JSC HALYK BANK

Separate Financial Statements
and Independent Auditors' Report
For the Year Ended 31 December 2018

JSC Halyk Bank

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Statement of Management's Responsibilities
For the Preparation and Approval of the Separate Financial Statements
For the year ended 31 December 2018

Management is responsible for the preparation of the separate financial statements that present fairly the financial position of JSC Halyk Bank ("the Bank") as at 31 December 2018, the related statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and of significant accounting policies and notes to the financial statements (the "financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the separate financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's separate financial position and financial performance; and
- making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the separate financial position of the Bank, and which enable them to ensure that the separate financial statements of the Bank comply with IFRS;
- maintaining accounting records in compliance with the Republic of Kazakhstan legislation;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- preventing and detecting fraud and other irregularities.

These separate financial statements of the Bank for the year ended 31 December 2018 were approved by the Management Board on 7 March 2019.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2019
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2019
Almaty, Kazakhstan

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Halyk Bank

Opinion

We have audited the separate financial statements of JSC Halyk Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Collective assessment of the expected credit losses on loans to customers	
As at 31 December 2018, the Bank reported total gross loans of KZT 3,810,483 million, including KZT 1,136,217 subject to collective impairment assessment, which comprise 30% of total gross loans. The expected credit losses ("ECL") resulting from this assessment amounted to KZT 174,887 million. For loans assessed on a collective basis there is a risk of errors in the underlying data used in assessment of ECL, including errors in loan data (maturity date or outstanding balances), inaccurate or incomplete inputs and assumptions used in assessing probability of default (PD), loss given default data (LGD) and inconsistency of historical and forward-looking information with available market based data. Due to the significance and subjectivity of judgements used by management and the volume of loans assessed on a collective basis, we identified the collective assessment of expected credit losses as a key audit matter. Refer to Notes 3 and 32 to the separate financial statements for the description of the Bank's policy and disclosures of gross carrying amounts and related allowances balances.	We obtained an understanding of processes and control procedures related to the loan origination, credit risk management and ECL assessment for loans to customers, assessed on a collective basis. We challenged the reasonableness of the methodology on collective loan loss provisioning and its compliance with IFRS 9 requirements. We checked that the data inputs and key assumptions used in the models for assessing PDs and LGDs reflect historical information about incurred credit losses adjusted for relevant forward-looking macroeconomic factors. On a sample basis, we tested the accuracy and completeness of the data used in the ECL models, such as collateral values and statistics for recoveries of loans, re-performed certain calculations, traced back information used in the ECL models to source data, and assessed the appropriateness of forward-looking information used in the models. For collectively assessed loans, with the involvement of our internal valuation specialists, we analysed the adequacy of the PD assessed by the Bank's management. On a sample basis, we recalculated the collective allowances for ECL models to evaluate the risk parameter inputs and outputs and ECL amounts for appropriateness. We evaluated the adequacy and completeness of disclosures in the separate financial statements relating to the loans to customers in accordance with IFRS requirements. We found no material exceptions in these tests.

Individual assessment of the expected credit losses on loans to customers As at 31 December 2018, the Bank's gross loans assessed for impairment on an individual basis amounted to KZT 2,674,266 million, which accounts for the remaining 70% of total gross loans. The related ECL comprised KZT 191,841 million The amount of allowances for the ECL on individually significant loans is dependent on the accuracy of allocation of loans to appropriate stage of impairment in the provisioning system of the Bank. In particular, exposures with significant increase in credit risk and credit-impaired exposures (movements between stage 1, stage 2 and stage 3) are not completely or accurately identified/classified as at the reporting date, as not all reasonable qualitative and quantitative and forward-looking information while assessing significant increase in credit risk or credit-impaired stages was captured. Additionally, the ECL on individually credit-impaired loans in stage 3 may be misstated due to errors related to the estimation of future cash receipts or use of inappropriate or unsupported information. Due to the significance of the allowance for expected credit losses on individually assessed loans and the complexity and subjectivity of management's judgements, we identified individual assessment of ECL as a key audit matter. Refer to Note 32 to the separate financial statements for the description of impairment indicators on individually significant loans and disclosure of gross carrying amounts and related allowances for such loans.	We obtained an understanding of the loan origination and credit risk management processes. We assessed the Bank's methodology in respect of definitions of significant increase in credit risk and credit-impairment for assessment of individual loans' ECL. For a sample of loans identified as stage 1 and stage 2, we performed a detailed credit review and challenged the Bank's identification of significant increase in credit risk (stage 2) and the assessment of credit-impaired classification (stage 3). In order to evaluate whether the loans have been appropriately classified to the respective stage, we analysed internal clients' credit ratings (scoring), credit risk factors and checked if relevant impairment events, such as delinquency of interest or principal, restructuring events and certain financial performance indicators, had been identified on a timely manner. On a sample basis, we re-performed calculations of allowances for ECL for individually significant loans in stage 3, including reviewing the Bank's documented credit assessment of the borrowers, challenging assumptions underlying ECL calculation, such as future cash flow projections and the valuation of collateral held, agreeing key assumptions to supporting documents. We found no material exceptions in these tests.

Emphasis of Matter

As described in Note 2 to the separate financial statements, the Bank also prepares consolidated financial statements. These separate financial statements should be read in conjunction with the consolidated financial statements, which were authorized for issue by the Management Board on 7 March 2019.

Other Information – Annual Report

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

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

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters.

Mark Smith
Engagement partner
Chartered Accountant
Institute of Chartered Accountants of Scotland
License № M21857
Glasgow, Scotland

Nurlan Bekenov
General Director
Deloitte LLP
State license on auditing in the Republic of Kazakhstan
№ 0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan
dated 13 September 2006

Zhangir Zhilysbayev
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate
No.MF-0000116
dated 22 November 2012

7 March 2019
Almaty, Republic of Kazakhstan

JSC Halyk Bank

Statement of Financial Position
As at 31 December 2018
(Millions of Kazakhstani Tenge)

