIABILITIES							
Accounts and deposits due to other banks	1,153,067	-	-	-	-	344,960	1,498,027
Current accounts and deposits due to customers	9,634,688	1,393,975	2,951,250	-	-	6,055,161	20,035,074
Loans from international financial institutions	95,935	-	714,106	5,662,830	-	-	6,472,871
	10,883,690	**1,393,975**	**3,665,356**	**5,662,830**	**-**	**6,400,121**	**28,005,972**
	5,486,984	**(646,256)**	**3,798,168**	**209,432**	**1,616,274**	**2,439,080**	**12,903,682**

In KZT thousand

25. RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

(i) Interest Rate Risk (continued)

Analysis of the Terms for Interest Rates Review

Summarised information on the terms of revision of interest rates on major interest-bearing financial instruments as at 31 December 2017 is presented below:

	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Interest-free	Total
ASSETS							
Cash and cash equivalents	8,759,314	998,816	-	-	-	3,559,446	13,317,576
Accounts and deposits due from other banks	-		-	320	-	-	320
Available-for-sale Financial Assets	-	-	43,541	266,598	824,802	-	1,134,941
Loans to customers	643,453	588,884	5,119,976	3,969,169	940,787	-	11,262,269
Held-to-maturity investments	-	20,596	1,582,343	2,117,561	-	-	3,720,500
	9,402,767	**1,608,296**	**6,745,860**	**6,353,648**	**1,765,589**	**3,559,446**	**29,435,606**
LIABILITIES							
Accounts and deposits due to other banks	-	-	-	-	-	249,717	249,717
Current accounts and deposits due to customers	6,894,382	22,765	2,444,501	-	-	2,541,729	11,903,377
Loans from international financial institutions	50,599	-	-	3,085,734	1,658,621	-	4,794,954
	6,944,981	**22,765**	**2,444,501**	**3,085,734**	**1,658,621**	**2,791,446**	**16,948,048**
	2,457,786	**1,585,531**	**4,301,359**	**3,267,914**	**106,968**	**768,000**	**12,487,558**

In KZT thousand

25. RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

(i) Interest Rate Risk (continued)

Average Effective Interest Rates

The following table presents the average effective interest rates on interest-bearing assets and liabilities as at 31 December 2018 and 2017.

	2018 Average effective interest rate, %		2017 Average effective interest rate, %	
	KZT	**US dollars**	**KZT**	**US dollars**
Interest-bearing assets				
Cash and cash equivalents	8.61	-	9.03	2.30
Financial assets at fair value through other comprehensive income/ Available-for-sale investments	5.73	-	4.75	-
Loans to customers	13.54	5.22	12.97	5.20
Financial assets carried at amortised cost/ Investments held-to-maturity	7.72	-	8.03	-
Interest-bearing liabilities				
Accounts and deposits due to other banks				
- Fixed-term deposits	-	2.31	-	-
Current accounts and deposits due to customers				
- Fixed-term deposits	5.84	0.54	7.16	0.73
Loans from international financial organisations	8.31	-	8.32	-

Analysis of Sensitivity to Changes in Interest Rates

Interest rate risk is managed through the analysis of the terms of interest rates revision and monitoring the sensitivity of financial assets and liabilities. Analysis of sensitivity of net profit or loss and equity of the Bank (net of taxes) to the interest rate changes (interest rate risk) based on a simplified scenario of parallel 100 basis point shift in the yield curves towards increase or decrease in interest rates, and revised positions of interest-bearing assets and liabilities as at 31 December 2018 and 2017 are shown below.

	2018		2017	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 basis point parallel shift towards decrease in interest rates	(49,153)	(49,153)	(42,317)	(42,317)
100 basis point parallel shift towards increase in interest rates	49,153	49,153	42,317	42,317

In KZT thousand

25. RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

(i) Interest Rate Risk (continued)

Analysis of sensitivity of profit or loss and equity of the Bank to changes in the fair values of financial assets at fair value through other comprehensive income/ available-for-sale due to changes in interest rates (based on items that existed as at 31 December 2018 and 2017, and a simplified scenario of parallel 100 basis point shift in the yield curve towards increase or decrease in interest rates) is presented below:

	2018		2017	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 basis point parallel shift towards decrease in interest rates	-	41,716	-	47,068
100 basis point parallel shift towards increase in interest rates	-	(37,507)	-	(44,591)

(ii) Currency Risk

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

Currency risk is the risk that the fair value of or future cash flows from financial instruments will fluctuate due to changes in foreign exchange rates. Although the Bank hedges its exposure to currency risk, such transactions do not qualify as hedging relationships in accordance with the IFRS.