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	5, 36	1,685,874	1,204,162
Obligatory reserves	6	105,856	62,843
Financial assets at fair value through profit or loss	7	97,927	135
Amounts due from credit institutions	8, 36	93,493	82,466
Available-for-sale investment securities	9	n/a	791,741
Financial assets at fair value through other comprehensive income	9	1,699,468	n/a
Debt securities at amortised cost, net of allowance for expected credit losses	10	1,044,939	n/a
Investments in subsidiaries	11, 36	172,308	254,490
Investments in associate	12	20,437	-
Dividends to be received from subsidiaries		-	9,000
Precious metals		3,496	2,023
Loans to customers	13, 36	3,443,755	2,463,618
Property and equipment	14	113,536	78,468
Assets held for sale	16	47,714	42,408
Intangible assets	15	5,227	4,144
Current income tax assets	22	32,928	59
Other assets	17, 36	64,142	23,999
Total assets		**8,631,100**	**5,019,556**
LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to customers	18, 36	6,435,987	3,619,888
Amounts due to credit institutions	19, 36	168,594	193,693
Financial liabilities at fair value through profit or loss	7	7,016	5,339
Debt securities issued	20, 36	901,221	389,209
Provisions	21	2,094	840
Deferred tax liability	22	64,712	8,086
Current tax liability	22	-	2,363
Other liabilities	23	27,132	15,905
Total liabilities		**7,606,756**	**4,235,323**
EQUITY			
Share capital	24	212,690	147,358
Share premium reserve		1,880	1,880
Treasury shares		(106,626)	(106,620)
Retained earnings and other reserves		916,400	741,615
Total equity		**1,024,344**	**784,233**
TOTAL LIABILITIES AND EQUITY		**8,631,100**	**5,019,556**

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2019
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2019
Almaty, Kazakhstan

The notes on pages 15 to 100 form an integral part of these separate financial statements.

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2018
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	26, 36	653,998	356,457
Interest expense	26, 36	(329,611)	(165,806)
NET INTEREST INCOME BEFORE CREDIT LOSS EXPENSE		324,387	190,651
Credit loss expense	21	(27,062)	(23,127)
NET INTEREST INCOME		297,325	167,524
Fee and commission income	27, 36	116,429	59,113
Fee and commission expense	27, 36	(43,781)	(12,983)
Fees and commissions, net		72,648	46,130
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	28	110,469	(6,802)
Net realised loss from financial assets at fair value through other comprehensive income (IAS 39 – available-for-sale investment securities)		(1,593)	(19)
Net foreign exchange (loss)/gain	29	(67,101)	20,650
Share in profit of associate	12	2,899	-
Dividends received from subsidiaries	36	40,958	16,378
Other income		24,593	1,436
OTHER NON-INTEREST INCOME		110,225	31,643
Operating expenses	30, 36	(114,020)	(69,855)
Loss from impairment of non-financial assets	16	(22,099)	-
Recoveries of other credit loss expense/(other credit loss expense)	21	16,283	(453)
NON-INTEREST EXPENSES		(119,836)	(70,308)
INCOME BEFORE INCOME TAX EXPENSE		360,362	174,989
Income tax expense	22	(78,834)	(20,737)
NET INCOME		**281,528**	**154,252**
Basic and diluted earnings per share (in Kazakhstani Tenge)	31	24.86	14.03

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2019
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2019
Almaty, Kazakhstan

The notes on pages 15 to 100 form an integral part of these separate financial statements.

Statement of Profit or Loss and Other Comprehensive Income (Continued)
For the year ended 31 December 2018
(Millions of Kazakhstani Tenge, Except for Earnings per Share which is in Tenge)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Net income		**281,528**	**154,252**
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Gain/(loss) resulting on revaluation of property and equipment (2018, 2017 – net of tax – KZT 55 million, KZT nil)		1,830	(3)
Items to be subsequently reclassified to profit or loss:			
(Loss)/gain on revaluation of debt financial assets at fair value through other comprehensive income, including impaired during the period (IAS 39 - available-for-sale investment securities) (2018, 2017 – net of tax –KZT nil)		(11,294)	13,775
Reclassification adjustment relating to financial assets at fair value through other comprehensive income disposed of in the period (IAS 39 – available-for-sale investment securities) (2018, 2017 – net of tax – KZT nil)		1,593	19
Other comprehensive (loss)/income for the year		(7,871)	13,791
Total comprehensive income for the year		**273,657**	**168,043**

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2019
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2019
Almaty, Kazakhstan

The notes on pages 15 to 100 form an integral part of these separate financial statements.

JSC Halyk Bank

Statement of Changes in Equity
For the year ended 31 December 2018
(Millions of Kazakhstani Tenge)

	Share capital Common shares	Share premium reserve	Treasury shares	Revaluation reserve of financial assets at fair value through other comprehensive income*	Property revaluation reserve*	Retained earnings*	Total equity
31 December 2017	**147,358**	**1,880**	**(106,620)**	**(362)**	**13,603**	**728,374**	**784,233**
Impact of adopting IFRS 9	-	-	-	326	-	(12,826)	(12,500)
Restated opening balance under IFRS 9	147,358	1,880	(106,620)	(36)	13,603	715,548	771,733
Net income	-	-	-	-	-	281,528	281,528
Other comprehensive (loss)/income	-	-	-	(9,701)	1,774	56	(7,871)
Total comprehensive (loss)/income	**-**	**-**	**-**	**(9,701)**	**1,774**	**281,584**	**273,657**
Common shares issued	65,332	-	-	-	-	-	65,332
Treasury shares purchased	-	-	(6)	-	-	-	(6)
Dividends - common shares	-	-	-	-	-	(69,381)	(69,381)
Effect due to the legal merger with JSC Kazkommertsbank	-	-	-	-	-	(16,991)	(16,991)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	(654)	654	-
31 December 2018	**212,690**	**1,880**	**(106,626)**	**(9,737)**	**14,723**	**911,414**	**1,024,344**

Statement of Changes in Equity
For the year ended 31 December 2018 (Continued)
(Millions of Kazakhstani Tenge)

	Share capital Common shares	Share premium reserve	Treasury shares	Revaluation reserve of available-for-sale investment securities*	Property revaluation reserve*	Retained earnings*	Total equity
31 December 2016	**147,358**	**1,880**	**(106,616)**	**(14,156)**	**14,239**	**573,489**	**616,194**
Net income	-	-	-	-	-	154,252	154,252
Other comprehensive income/(loss)	-	-	-	13,794	(3)	-	13,791
Total comprehensive income/(loss)	-	-	-	**13,794**	**(3)**	**154,252**	**168,043**
Treasury shares purchased	-	-	(4)	-	-	-	(4)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	(633)	633	-
31 December 2017	**147,358**	**1,880**	**(106,620)**	**(362)**	**13,603**	**728,374**	**784,233**

* These amounts are included within Retained earnings and other reserves in the statement of financial position.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2019
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2019
Almaty, Kazakhstan

The notes on pages 15 to 100 form an integral part of these separate financial statements.