The structure of financial assets and liabilities in terms of foreign currencies as at 31 December 2018 is detailed below:

	KZT	US dollars	Euro	Russian roubles	Other	Total
ASSETS						
Cash and cash equivalents	16,410,097	8,319,433	144,668	8,063	264	24,882,525
Accounts and deposits due from other banks	-	72,957	-	-	-	72,957
Financial assets at FVTOCI	1,178,855	-	-	-	-	1,178,855
Loans to customers	8,852,585	1,144,694	-	-	-	9,997,279
Financial assets carried at amortised cost	4,778,038	-	-	-	-	4,778,038
Other financial assets	62,366	146,171	-	-	-	208,537
Total assets	**31,281,941**	**9,683,255**	**144,668**	**8,063**	**264**	**41,118,191**
LIABILITIES						
Accounts and deposits due to other banks	2,635	1,480,394	14,998	-	-	1,498,027
Current accounts and deposits due to customers	11,872,870	8,005,804	156,088	312	-	20,035,074
Loans from international financial organisations	6,472,871	-	-	-	-	6,472,871
Other financial liabilities	141,536	83,460	16,309	-	-	241,305
Total liabilities	**18,489,912**	**9,569,658**	**187,395**	**312**	**-**	**28,247,277**
Net position	**12,792,029**	**113,597**	**(42,727)**	**7,751**	**264**	**12,870,914**

In KZT thousand

25. RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

(ii) Currency Risk (continued)

The structure of financial assets and liabilities in terms of foreign currencies as at 31 December 2017 is detailed below:

	KZT	US dollars	Euro	Russian roubles	Other	Total
ASSETS						
Cash and cash equivalents	9,052,469	4,184,533	79,779	679	116	13,317,576
Accounts and deposits due from other banks	320	-	-	-	-	320
Available-for-sale Financial Assets	1,134,941	-	-	-	-	1,134,941
Loans to customers	10,180,466	1,081,803	-	-	-	11,262,269
Held-to-maturity investments	3,720,500	-	-	-	-	3,720,500
Other financial assets	13,783	406	-	-	-	14,189
Total assets	**24,102,479**	**5,266,742**	**79,779**	**679**	**116**	**29,449,795**
LIABILITIES						
Accounts and deposits due to other banks	2,636	241,244	5,837	-	-	249,717
Current accounts and deposits due to customers	6,837,813	5,018,849	45,693	1,022	-	11,903,377
Loans from international financial organisations	4,794,954	-	-	-	-	4,794,954
Other financial liabilities	69,671	34,872	-	-	-	104,543
Total liabilities	**11,705,074**	**5,294,965**	**51,530**	**1,022**	**-**	**17,052,591**
Net position	**12,397,405**	**(28,223)**	**28,249**	**(343)**	**116**	**12,397,204**

The effect on profit before tax and equity based on the value of financial assets is calculated using the volatility analysis of the exchange rate. Possible movement of exchange rates were decreased from 30% to 15% compared to 2017 since the exchange rate volatility has declined. Management of the Bank believes that as at 31 December 2018 exchange rates can possibly change by 15%.

Depreciation of KZT against the foreign currencies, as shown below, as at 31 December 2018 and 2017 would have increased (decreased) the equity and profit or loss by the amounts mentioned below. This analysis is presented net of taxes and based on fluctuations of exchange rates, which the Bank considered reasonably possible as at the end of the reporting period. The analysis was performed assuming that all other variables, in particular interest rates, remain unchanged.

	2018		2017	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
15% Strengthening of the US dollar against KZT (2017: 30%)	13,632	13,632	(6,773)	(6,773)
15% Strengthening of the Euro against KZT (2017: 30%)	(5,127)	(5,127)	6,778	6,778
15% Strengthening of the Russian rouble against KZT (2017: 30%)	930	930	(82)	(82)

25. RISK MANAGEMENT (continued)

(c) Credit Risk

Credit risk is the risk of financial loss arising from the failure of Bank's borrower or counterparty to perform their obligations. The Bank manages credit risk (for recognised financial assets and unrecognised contractual commitments) through applying the approved policies and procedures, which include the requirements to establish and comply with limits of credit risk concentration, as well as through establishing a Credit Committee, which is responsible for active monitoring of credit risk. Credit policies are reviewed and approved by the Board of Directors.

The credit policies establish:

- Procedures for consideration and approval of credit applications;
- Methodology for evaluation of the borrowers' (corporate customers and individuals) creditworthiness;
- Methodology for evaluation of the counterparties' creditworthiness;
- Methodology for evaluation of the offered collateral;
- Requirements to credit documentation;
- Procedures for permanent monitoring of loans and other products bearing the credit risk.

Applications from corporate customers for loans are made by the relevant customer relationship managers and then submitted to the Credit Office, which is responsible for a portfolio of loans issued to legal entities. Reports of analysts of the Credit Office are based on a structural analysis of the business and financial position of borrowers. Then applications and reports undergo an independent review made by the Risk Management Department, which issues a second opinion; the proper fulfilment of the credit policies requirements is also reviewed. Credit Committee approves applications for loans based on documents provided by the Credit Office, Integrated Security Department, Collateral Evaluation Department, Legal Department and Risk Management Department.

The Bank constantly monitors the performance of certain loans and regularly revaluates the creditworthiness of its borrowers. Revaluation procedures are based on an analysis of the borrower's financial statements as at the latest reporting date or other information provided by the borrower or obtained by the Bank from other sources. At the same time, a decision to provide each loan is made by the Credit Committee, upon completion of all necessary procedures, which allows controlling the entire credit process in case of a small number of incoming applications.

In addition to the analysis of individual borrowers, Risk Management Department evaluates loan portfolio as a whole in terms of credit concentration and market risks.

The maximum exposure to credit risk is usually represented by the carrying amounts of financial assets reported in the statement of financial position and unrecognised contractual commitments. The possibility of offsetting assets against liabilities is not significant to reducing potential exposure to credit risk.

Banking sector is generally exposed to credit risk arising from financial assets and contingent liabilities. Bank's credit risk is concentrated in Kazakhstan. The exposure to credit risk is constantly monitored to ensure that the credit limits and requirements to creditworthiness established by the Bank's risk management policies are complied with.

In KZT thousand

25. RISK MANAGEMENT (continued)

(c) Credit Risk (continued)

Maximum exposure to credit risk arising from financial assets as at the reporting date is detailed below:

	31.12.2018	31.12.2017
ASSETS		
Cash and cash equivalents	24,882,525	13,317,576
Accounts and deposits due from other banks	72,957	320
Financial assets at fair value through other comprehensive income/ Available-for-sale investments	1,178,855	1,134,941
Loans to customers	9,997,279	11,262,269
Financial assets carried at amortised cost/ Investments held-to-maturity	4,778,038	3,720,500
Other financial assets	208,537	14,189
Total maximum exposure to credit risk	**41,118,191**	**29,449,795**

31 December 2018	Stage 1 On a group basis	Stage 2 On a group basis	Stage 3 On a group basis	Stage 3 Individually	Total
Cash and cash equivalents	24,882,525	-	-	-	24,882,525
Accounts and deposits due from other banks	72,597	-	-	-	72,597
Available-for-sale Financial Assets	1,178,855	-	-	-	1,178,855
Loans to customers	8,400,869	11,212	112,548	1,472,650	9,997,279
Held-to-maturity investments	4,778,038	-	-	-	4,778,038
Other assets	208,537	-	-	-	208,537
Total assets	**39,521,781**	**11,212**	**112,548**	**1,472,650**	**41,118,191**

Analysis of collateral for loans to customers and concentration of credit risk on loans to customers is presented in Note 15.

Maximum exposure to credit risk arising from unrecognised contractual commitments as at the reporting date is presented in Note 28.

As at 31 December 2018, the Bank had no debtors (31 December 2017: no debtors), who expose the Bank to credit risk exceeding 10% of the maximum credit risk exposure.

Significant Increase in Credit Risk

The Bank monitors all financial assets that are subject to impairment requirements in order to identify whether credit risk has increased significantly from the date of initial recognition of the assets. In the event of a significant increase in credit risk, the Bank calculates the provision amount based on the lifetime expected credit losses rather that the 12-month expected credit losses.

25. RISK MANAGEMENT (continued)

(c) Credit Risk (continued)

The Bank uses credit risk grades as a primary input into the determination of the term structure of the probability of default for exposures. The Bank collects performance and default information about its credit risk exposures analysed in terms of jurisdiction or region and type of product and borrower, as well as in terms of credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The Bank uses various criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used include both quantitative and qualitative changes in probability of default.

For bank loans assessed on a collective basis, a significant increase in credit risk is determined based on increase in lifetime probability of default since initial recognition using the defined thresholds for segmented homogeneous portfolios and for loans with an overdue more than 30 days since initial recognition, for loans assessed on an individual basis - additionally in case of the decrease of external/ internal credit rating by 2 (two) grades (fact of restructuring because of deterioration of the financial position in order to classify as Stage 3), expert opinions of the Bank's specialists based on the changes in the qualitative and quantitative indicators of the borrower, a significant deterioration of collateral and other objective evidence of significant financial difficulties since initial recognition.

Stage 3 is determined for loans that are assessed on a collective basis with an overdue of over 60-90 days, for loans assessed on an individual basis - over 60 days past due, restructuring related to the deterioration of financial position, deterioration of the internal credit rating and expert opinion of the Bank's specialists.

Management of the Bank believes that certain financial instruments with low credit risk at the reporting date have not experienced a significant increase in credit risk. The Bank applies this policy to financial instruments issued to sovereign and financial institutions only. It is believed that a financial instrument has low credit risk when its external credit rating is equivalent to the definition of "investment grade" given by international rating agencies.

The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due.

Provision of Forward-looking Information

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase in credit risk as well as in its measurement of expected credit losses.

Incorporation of forward-looking elements reflects the expectations of the Bank. The Bank considers scenarios, the number of which depends on an assessment of the probability and materiality of the scenario, changes in circumstances and macroeconomic factors.

The purpose of using multiple scenarios is to model the nonlinear impact of macroeconomic factors on the expected credit losses.

The Bank has identified and documented key indicators affecting portfolios of financial instruments and, using statistical analysis of historical data, has assessed the relationship between macroeconomic variables and credit risk and credit losses.

25. RISK MANAGEMENT (continued)

(d) Liquidity Risk

Liquidity risk is the risk that the Bank can encounter difficulties in raising cash to perform its obligations. Liquidity risk exists when the maturities of assets and liabilities do not match. Matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the liquidity risk management. It is unusual for financial institutions to have maturities of their assets and liabilities completely matching since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Bank maintains an appropriate liquidity level so as to ensure the continued availability of cash necessary to settle all liabilities as they fall due. The liquidity management policies are reviewed and approved by the Board of Directors. The Bank seeks to actively support a diversified and stable structure of funding sources consisting of long-term loans from international financial institutions, short-term loans from other banks, deposits of key corporate customers and individuals, and a diversified portfolio of highly liquid assets in order for the Bank to be able to promptly and smoothly respond to unforeseen liquidity requirements.