Statement of Cash Flows
For the year ended 31 December 2018
(Millions of Kazakhstani Tenge)

	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received from cash equivalents and amounts due from credit institutions	30,533	12,992
Interest received on available-for-sale investment securities	n/a	12,606
Interest received on financial assets at fair value through other comprehensive income	33,430	n/a
Interest received on debt securities at amortised cost, net of allowance for expected credit losses	53,932	n/a
Interest received from loans to customers	335,972	258,513
Interest paid on amounts due to customers	(226,328)	(128,373)
Interest paid on amounts due to credit institutions	(3,549)	(3,486)
Interest paid on debt securities issued	(59,340)	(35,565)
Fee and commission received	112,072	58,814
Fee and commission paid	(43,434)	(12,559)
Receipts/(payments for) from derivative financial instruments	12,812	(3,587)
Other income received	18,101	1,436
Operating expenses paid	(103,466)	(63,742)
Cash flows from operating activities before changes in net operating assets	160,735	97,049
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets:		
Obligatory reserves	(43,013)	512
Financial assets at fair value through profit or loss	43,308	329,322
Amounts due from credit institutions	35,817	(37,278)
Precious metals	1,685	(131)
Loans to customers	(105,950)	(258,095)
Assets held for sale	24,411	(9,181)
Other assets	18,269	(19,051)
Increase/(decrease) in operating liabilities:		
Amounts due to customers	190,093	153,676
Amounts due to credit institutions	(98,926)	40,553
Financial liabilities at fair value through profit or loss	1,102	2,497
Other liabilities	(95,117)	7,687
Cash inflow from operating activities before income tax	132,414	307,560
Income tax paid	(57,440)	(36,004)
Net cash inflow from operating activities	**74,974**	**271,556**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash inflow from the legal merger with JSC Kazkommertsbank	823,144	-
Purchase and prepayments for property and equipment and intangible assets	(4,937)	(5,319)
Proceeds on sale of property and equipment and intangible assets	1,515	579
Proceeds from sale of financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale investment securities)	3,076	37,300
Purchase of financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale investment securities)	(502,073)	(307,355)
Net cash inflow from sale of subsidiary	6,492	-
Investments to share capital of subsidiaries	-	(194,095)
Dividends received from subsidiaries	40,958	16,378
Net cash inflow/(outflow) from investing activities	**368,175**	**(452,512)**

Statement of Cash Flows
For the year ended 31 December 2018 (Continued)
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of treasury shares		(6)	(4)
Dividends paid		(69,381)	-
Redemption and repayment of debt securities issued	20	(62,342)	(183,910)
Net cash outflow from financing activities		**(131,729)**	**(183,914)**
Effect of changes in foreign exchange rate on cash and cash equivalents		170,292	(22,499)
Net change in cash and cash equivalents		481,712	(387,369)
CASH AND CASH EQUIVALENTS, beginning of the year	5	**1,204,162**	**1,591,531**
CASH AND CASH EQUIVALENTS, end of the year	5	**1,685,874**	**1,204,162**

During the years ended 31 December 2018 and 2017 there were non-cash transfers, which were excluded from the statement of cash flows and disclosed in Notes 16 and 24.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

7 March 2019
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

7 March 2019
Almaty, Kazakhstan

The notes on pages 15 to 100 form an integral part of these separate financial statements.

1. Principal activities

JSC Halyk Bank (the "Bank") provides retail and corporate banking services in the Republic of Kazakhstan. The primary state registration of the Bank with the authorities of justice of the Republic of Kazakhstan was made on 20 January 1994. The Bank operates under license No. 1.2.47/230/38/1 for carrying out banking and other operations and activities on the securities market, renewed by the National Bank of the Republic of Kazakhstan ("NBRK") on 8 November 2016. The Bank is a member of the obligatory deposit insurance system provided by the JSC Kazakhstan Deposit Insurance Fund.

The Bank's primary business includes originating loans and guarantees, attracting deposits, trading in securities and foreign currencies, executing transfers, cash and payment card operations and rendering other banking services to its customers. In addition, the Bank acts as the non-exclusive agent of the Government of the Republic of Kazakhstan in channelling various budgetary payments and pensions through its nationwide branch network.

The Bank has a primary listing with the Kazakhstan Stock Exchange ("KASE"). In addition, the Bank's Global Depository Receipts ("GDRs") and Eurobonds are primary listed on the London Stock Exchange.

The Bank is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2018, the Bank operated through its head office in Almaty and its 23 regional branches, 121 sub-regional offices and 503 cash settlement units (31 December 2017 – 22,122 and 345, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 40 Al-Farabi Avenue, Almaty, A26M3K5, Kazakhstan.

As at 31 December 2018, the number of the Bank's full-time equivalent employees was 12,158 (31 December 2017 - 8,562).

The separate financial statements of the Bank for the year ended 31 December 2018 were authorised for issue by the Management Board on 7 March 2019.

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these separate financial statements.

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In 2018 oil prices increased approximately by 30% compared to 2017, from 54USD/bbl to 70USD/bbl on average, which led to GDP increase by 4.1%.

As at 31 December 2018, the base rate set by the NBRK was 9.25% ± 1% (10.25% ± 1% as at 31 December 2017). Due to relatively high cost of funding during 2018, the demand for new loans continued to be relatively low, while KZT liquidity in the banking system demonstrated excess levels. Short-term notes of the NBRK remain the key instrument to withdraw excess tenge liquidity from the system.

Management of the Bank is monitoring developments in the current environment and taking measures it considers necessary in order to support the sustainability and development of the Bank's business in the foreseeable future. However, the impact of further economic developments on the future operations and financial position of the Bank is at this stage difficult to determine.

Ownership

As at 31 December 2018 and 2017, the Bank was owned by the following shareholders, which own individually more than 5% of the issued shares of the Bank:

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	8,756,202,348	74.5%	8,756,202,348	74.5%
Unified Accumulative Pension Fund Joint Stock Company	718,054,740	6.1%	718,054,740	6.1%
GDR holders	1,846,541,120	15.7%	1,846,541,120	15.7%
Other	433,256,189	3.7%	433,256,189	3.7%
Total shares in circulation	**11,754,054,397**	**100.0%**	**11,754,054,397**	**100.0%**

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	8,086,451,772	73.5%	8,086,451,772	73.5%
Unified Accumulative Pension Fund Joint Stock Company	716,281,746	6.5%	716,281,746	6.5%
GDR holders	1,852,878,720	16.9%	1,852,878,720	16.9%
Other	339,855,536	3.1%	339,855,536	3.1%
Total shares in circulation	**10,995,467,774**	**100.0%**	**10,995,467,774**	**100.0%**

2. Basis of presentation

Statement of compliance

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

These separate financial statements are the separate financial statements of the parent JSC Halyk Bank. The subsidiaries are not consolidated in these separate financial statements. Investments in subsidiaries were accounted for at cost, less impairment loss, if any. These separate financial statements should be read in conjunction with the consolidated financial statements of JSC Halyk Bank and its subsidiaries, which were authorized for the issue by Management Board of the Bank on 7 March 2019.