Section of corporate risk management policies that relates to liquidity risk management consists of:

- Forecasting cash flows in terms of major currencies and estimating the required level of liquid assets related to those cash flows;
- Maintaining a diversified structure of funding sources;
- Managing the concentration and structure of borrowed funds;
- Developing debt financing plans;
- Maintaining a portfolio of highly liquid assets that can easily be realised as a defensive measure in the event of cash liquidity gap;
- Developing contingency plans to maintain liquidity and an established level of financing;
- Monitoring the compliance of liquidity ratios with statutory ratios.

The Treasury receives information from divisions on the liquidity structure of their financial assets and liabilities and on forecasting cash flows expected from planned future business. Afterwards the Treasury forms an appropriate portfolio of short-term liquid assets, mainly consisting of short-term liquid held-for-sale securities, deposits placed with banks and other inter-bank products in order to ensure the required level of liquidity for the Bank as a whole.

The Treasury monitors its liquidity position on a daily basis and regularly conducts stress tests, taking into account a variety of possible market scenarios under both normal and adverse environment. Under normal market environment, liquidity reports are provided to the senior management on a weekly basis. Decisions on liquidity management policy are taken by the Assets and Liabilities Management Committee and fulfilled by the Treasury.

The following tables show the undiscounted cash flows of financial assets, financial liabilities and credit-related contingent liabilities at the earliest contractual maturities. The total cash inflows and outflows shown in the tables are contractual undiscounted cash flows of financial assets, liabilities or credit-related contingent liabilities. For financial guarantee contracts issued, the maximum amount of the guarantees relates to the earliest period when the guarantee can be used.

In KZT thousand

25. RISK MANAGEMENT (continued)

(d) Liquidity Risk, continued

The analysis of financial liabilities in terms of their maturities as at 31 December 2018 is shown below.

	On call and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflows	Carrying value
Non-derivative financial liabilities							
Accounts and deposits due to other banks	1,498,869	-	-	-	-	1,498,869	1,498,027
Current accounts and deposits due to customers	15,694,683	1,397,415	284,936	2,714,761	7,782	20,099,577	20,035,074
Loans from international financial organisations	135,328	-	370,536	730,588	6,427,241	7,663,693	6,472,871
Other financial liabilities	213,633	201	212	281	26,978	241,305	241,305
Total liabilities	**17,542,513**	**1,397,616**	**655,684**	**3,445,630**	**6,462,001**	**29,503,444**	**28,247,277**
Credit-related contingent liabilities	**2,086,224**	**-**	**-**	**-**	**-**	**2,086,224**	**2,086,224**

In KZT thousand

25. RISK MANAGEMENT (continued)

(d) Liquidity Risk, continued

The analysis of financial liabilities in terms of their maturities as at 31 December 2017 is shown below.

	On call and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflows	Carrying value
Non-derivative financial liabilities							
Accounts and deposits due to other banks	249,717	-	-	-	-	249,717	249,717
Current accounts and deposits due to customers	9,610,969	22,894	1,073,385	1,482,971	46,501	12,236,720	11,903,377
Loans from international financial organisations	78,904		98,522	200,572	5,654,098	6,032,096	4,794,954
Other financial liabilities	104,543	-	-	-	-	104,543	104,543
Total liabilities	**10,044,133**	**22,894**	**1,171,907**	**1,683,543**	**5,700,599**	**18,623,076**	**17,052,591**
Credit-related contingent liabilities	**1,058,521**	**-**	**-**	**-**	**-**	**1,058,521**	**1,058,521**

In accordance with the laws of the Republic of Kazakhstan, depositors have the right to withdraw their fixed term deposits from a bank at any time, and in most cases they lose the right to receive an interest income accrued. The deposits are presented based on their contractual maturities.

Nevertheless, management believes that regardless of the availability of early withdrawal option and the fact that a significant portion of the deposits are on call accounts, diversification of those accounts and deposits across their number and types of depositors, as well as past experience of the Bank allow considering those accounts a long-term and stable source of funding.

Management expects that cash flows of certain financial assets and liabilities can differ from contractual cash flows, either because management is authorised to manage cash flows or because the past experience shows that timing of cash flows of those financial assets and liabilities can differ from contractual cash flows.

In KZT thousand

25. RISK MANAGEMENT (continued)

(d) Liquidity Risk, continued

The table below shows an analysis of the maturities of the amounts reported in the statement of financial position as at 31 December 2018:

	On call and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No stated maturity	Past due	Total
Non-derivative assets								
Cash and cash equivalents	24,882,525	-	-	-	-	-	-	**24,882,525**
Accounts and deposits due from other banks	-	-	72,957	-	-	-	-	**72,957**
Financial assets at FVTPL	-	-	43,541	1,135,314	-	-	-	**1,178,855**
Loans to customers	175,020	727,123	3,642,567	3,756,922	1,616,274	-	79,373	**9,997,279**
Financial assets carried at amortised cost	-	20,596	3,777,416	980,026	-	-	-	**4,778,038**
Current income tax	-	43,246	-	-	-	-	-	**43,246**
Non-current assets held-for-sale	-	442,323	52,206	-	-	-	-	**494,529**
Property, plant and equipment and intangible assets	-	-	-	-	-	208,192	-	**208,192**
Deferred income tax	-	-	-	15,513	-	-	-	**15,513**
Other assets	188,846	75,810	24,094	26,872	23,863	-	-	**339,485**
Total assets	**25,246,391**	**1,309,098**	**7,612,781**	**5,914,647**	**1,640,137**	**208,192**	**79,373**	**42,010,619**
Non-derivative financial liabilities								
Accounts and deposits due to other banks	1,498,027	-	-	-	-	-	-	**1,498,027**
Current accounts and deposits due to customers	15,682,067	1,393,975	2,951,250	7,782	-	-	-	**20,035,074**
Loans from international financial organisations	95,935	-	714,106	5,662,830	-	-	-	**6,472,871**
Other liabilities	389,249	201	68,197	26,978	-	-	-	**484,625**
Total liabilities	**17,665,278**	**1,394,176**	**3,733,553**	**5,697,590**	**-**	**-**	**-**	**28,490,597**
Net position	**7,581,113**	**(85,078)**	**3,879,228**	**217,057**	**1,640,137**	**208,192**	**79,373**	**13,520,022**