The consolidated financial statements are available at the head office of JSC Halyk Bank, registered at the following address: 40 Al-Farabi Avenue, Almaty, A26M3K5, Kazakhstan.

These separate financial statements have been prepared assuming that the Bank is a going concern, as the Bank have the resources to continue in operation for the foreseeable future. In making this assessment, the management have considered a wide range of information in relation to present and future economic conditions, including projections of cash flows, profit and capital resources.

These separate financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

The separate financial statements have been prepared under the historical cost convention except for certain financial instruments that are accounted for at fair value and certain property and equipment which are carried at revalued cost less depreciation and impairment as described in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these separate financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 32.

Functional currency

Items included in the separate financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The functional currency of the Bank is KZT. The presentation currency of the separate financial statements is KZT.

3. Significant accounting policies

Business combination under common control

A business combination involving business entities under common control is a business combination whereby all of the combining business entities are ultimately controlled by the same party or parties, both before and after the business combination, and that control is not transitory.

The effects of combinations of businesses under common control are accounted for by the Bank by the pooling of interests method, assuming that: assets and liabilities of the combining business entities are measured at their carrying values as disclosed in the Bank's financial statements, merger-related transaction costs are expensed in the statement of profit or loss, mutual balances are eliminated, any difference between the purchase price paid/transferred and the value of net assets acquired (at their carrying values disclosed in the separate financial statements) shall be recognized in equity of the acquirer.

Investments in subsidiaries

A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by the Bank. Investments in subsidiaries are recorded in these separate financial statements at cost less impairment loss, if any.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reverse repo agreements with original maturities within three months.

Obligatory reserves

Obligatory reserves represent funds in correspondent accounts with the NBRK and cash which are not available to finance the Bank's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the cash flow statement.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net foreign exchange gain/(loss).

Amounts due from credit institutions

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Bank accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are 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 recognized immediately in profit or loss. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

All financial assets are recognized and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 *Financial Instruments* ("IFRS 9") are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- *Retention of an asset to obtain the cash flows stipulated by the contract.* This business model suggests financial asset management aims to realize cash flows by receiving principal and interest payments over the life of the financial instrument. Within the framework of this business model, holding a financial asset to maturity is a priority, but early disposal is not prohibited.
- *Retention of an asset with a view for obtaining contractual cash flows and sale of financial assets.* This business model assumes that the management of financial assets is aimed at both obtaining contractual cash flows and sale of financial assets. Within the framework of this business model, the receipt of cash from the sale of a financial asset is a priority, which is characterized by a greater frequency and volume of sales compared to "holding an asset to receive contractual cash flows" business model.
- *Retention of an asset for other purposes.* Within the framework of this business model, financial assets can be managed with the following purposes:
  - management with a view to selling cash flows through the sale of financial assets;
  - liquidity management to meet daily funding needs;
  - a portfolio, which management and performance is measured on a fair value basis;
  - a portfolio, which matches the definition of held for trading. Financial assets are deemed to be held for trading if they were acquired mainly with a view to subsequent disposal in the near future (up to 180 days), gaining short-term profit, or represent derivative financial instruments (except for a financial guarantee or derivative financial instrument that was designated as a hedging instrument).

In accordance with IFRS 9, financial assets are classified as follows:

- bank loans classified as assets at amortised cost are contained within the framework of a business model which aims to receive cash flows exclusively for repayment of unpaid interest and principal stipulated by loan agreement and that have contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding;
- balances on correspondent accounts, interbank loans/deposits, repo transactions are classified, as a rule, as assets, estimated at amortised cost, since they are managed within the framework of a business model, which aims to receive cash flows stipulated by the contract, and that have contractual cash flows that are SPPI;
- debt securities may be classified into any of the three classification categories, taking into account the selected business model and compliance with the SPPI criterion;
- equity securities are generally classified as instruments at fair value through profit or loss;
- trading securities and derivatives are classified as financial assets at fair value through profit or loss.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading, may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net (loss)/gain on financial assets and liabilities at fair value through profit or loss. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established.

Debt instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments that reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

Financial assets policies applicable prior to 1 January 2018

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets depending on the nature and purpose of the financial assets, which is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to customers granted by the Bank are initially recognised at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Subsequently, loans are carried at amortised cost using the effective interest method. Loans to customers are carried net of any allowance for expected credit losses.

Loans and receivables are included within loans to customers, amounts due from credit institutions and other assets in the statement of financial position.

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or investments held to maturity, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition, available-for sale investment securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the separate statement of profit or loss. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognised in the separate statement of profit or loss. Dividends declared are included in other income in the separate statement of profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at the close of business on the reporting date.

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Reclassification of financial assets

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Bank's financial assets. Changes in contractual cash flows are considered under the accounting policy on *Modification and derecognition of financial assets* described below.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously monitors renegotiated loans to ensure that they are performing and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate ("EIR"). Renegotiated terms are evidence of impairment for loans assessed for impairment on an individual basis, for which deterioration of the financial position is observed.

The Bank renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Banks's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

When a financial asset is modified due to commercial reasons, the Bank considers various qualitative factors (change in currency, interest rate, maturity) and on that basis concludes whether old loan should be derecognised and new loan should be recognised at fair value.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

Reclassification of financial assets policies applicable prior to 1 January 2018

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be classified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When the financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the statement of profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Impairment

Calculation of financial assets impairment is carried out taking into account the following factors:

- In order to calculate the ECL, the Bank performs loan assessment on an individual basis and on a group basis depending on general credit risk features.
- ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.
- Calculations are based on justified and verified information, which may be received without any significant costs or efforts. Calculation of the present value of the expected future cash flows of the secured financial asset reflects the cash flow that may result from foreclosure, less the cost of obtaining and selling collateral, regardless of whether the recovery is probable or not. The allowance is based on the Bank's own experience in assessing losses and management assumptions about the level of losses likely to be recognised on assets in each category of a credit risk, based on debt servicing capabilities and borrower's credit track record.
- Impairment for treasury operations (investments in debt securities, reverse repurchase transactions, interbank loans and deposits, correspondent account transactions, accounts receivable under treasury transactions) is calculated taking into account the counterparty's rating, probability of default, duration of a transaction and the extent of loss in case of a default.
- The estimated credit losses for treasury operations are estimated on an individual basis (except for individual claims in the form of receivables).