In KZT thousand

25. RISK MANAGEMENT (continued)

(d) Liquidity Risk, continued

The table below shows an analysis of the maturities of the amounts reported in the statement of financial position as at 31 December 2017:

	On call and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No stated maturity	Past due	Total
Non-derivative assets								
Cash and cash equivalents	12,318,760	998,816	-	-	-	-	-	**13,317,576**
Accounts and deposits due from other banks	-		-	320	-	-	-	**320**
Available-for-sale Financial Assets	-	-	43,541	266,598	824,802	-	-	**1,134,941**
Loans to customers	301,186	588,884	5,119,976	3,969,169	940,787	-	342,267	**11,262,269**
Held-to-maturity investments	-	20,596	1,582,343	2,117,561	-	-	-	**3,720,500**
Property, plant and equipment and intangible assets	-	-	-	-	-	241,678	-	**241,678**
Corporate income tax	-	73,012	-	-	-	-	-	**73,012**
Other assets	77,022	-	-	-	-	75,948	-	**152,970**
Total assets	**12,696,968**	**1,681,308**	**6,745,860**	**6,353,648**	**1,765,589**	**317,626**	**342,267**	**29,903,266**
Non-derivative financial liabilities								
Accounts and deposits due to other banks	249,717	-	-	-	-	-	-	**249,717**
Current accounts and deposits due to customers	9,317,828	22,765	2,516,284	46,500	-	-	-	**11,903,377**
Loans from international financial organisations	50,599	-	-	3,085,734	1,658,621	-	-	**4,794,954**
Deferred tax liabilities	-	-	-	34,777	-	-	-	**34,777**
Other liabilities	188,737	-	22,734	-	-	-	-	**211,471**
Total liabilities	**9,806,881**	**22,765**	**2,539,018**	**3,167,011**	**1,658,621**	**-**	**-**	**17,194,296**
Net position	**2,890,087**	**1,658,543**	**4,206,842**	**3,186,637**	**106,968**	**317,626**	**342,267**	**12,708,970**

In KZT thousand

26. CAPITAL MANAGEMENT

The National Bank of the Republic of Kazakhstan establishes requirements to the capital adequacy of the Bank and monitors the compliance of the Bank with those requirements.

The Bank determines as capital those items that are determined by the laws as the items constituting the capital of credit organisations. As at 31 December 2018, the statutory minimum required ratio of tier 1 capital to risk-weighted asset value, contingent liabilities, operational and market risks is 0.055 (31 December 2017: 0.055), while the statutory minimum required ratio of the total capital to risk-weighted asset value, contingent liabilities, operational and market risk is 0.08 (31 December 2017: 0.08).

As at 31 December 2018 and 31 December 2017, the Bank met all of the statutory requirements to the capital, and its minimum ratio of tier 1 capital to risk-weighted asset value, contingent liabilities, operational and market risks as at 31 December 2018 was 1.007 (31 December 2017: 1.020), while the minimum ratio of the total capital to risk-weighted asset value, contingent liabilities, operational and market risk was 1.007 (31 December 2017: 1.020).

27. OPERATING LEASE

Transactions Where the Bank is a Lessee

The Bank leases an office under an operating lease. The lease term is 60 months with an option to extend the term. Leases do not include any provisions regarding the contingent rent. During the year ended 31 December 2018, an amount of KZT 76,876 thousand was recognised as an operating lease expense (in 2017: KZT 74,659 thousand). The table presents an analysis of the total amount of future minimum lease payments under an operating lease agreement without the right of early termination as 31 December 2018 and 2017:

	31.12.2018	31.12.2017
Up to 12 months	57,089	57,089
From 1 to 5 years	67,321	111,080
Total	**124,410**	**168,169**

Management used an assumed discounting rate of 12.00% (2017: 12.00%).

28. CREDIT-RELATED CONTINGENT LIABILITIES

(a) Credit-related Contingent Liabilities

The Bank issues bank guarantees and letters of credit to secure the performance of its customers' obligations to third parties. Those agreements establish the limits of obligations and are usually valid for a term of up to five years.

When issuing financial guarantees, credit-related commitments, and letters of credit, the Bank applies the same risk management policies and procedures as those applied in issuing loans to customers.

As at 31 December 2018, the Bank had outstanding contractual contingent liabilities for credit lines amounting to KZT 1,395,962 thousand (31 December 2017: KZT 1,001,111 thousand), and for guarantees and letters of credit amounting to KZT 690,262 thousand (31 December 2017: KZT 57,410 thousand).

(b) Pending Judicial Proceedings

Management is not aware of any substantial actual or pending judicial proceedings, as well as the potential suits that might be filed against the Bank.