Financial assets are segmented by stages in accordance with the following approach:

- Stage 1: There is no significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the next 12 months;
- Stage 2: Significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the life of a financial asset;
- Stage 3: Financial asset is in default or has signs of impairment.

Allowances for expected credit losses

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

For more details about staging refer to Note 21.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (Please also refer to Note 4).

For the details of supportable forward-looking information, please refer to Note 32 for more details.

Impairment of financial assets prior to 1 January 2018

As at 31 December 2017, the Bank assessed whether a financial asset or a group of financial assets was impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original EIR (i.e. the EIR computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the impairment loss is recognised in the statement of profit or loss.

The factors the Bank evaluates in determining the presence of objective evidence of an occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of an impairment loss on the financial asset or group of financial assets.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The allowances are based on the Bank's own loss experience and management's judgment as to the level of losses that will likely be recognised from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the separate statement of profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial assets are written off against the allowance for impairment losses, where such items are determined to be uncollectible, including through repossession of collateral. The Bank requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held with banks, government securities and other assets. When the borrowers do not repay as scheduled, the Bank can take possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Bank, and after the Bank has sold all available collateral. The decision to write off bad debt against the allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the statement of profit or loss.

Loans and receivables are assessed individually for impairment, except for insignificant loans and receivables that have been assessed collectively. Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether impairment should be recognised due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account data from the loan portfolio (such as levels of arrears, loan utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Available-for-sale investment securities

For listed and unlisted equity investments classified as available-for-sale ("AFS"), a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. If an AFS investment security is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is transferred from equity to the statement of profit or loss. In respect to AFS equity securities, impairment losses previously recognised in the statement of profit or loss are not reversed through the statement of profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and is accumulated under the heading of revaluation reserve of AFS investment securities. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Repurchase and reverse repurchase agreements and securities lending

The Bank enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Bank as an element of its treasury management.

Repos are treated as secured financing transactions. Securities sold under repos are retained in the separate statement of financial position and, in case the transferee has the right, by contract or custom, to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions.

Securities purchased under reverse repos are recorded as amounts due from credit institutions, amounts due customers or cash and cash equivalents as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of the repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of profit or loss. The obligation to return securities borrowed is recorded at fair value as a trading liability.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in Kazakhstan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Derivative financial instruments

The Bank enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

Forwards

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Bank has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honored. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts. The Bank purchases credit default swaps from monocline insurers and banks in order to mitigate the risk of default by the counterparty on the underlying security referenced by the swap.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Bank purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the Bank provide the Bank with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Bank provide the purchaser the opportunity to purchase from or sell to the bank the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 7.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market, credit, and liquidity risks (Note 32).

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more. The decision to use cross-default is based on case by case assessment of borrower and facility conditions such as collateral and materiality of exposure.

Purchased or originated credit-impaired ("POCI") financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain (recovery of credit loss expense).

Write off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains.

Derecognition of financial assets and liabilities

Financial assets

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

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

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

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

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Bank, the Bank derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset and reported net in the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Kazakhstan has various operating taxes that are assessed on the Bank's activities. These taxes are recorded as taxes other than income tax.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment except for the buildings and construction which are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and construction	20-100
Vehicles	5-7
Computers and banking equipment	5-10
Other	7-10

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses.

Buildings and construction held for use in supply of services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such buildings and construction is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the statement of profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and construction is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and construction is charged to the statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not subject to amortization.

Amortisation is recognised on a straight-line basis over their estimated useful lives:

	Years
Software	10
Licensing agreements for the right to use the software	10
Other	10

Assets held for sale

A non-current asset and the liability directly associated with non-current 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 be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset 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, an impairment loss is recognized in the statement of profit or loss as loss of assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Amounts due to customers and credit institutions

Amounts due to customers and credit institutions are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the statement of profit or loss.

Debt securities issued

Debt securities issued represent bonds issued by the Bank, which are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement and other benefit obligations

The Bank does not have any pension arrangements other than the state pension system of Kazakhstan, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in operating expenses in the statement of profit or loss. The Bank contributes social tax to the budget of Kazakhstan and other countries where the Bank operates for its employees. In addition, the Bank has no post-retirement benefits.

Equity

The Bank classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Bank after the deduction of liabilities.

The components of a compound financial instrument issued by the Bank are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

Share capital

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognized as share premium reserve. Effective 13 May 2003, upon change in law concerning "Joint Stock Companies", the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares

When the Bank acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the Bank are cancelled. Repurchased shares are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium.

Dividends

Dividends are recognized as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the separate financial statements are authorized for issue.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Bank's statement of financial position include:

- Revaluation reserve of financial assets at fair value through other comprehensive income which comprises changes in fair value of financial assets at fair value through other comprehensive income and allowances for expected credit losses on debt financial assets at fair value through other comprehensive income;
- Cumulative translation reserve which is used to record foreign exchange differences arising from the translation of the net investment in foreign operations;
- Property revaluation reserve which comprises revaluation reserve of land and buildings.

Contingencies

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

Recognition of income and expense

Interest income and expense for all financial instruments are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method.

The EIR is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses). For financial assets POCI the EIR reflects the expected credit losses in determining the future cash flows expected to be received from the financial asset.

Loan origination fees for loans issued to customers are (together with related direct costs) recognised as an adjustment to the effective yield of the loans. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the EIR of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in profit or loss on expiry.

Fee and commission income

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 the performance obligation, i.e. the services agreed with the 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.

Fee and commission income from maintenance of customer accounts and cash operations include fees earned from deposit products in lieu of compensating balances, service charges for transactions performed upon depositors' request, as well as fees earned from performing cash management activities. Service charges on deposit products are recognized over the period in which the related service is provided, typically monthly. Service fees are recognized at a point in time upon completion of the requested service transaction. Fees on cash management products are recognized over time as services are provided.

Payment card maintenance fee and commission income include interchange income from credit and debit card transactions and are recognized at a point in time upon settlement by the associated network. Interchange rates are generally set by the associated network based on purchase volume and other factors. Other card-related fees are recognized at a point in time upon completion of the transaction.

Other banking fees include fees for various transactional banking activities such as bank transfers, letters of credit fees and other transactional services. These fees are recognized in a manner that reflects the timing of when transactions occur and as services are provided. Letter of credit fees primarily includes fees received related to letter of credit agreements and are generally recognized upon execution of the contract.

For the year ended 31 December 2018, fee and commission income transactions were recognised according to IAS 18 "Revenue", whereas for the year ended 31 December 2017 according to IFRS 15 "Revenue from Contracts with Customers".

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

Foreign currency translation

The separate financial statements are presented in KZT, which is the functional currency of the Bank. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions into functional currency are recognized in the statement of profit or loss as net foreign exchange gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net foreign exchange gain or loss. The market exchange rate at 31 December 2018 was 384.20 KZT to USD 1 (31 December 2017 - KZT 332.33).

Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts 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 payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

New and amended IFRSs that are effective for the current year

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these separate financial statements:

- IFRS 9 *Financial Instruments;*
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications);*
- Amendments to IFRSs Annual Improvements to IFRS Standards 2015-2017 Cycle;
- 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.*

Summary of impact upon adoption of IFRS 9 – Classification and measurement

The following table set out the classification and measurement impact of adopting IFRS 9 on the separate statement of financial position and retained earnings including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 expected credit loss calculations.

(Millions of Kazakhstani Tenge)

Reclassifications represent movements of the carrying amount of financial assets and liabilities, which have changed their classification. Remeasurement represents changes in the carrying amount of the financial assets and liabilities due to changes in their measurement.

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

	IAS 39 Measurement category	As at 31 December 2017, IAS 39 Carrying Amount	Remeasurement	As at 1 January 2018, IFRS 9 Carrying Amount	IFRS 9 Measurement category
Cash and cash equivalents	Loans and receivables	1,204,162	(7)	1,204,155	Amortised cost
Amounts due from credit institutions	Loans and receivables	82,466	(196)	82,270	Amortised cost
Financial assets at fair value through other comprehensive income (2017: available-for-sale investment securities)	Available-for-sale investments	791,741	(83)	791,658	FVOCI*
Loans to customers	Loans and receivables	2,463,618	(13,995)	2,449,623	Amortised cost
Other assets	Loans and receivables	23,999	126	24,125	Amortised cost
Provisions on commitments and contingencies	-	(840)	(1,523)	(2,363)	-
Current income tax asset related to IFRS 9 adoption			3,178		
Total after-tax impact of IFRS 9 adoption			**(12,500)**		

* Fair value through other comprehensive income

Key differences in moving from IAS 39 to IFRS 9 on allowance for impairment losses:

	As at 31 December 2017, IAS 39, Allowance for impairment losses	Increase in expected credit losses	As at 1 January 2018, IFRS 9, Allowance for expected credit losses
Cash and cash equivalents	-	(7)	(7)
Amounts due from credit institutions	-	(196)	(196)
Financial assets at fair value through other comprehensive income (2017: available-for-sale investment securities)	-	(83)	(83)
Loans to customers	(265,292)	(13,995)	(279,287)
Other assets	(4,150)	126	(4,024)
Provisions on commitments and contingencies	(840)	(1,523)	(2,363)

IFRS 15 *Revenue from Contracts with Customers*

The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

In the current year, the Bank has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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 there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- 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 Standards 2015-2017 Cycle;
- IFRIC 23 *Uncertainty over Income Tax Treatments.*

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted below:

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 SPPI.

The amendment applies 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.

The management of the Bank do not anticipate that the application of the amendments in the future will have an impact on the Bank's separate financial statements.

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

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount reauired by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The management of the Bank do not anticipate that the application of the amendments in the future will have an impact on the Bank's separate financial statements.

Annual Improvements to IFRS Standards *2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*

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 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 (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

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 remeasure its PHI 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.

The management of the Bank do not anticipate that the application of the amendments in the future will have an impact on the Bank's separate financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to:

- determine whether uncertain tax positions are 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 Interpretation 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 prespectively.

The management of the Bank do not anticipate that the application of the amendments in the future will have an impact on the Bank's separate financial statements.

4. Significant accounting estimates

The preparation of the Bank's separate financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk

As explained in Note 3, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information (Refer to Note 32 for more details).

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario

For treasury operations, the Bank calculates ECL on a financial asset based not only on the current estimates of the credit quality of the counterparty/issuer at the reporting date, but also taking into account possible deterioration of the financial condition due to the adverse macroeconomic factors of the counterparty's/issuer's environment in the future. In particular, the level of ECL for treasury operations is affected by the rating outlook (positive, stable, negative) assigned by international rating agencies, which affects the probability of default ("PD").

For bank loans, the calculation of ECL takes into account the possible estimated effects of changes in macroeconomic parameters on forecasted cash flows, migration of collective loans and collateral coverage.

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 32 for more details.

The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

Probability of default

PD constitutes a key input in measuring ECL. PD 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.

PD 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.

PD for individually assessed loans of corporate, small and medium businesses is estimated using an internal rating model based on the quantitative and qualitative characteristics of the borrower. The calculation of PD on loans assessed on a collective basis is carried out on the basis of historical data using the migration matrices and roll-rates.

Loss Given Default

LGD 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 and integral credit enhancements.

LGD for treasury operations is determined according to the Default Study data 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 for the financial asset (Stage 2 or Stage 3).

LGD for collectively assessed loans is calculated based on an estimate of the recoverability of debt in case of the pledged collateral sale with a discount period that corresponds to the pledged collateral implementation terms.

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 drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 32 for details of the characteristics considered in this judgement. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets.

This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Notes 21 and 32 for more details on allowances for ECL and Note 35 for more details on fair value measurement.

The allowances for ECL of financial assets in the separate financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Kazakhstan and in other countries it operates in and what effect such changes might have on the adequacy of the allowances for ECL of financial assets in future years.

The carrying amount of the allowance for ECL of loans to customers as at 31 December 2018 is KZT 366,728 million (31 December 2017 is KZT 265,292 million).

Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. Refer to Note 35 for more details on fair value measurement.

Property and equipment carried at revalued amounts

Buildings and construction are measured at revalued amounts. The latest appraisal was in June 2018. Details of the valuation techniques used are set out in Note 14.

Taxation

Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

The management of the Bank is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realised.

As at 31 December 2018, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Banks's reported net income.