In KZT thousand

28. CREDIT-RELATED CONTINNGENT LIABILITIES (continued)

(c) Insurance

The insurance industry in Kazakhstan is in a developing state and many forms of insurance protection common in other countries are not yet available in Kazakhstan. The Bank does not have full coverage for its buildings and equipment, business interruption, or third party liability in respect of property or environmental damage arising from the use of the Bank's property.

The Bank entered into a package insurance agreement against banking risks related to electronic and cyber crimes. The insurer is Oil Insurance Company JSC. The agreement duration is 12 months following the date of signing.

Until the Bank obtains adequate insurance coverage for its operations, there is a risk that losses incurred or loss of certain assets can have a material adverse effect on operations and financial position of the Bank.

(d) Tax Liabilities

Kazakhstan's tax system, being relatively new, is characterised by frequent changes in legislative regulations, official pronouncements and court rulings, which are often unclear, contradictory, and can be differently interpreted by various tax authorities, including opinions on the accounting treatment of income, expenses and other items of financial statements in accordance with IFRS. Accuracy of tax assessment is subject to inspections and investigations by several regulatory bodies authorised to impose heavy fines and interests. Tax year is open for inspection by tax authorities during the subsequent five calendar years; however, under certain circumstances this period may be extended.

These circumstances might result in the tax risks in Kazakhstan to be considerably higher than in other countries. Management believes that tax liabilities were reported in full in these financial statements based on its interpretation of the applicable tax laws and official comments to the regulations and court rulings. However, since interpretations of tax laws by various regulatory authorities can differ from the opinion of Bank's management, in cases of enforced actions by the regulatory authorities, their impact on the financial statements of the Bank can be material.

29. RELATED PARTY TRANSACTIONS

(a) Control Relationships

The parent company of the Bank is Shinhan Bank JSC (Seoul, Republic of Korea). The Bank's parent company prepares financial statements available to external users.

The ultimate parent company of the Bank is Shinhan Financial Group Co. Ltd (Korea), which has the power to direct the activities of the Bank at its own discretion and in its own interests.

(b) Transactions with Members of the Board of Directors and Management Board

Total compensation included in *Personnel Expenses* item for the years ended 31 December 2018 and 2017 is detailed below:

	2018	**2017**
Board of Directors	7,000	12,349
Management Board	259,033	219,399
	266,033	**231,748**

In KZT thousand

29. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with Members of the Board of Directors and Management Board (continued)

As at 31 December 2018 and 2017, the balances of accounts and the average interest rates for the transactions with members of the Board of Directors and Management Board were as follows:

Statement of Financial Position	2018	Average interest rate, %	2017	Average interest rate, %
Other assets	650	-	399	-
Current accounts and deposits	(21,056)	0.88	(153,971)	2.20
Other liabilities	(32,415)	-	(58,938)	-

Amounts included in gains or losses on transactions with members of the Board of Directors and Management Board for the years ended 31 December 2018 and 2017 are detailed below:

Statement of Profit or Loss and Other Comprehensive Income	2018	2017
Income from transactions with foreign currencies	972	908
Fee and commission income	179	148
Interest expense	(192)	(2,565)

(b) Transactions with Other Related Parties

As at 31 December 2018 and 2017, the balances of accounts and average interest rates, as well as the relevant gains or losses on the transactions with other related parties for the years then ended were as follows:

	Parent bank		Other related parties	
Statement of Financial Position	**2018**	**Average interest rate, %**	**2018**	**Average interest rate, %**
ASSETS				
Cash and cash equivalents				
- in Euro	-	-	55,684	-
- in other currencies	-	-	263	-
Loans to customers				
- in KZT	-	-	1,005,678	11.00
Other assets				
- in KZT	-	-	1,749	-
LIABILITIES				
Accounts and deposits due to other banks				
- in KZT	2,635	-	-	-
- in US dollars	1,480,395	2.27	-	-
- in Euro	14,998	-	-	-
Current accounts and deposits due to customers				
- in KZT	-	-	22,438	6.59
- in US dollars	-	-	18,976	-
Other liabilities				
- in KZT	-	-	18	-
- in US dollars	51,755	-	-	-
Items that were not recognised in the statement of financial position				
Guarantees received*	345,780	-	1,000,000	-

In KZT thousand

29. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with Other Related Parties (continued)

Statement of Profit or Loss and Other Comprehensive Income	Parent bank 2018	Parent bank Average interest rate, %	Other related parties 2018	Other related parties Average interest rate, %
Income from transactions with foreign currencies	(14)		624	
Interest income			37,830	
Interest expense	(464)		(13,258)	
Fee and commission income			805	
Commission expense	(29,388)		-	
Other general administrative expenses	(34,120)		-	
Other operating income (expenses), net	95		7	

* As at 31 December 2018, the guarantees received include the USD-denominated guarantee provided by the parent bank for the loan issued to a corporate customer. The guarantee is interest-free; the expiry date is 10 April 2019.

The guarantees received from other related parties include the guarantee in KZT provided by a company belonging to the Shinhan Financial Group Co. Ltd for the loan issued to its subsidiary in Kazakhstan. The guarantee is interest-free; the expiry date is 21 March 2021.