(Millions of Kazakhstani Tenge)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2018	31 December 2017
Cash on hand	188,171	113,008
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	119,767	103,022
Short-term deposits with OECD based banks	246,121	125,386
Overnight deposits with OECD based banks	-	36,584
Correspondent accounts with NBRK	928,554	688,893
Short-term deposits with NBRK	140,064	55,028
Short-term deposits with Kazakhstan banks (incl. loans under reverse repurchase agreements)	18,904	29,377
Correspondent accounts with non-OECD based banks	10,523	17,070
Short-term deposits with non-OECD based banks	33,770	35,740
Overnight deposits with non-OECD based banks	-	54
	1,685,874	**1,204,162**

As at 31 December 2018, cash and cash equivalents allowance for expected credit losses comprised KZT 7 million (Note 21).

Interest rates and currencies in which interest earning cash equivalents are denominated are as follows:

	31 December 2018		31 December 2017	
	KZT	Foreign currencies	KZT	Foreign currencies
Short-term deposits with OECD based banks	-	2.4%-2.8%	-	1.5% -1.8%
Overnight deposits with OECD based banks	-	-	-	1.4%-1.5%
Short-term deposit with NBRK	8.3%	-	9.3%	-
Short-term deposits with Kazakhstan banks (incl. loans under reverse repurchase agreements)	8.3%-9.5%	-	9.0%-10.0%	-
Short-term deposits with non-OECD based bank	10.0%	0.2%-9.5%	9.5%	1.5%-9.0%
Overnight deposits with non-OECD based banks	-	-	-	1.7%-1.8%

Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2018 and 2017, are as follows:

	31 December 2018		31 December 2017	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Treasury bills of the Ministry of Finance	9,557	10,121	28,305	28,287
Notes of NBRK	9,246	9,523	1,072	1,071
Bonds of international financial organizations	101	102	-	-
	18,904	**19,746**	**29,377**	**29,358**

(Millions of Kazakhstani Tenge)

6. Obligatory reserves

Obligatory reserves comprise:

	31 December 2018	31 December 2017
Due from the NBRK allocated to obligatory reserves	105,856	62,843
	105,856	**62,843**

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the NBRK and used for calculation of the minimum reserve requirement.

7. Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	31 December 2018	31 December 2017
Financial assets held for trading:		
Derivative financial instruments	97,927	135

Financial liabilities at fair value through profit or loss comprise:

	31 December 2018	31 December 2017
Financial liabilities held for trading:		
Derivative financial instruments	7,016	5,339

Derivative financial instruments comprise:

	31 December 2018			31 December 2017		
	Notional Amount	Asset	Fair value Liability	Notional Amount	Asset	Fair value Liability
Foreign currency contracts						
Swaps	1,221,331	97,709	6,998	103,880	85	5,337
Spots	22,554	142	10	8,956	21	2
Forwards	326	76	8	4,085	29	-
		97,927	**7,016**		**135**	**5,339**

As at 31 December 2018 and 2017, the Bank used quoted market prices from independent information sources for all of its financial assets recorded at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on observable market data.

(Millions of Kazakhstani Tenge)

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2018	31 December 2017
Term deposits	51,844	63,817
Loans to credit institutions	32,873	9,820
Deposit pledged as collateral for derivative financial instruments	9,113	8,829
	93,830	**82,466**
Less - Allowance for expected credit losses (Note 21)	(337)	-
	93,493	**82,466**

Interest rates and maturities of amounts due from credit institutions are presented as follows:

	31 December 2018		31 December 2017	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Term deposits	1.0%-8.5%	2027	1.5%-9.3%	2018-2024
Loans to credit institutions	2.0%-4.0%	2022	3.5%-4.0%	2019-2021
Deposit pledged as collateral for derivative financial instruments	1.8%-3.0%	2046	1.1%-1.8%	2046

9. Financial assets at fair value through other comprehensive income (IAS 39 - Available-for-sale investment securities)

Debt securities comprise:

	31 December 2018	31 December 2017
Notes of NBRK	745,941	183,446
Treasury bills of the Ministry of Finance of Kazakhstan	391,372	265,310
Treasury Bills of the USA	249,142	231,617
Corporate bonds	178,819	42,366
Bonds of JSC Development Bank of Kazakhstan	74,680	60,162
Bonds of foreign organizations	39,041	853
Bonds of Kazakhstan banks	11,716	-
Treasury Bills of Hungary	8,757	7,987
	1,699,468	**791,741**

As at 31 December 2018, the allowance for expected credit losses on financial assets at fair value through other comprehensive income was KZT 531 million (Note 21).

As at 31 December 2018 and 2017, financial assets at fair value through other comprehensive income included Treasury bills of the Ministry of Finance of Kazakhstan at fair value of KZT nil and KZT 92,719 million, respectively, were pledged under repurchase agreements with the other banks (see Note 19).

(Millions of Kazakhstani Tenge)

Interest rates and maturities of financial assets at fair value through other comprehensive income are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective securities.

	31 December 2018		31 December 2017	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Notes of NBRK	8.8%	2019	8.3%	2018
Treasury bills of the Ministry of Finance of Kazakhstan	5.2%	2019-2045	4.4%	2018-2045
Treasury bills of the USA	1.8%	2019	0.8%	2018
Corporate bonds	6.8%	2019-2027	4.6%	2018-2023
Bonds of JSC Development Bank of Kazakhstan	5.9%	2022-2032	5.1%	2022-2032
Bonds of foreign organizations	7.6%	2019-2023	3.0%	2020
Bonds of Kazakhstan banks	9.0%	2019	-	-
Treasury bills of Hungary	3.2%	2023	3.2%	2023

10. Debt securities at amortised cost, net of allowance for expected credit losses

Debt securities at amortised cost, net of allowances for expected credit losses comprise:

	31 December 2018
Treasury bills of the Ministry of Finance of Kazakhstan	1,044,939
	1,044,939

As at 31 December 2018, the allowance for expected credit losses on debt securities at amortised cost was KZT 418 million (Note 21).

Interest rates and maturities of debt securities at amortised cost, net of allowance for expected credit losses are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective securities.