Statement of Financial Position	Parent bank 2017	Parent bank Average interest rate, %	Other related parties 2017	Other related parties Average interest rate, %
ASSETS				
Cash and cash equivalents				
- in US dollars	1,741	0.5	-	-
- in Euro	16	-	76 072	-
- in other currencies	-	-	116	-
- in other currencies	-	-	-	-
LIABILITIES				
Accounts and deposits due to other banks				
- in KZT	2,635	-	-	-
- in US dollars	241,245	-	-	-
- in Euro	5,837	-	-	-
Current accounts and deposits due to customers				
- in KZT	-	-	438,445	7.6
- in US dollars	-	-	19,946	-
Items that were not recognised in the statement of financial position				
Guarantees received*	2,789,097	-	-	-

In KZT thousand

29. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with Other Related Parties (continued)

Statement of Profit or Loss and Other Comprehensive Income	Parent bank 2017	Parent bank Average interest rate, %	Other related parties 2017	Other related parties Average interest rate, %
Income from transactions with foreign currencies	52	-	558	-
Interest income	3,732	-	-	-
Interest expense	-	-	(87,960)	-
Fee and commission income	-	-	536	-
Commission expense	(19,116)	-	-	-
Other general administrative expenses	-	-	(22,533)	-
Other operating income (expenses), net	-	-	(201)	-

* As at 31 December 2017, the guarantees received include the guarantees provided by the parent bank for the loans issued to the three corporate customers. Guarantees are interest-free; the expiration dates of the guarantees are 10 April 2018, 18 May 2018, and 8 June 2018. Two of the guarantees are provided in KZT, and one - in US dollars.

In KZT thousand

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

(a) Accounting Classifications and Fair Values

The following table shows the carrying amounts and fair values of financial assets and liabilities as at 31 December 2018.

	Carried at amortised cost	Lenders and receivables	Carried at fair value through other comprehensive income	Others carried at amortised cost	Total carrying value	Fair value
Financial assets						
Cash and cash equivalents	-	24,882,525	-	-	24,882,525	**24,882,525**
Accounts and deposits due from other banks	-	72,957	-	-	72,957	**72,957**
Financial assets at fair value through other comprehensive income	-	-	1,178,855	-	1,178,855	**1,178,855**
Loans to customers						
- loans to corporate customers	-	6,619,306	-	-	6,619,306	**6,650,405**
- loans to retail customers	-	3,377,973	-	-	3,377,973	**3,357,314**
Financial assets carried at amortised cost	4,778,038	-	-	-	4,778,038	**4,715,102**
Other financial assets	-	208,537	-	-	208,537	**208,537**
	4,778,038	**35,161,298**	**1,178,855**	**-**	**41,118,191**	**41,065,695**
Financial Liabilities						
Accounts and deposits due to other banks	-	-	-	1,498,027	1,498,027	**1,498,027**
Current accounts and deposits due to customers	-	-	-	20,035,074	20,035,074	**20,035,074**
Loans from international financial organisations	-	-	-	6,472,871	6,472,871	**6,472,871**
Other financial liabilities	-	239,427	-	1,878	241,305	**241,305**
	-	**239,427**	**-**	**28,007,850**	**28,247,277**	**28,247,277**

In KZT thousand

30. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS (continued)

(a) Accounting Classifications and Fair Values

The following table shows the carrying amounts and fair values of financial assets and liabilities as at 31 December 2017.

	Held-to-maturity	Lenders and receivables	Available-for-sale	Others carried at amortised cost	Total carrying value	Fair value
Financial assets						
Cash and cash equivalents	-	13,317,576	-	-	13,317,576	**13,317,576**
Accounts and deposits due from other banks	-	320	-	-	320	**320**
Available-for-sale Financial Assets	-	-	1,134,941	-	1,134,941	**1,134,941**
Loans to customers						
- loans to corporate customers	-	8,710,128	-	-	8,710,128	**8,774,237**
- loans to retail customers	-	2,552,141	-	-	2,552,141	**2,438,584**
Held-to-maturity investments	3,720,500	-	-	-	3,720,500	**3,608,578**
Other financial assets	-	14,189	-	-	14,189	**14,189**
	3,720,500	**24,594,354**	**1,134,941**	**-**	**29,449,795**	**29,288,425**
Financial Liabilities						
Accounts and deposits due to other banks	-	-	-	249,717	249,717	**249,717**
Current accounts and deposits due to customers	-	-	-	11,903,377	11,903,377	**11,903,377**
Loans from international financial organisations	-	-	-	4,794,954	4,794,954	**4,794,954**
Other financial liabilities	-	101,992	-	2,551	104,543	**104,543**
	-	**101,992**	**-**	**16,950,599**	**17,052,591**	**17,052,591**

30. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS (continued)

(a) Accounting Classifications and Fair Values (continued)

Fair value measurement is aimed at determining the price that would be received when selling an asset or paid when transferring a liability in a transaction carried out on an organised market between market participants at the measurement date. However, given the uncertainties and the use of subjective judgments, the fair value should not be interpreted as being realisable in case of an immediate sale of assets or transfer of liabilities.

The fair value of financial assets and financial liabilities that are traded on an active market is based on market quotations or dealer prices. The Bank measures the fair values of its other financial instruments using other valuation techniques.

Valuation techniques include the net present value model and cash flow discounting model, comparison with similar instruments having known market quotations. Judgments and inputs used in measurement include risk-free and base interest rates, credit spreads and other adjustments used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity indexes and expected price fluctuations and their comparison. The objective of valuation techniques is to arrive at a fair value that reflects the price of a financial instrument as at the reporting date that would have been determined by market participants acting at arm’s length.

Management used an assumed discount rate of 13.73% and 13.17% (in 2017: 12.92% and 14.20%) to discount future cash flows to measure the KZT fair value of loans issued to corporate customers and loans issued to retail customers, respectively, and 5.20% (in 2017: 5.51%) to discount future cash flows to measure the USD fair value of loans issued to corporate customers.

(b) Fair Value Hierarchy

The Bank measures the fair value using the following fair value hierarchy that considers the significance of inputs used in making the measurements.

- Level 1: Quoted prices (unadjusted) of identical financial instruments in an active market.
- Level 2: Inputs other than those mentioned under the Level 1 and either directly observable (i.e., as prices) or indirectly observable (i.e., derived from prices). This category includes instruments measured using: quoted market prices of similar instruments in active markets; quoted market prices of similar instruments in markets that are not considered active; or other valuation techniques where all inputs are directly or indirectly observable.
- Level 3: Unobservable inputs. This category includes instruments measured using the unobservable inputs and those inputs are significant to the valuation of the instruments. This category includes instruments that are measured based on quoted prices for similar instruments where significant unobservable adjustments or judgments are required to reflect the differences between the instruments.

The Bank has a control system related to fair value measurement. This system includes the Risk Management Department, which is independent of the front office management and reports to the CFO, and is responsible for independent review of the results of trading and investment transactions, as well as all significant fair value measurements. Special control mechanisms include:

In KZT thousand

30. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS (continued)

(b) Fair Value Hierarchy (continued)

- Review of observed quotations;
- Recalculation of valuation models;
- Review and approval process for new models and changes to models involving Risk Management Department;
- Quarterly review and back-testing of the model with respect to observable market transactions;
- Analysis and study of significant daily changes in estimates;
- Management Board's review of significant unobservable inputs, adjustments to estimates and significant changes in the fair value of instruments, related to Level 3, as compared to the previous month.

Where third party information is used to measure the fair value, including information about prices and market quotes, the Credit Products Control Department evaluates and documents the confirmation received from third parties so as to confirm that such measurements meet the requirements of IFRS, including:

- Confirmation that information on prices or market quotations of brokers was approved by the Bank to be used in pricing of financial instruments;
- Understanding of how the fair value was arrived at to the extent that it represents actual market transactions;
- Where quotations of similar instruments are used to measure the fair value, understanding of how the quoted prices have been adjusted to reflect characteristics of the instrument to be measured;
- In cases where a number of quotations is used for similar financial instruments, understanding of how the fair value was measured using the mentioned quotations.

Significant measurement issues are reported to the Management Board.

The following table presents an analysis of financial instruments at fair value, as at 31 December 2018 and 31 December 2017, in the context of the level in the fair value hierarchy. The amounts are based on those reported in the statement of financial position.

	Level 2	
	31.12.2018	**31.12.2017**
Financial assets at fair value through other comprehensive income/ Available-for-sale investments		
- debt securities	1,178,855	1,134,941

The following tables analyse the fair values of financial instruments that are not measured at fair value in the context of the level in the fair value hierarchy as at 31 December 2018 and 31 December 2017:

In KZT thousand

30. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS (continued)

(b) Fair Value Hierarchy (continued)

2018	**Level 2**	**Level 3**	**Fair value**	**Carrying value**
Financial assets				
Cash and cash equivalents	24,882,525	-	24,882,525	24,882,525
Accounts and deposits due from other banks	72,957	-	72,957	72,957
Loans to customers	9,929,472	78,247	10,007,719	9,997,279
Financial assets carried at amortised cost	4,715,102	-	4,715,102	4,778,038
Other financial assets	208,537	-	208,537	208,537
	39,808,593	**78,247**	**39,886,840**	**39,939,336**
Financial Liabilities				
Accounts and deposits due to other banks	1,498,027	-	1,498,027	1,498,027
Current accounts and deposits due to customers	20,035,074	-	20,035,074	20,035,074
Loans from international financial organisations	6,472,871	-	6,472,871	6,472,871
Other financial liabilities	241,305	-	241,305	241,305
	28,247,277	**-**	**28,247,277**	**28,247,277**

2017	**Level 2**	**Level 3**	**Fair value**	**Carrying value**
Financial assets				
Cash and cash equivalents	13,317,576	-	13,317,576	13,317,576
Accounts and deposits due from other banks	320	-	320	320
Loans to customers	10,847,983	364,838	11,212,821	11,262,269
Held-to-maturity investments	3,608,578	-	3,608,578	3,720,500
Other financial assets	14,189	-	14,189	14,189
	27,788,646	**364,838**	**28,153,484**	**28,314,854**
Financial Liabilities				
Accounts and deposits due to other banks	249,717	-	249,717	249,717
Current accounts and deposits due to customers	11,903,377	-	11,903,377	11,903,377
Loans from international financial organisations	4,794,954	-	4,794,954	4,794,954
Other financial liabilities	104,543	-	104,543	104,543
	17,052,591	**-**	**17,052,591**	**17,052,591**

31. SUBSEQUENT EVENTS

After the reporting date, there were no significant events in Bank's financial and economic activities that would require adjustments to the financial statements or additional disclosures.