	30 December 2018	
	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	9.3%	2022-2027

(Millions of Kazakhstani Tenge)

11. Investments in subsidiaries

Subsidiaries	Holding %		Country	Industry
	31 December 2018	31 December 2017		
JSC Halyk-Leasing	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	Kazakhstan	Telecommunications
OJSC Halyk Bank Kyrgyzstan	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	Kazakhstan	Broker and dealer activities
LLC Halyk Collection	100	100	Kazakhstan	Cash collection services
JSC Halyk-Life	100	100	Kazakhstan	Life insurance
JSC Kazakhinstrakh	99.86	100	Kazakhstan	Insurance
JSC Halyk Bank Georgia	100	100	Georgia	Banking
LLC Halyk Project	100	100	Kazakhstan	Management of doubtful and loss assets
JSC Commercial Bank Moskommertsbank	100	-	Russia	Banking
CJSC Kazkommertsbank Tajikistan	100	-	Tajikistan	Banking
JSC Kazkommerts Securities	100	-	Kazakhstan	Broker and dealer activities
JSC Life Insurance Company Kazkommerts Life	100	-	Kazakhstan	Life insurance
LLP KUSA KKB-1	100	-	Kazakhstan	Management of doubtful and loss assets
LLP KUSA KKB-2	100	-	Kazakhstan	Management of doubtful and loss assets
LLP KUSA KKB-3	100	-	Kazakhstan	Management of doubtful and loss assets
JSC QPayments	100	-	Kazakhstan	Payment card processing and other related services
JSC Kazkommertsbank ("KKB")	-	74.72	Kazakhstan	Banking
OJSC NBK-Bank	-	100	Russia	Banking
JSC Altyn Bank (SB of JSC Halyk Bank) (Notes 12 and 16)	-	100	Kazakhstan	Banking

Subsidiaries	31 December 2018	31 December 2017
JSC Kazakhinstrakh	32,700	10,797
LLC Halyk Project	30,958	17,577
LLP KUSA KKB-2	17,278	-
LLP KUSA KKB-1	16,906	-
JSC Kazkommerts Securities	15,081	-
JSC Halyk Finance	11,240	11,240
JSC Halyk-Life	11,118	3,125
JSC Halyk-Leasing	9,548	9,548
LLP KUSA KKB-3	7,688	-
JSC Commercial Bank Moskommertsbank	7,047	-
JSC Halyk Bank Georgia	5,897	4,050
CJSC Kazkommertsbank Tajikistan	3,385	-
OJSC Halyk Bank Kyrgyzstan	1,645	1,644
LLC Halyk Collection	859	859
JSC Kazteleport	616	617
JSC Qpayments	342	-
JSC Kazkommertsbank ("KKB")	-	189,938
OJSC NBK-Bank	-	5,095
	172,308	**254,490**

On 5 July 2017, the Bank completed acquisition of 96.81% of ordinary shares in KKB, including 86.09% from Mr.K.Rakishev and 10.72% from JSC "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna"). The Bank acquired these 96.81% ordinary shares in KKB for KZT 2.

On 10 July 2017, to comply with the legislative requirements of the Republic of Kazakhstan, the Bank made a tender offer to the shareholders of KKB for the purchase of outstanding common shares (including global depositary receipts ("GDR"), the underlying assets of which are common shares of KKB) and preference shares (including GDRs, the underlying assets of which are preference shares of KKB).

On 12 July 2017, the Bank realised its pre-emptive right and purchased 1,296,698,676 ordinary shares of KKB for a total of KZT 185 billion, increasing its stake in the issued capital of KKB to 98.79%.

As at 29 August 2017, the Bank completed its transactions for the purchase of KKB's 13,687,609 ordinary shares at KZT 142.67 per share, 31,311 preference shares at KZT 71.55 per share, 3,081,552 GDR representing such KKB's issued ordinary shares at USD 0.86 per GDR and 14,655,549 GDR representing such KKB's issued preference shares at USD 0.43 per GDR. The total consideration paid for KKB shares amounted to KZT 4,940 million.

On 15 November 2017, KKB placed 700,171,633 ordinary shares for a total of KZT 65.2 billion, which were acquired by JSC HG ALMEX, after agreement with the NBRK. Following the results of the transaction on purchase and sale of ordinary shares, the share of JSC HG ALMEX in KKB is equal to 25.05%.

On 8 December 2017, the Board of Directors of the Bank approved the integration scenario of the Bank and KKB, which suggests voluntary reorganisation of the Bank and KKB by merging KKB into the Bank.

As at 31 December 2017, the Bank held 74.72% of KKB's outstanding ordinary shares and 23.55% of KKB's outstanding preference shares.

On 19 March 2018, KKB exchanged its preferred shares for common shares on terms and conditions and within the period established by the General Shareholders Meeting of KKB on 16 February 2018, and in accordance with the KKB Charter and changes to the KKB Share Issue Prospectus registered by the National Bank of the Republic of Kazakhstan on 12 March 2018. The purpose of the exchange is to optimise the capital structure of KKB within the framework of the current legislation of the Republic of Kazakhstan.

On 26 July 2018, the Joint General Shareholder Meeting (JGSM) of the Bank and KKB made a resolution to approve the Transfer Certificate stipulating the transfer to the Bank, as the assignee, of KKB's property, rights and obligations, as well as all rights and obligations with respect to all KKB's creditors and debtors, and the Bank's succession of all KKB's rights and obligations. At the same time, the JGSM approved the ratio of 0.956552, at which KKB common shares would be exchanged for the Bank's common shares. The exchange ratio was calculated in accordance with the formula approved by the resolution of the JGSM of the Bank and KKB dated 20 April 2018.

On 27 July 2018, the Bank and KKB signed the Transfer Certificate, which represents legal registration of the transfer of all KKB's property, rights and obligations to the Bank within the framework of voluntary reorganisation of the Bank and KKB via a legal merger of KKB with the Bank.

Within the framework of the voluntary reorganization of the Bank and KKB via a legal merger of KKB with the Bank, the Bank's 758,687,723 common shares were allocated among the shareholders of KKB (excluding the Bank) in exchange for KKB's common shares according to the share exchange ratio approved at the JGSM of the Bank and KKB dated 26 July 2018.

(Millions of Kazakhstani Tenge)

As a result of the legal merger with KKB, the Bank received net assets of KKB for KZT 238,279 million, which are described in details below.

At the same time due to increase in share capital for KZT 65,332 million (Note 24) and disposal of an investment in subsidiary for KZT 189,938 million, the Bank recognised effect from the legal merger with KKB in the statement of changes in equity for KZT 16,991 million.

Net assets of KKB as at 27 July 2018 are presented below:

	As at 27 July 2018
ASSETS:	
Cash and cash equivalents	823,144
Precious metals	2,643
Financial assets at fair value through profit or loss	43,548
Amounts due from credit institutions	22,564
Financial assets at fair value through other comprehensive income	298,034
Debt securities at amortised cost, net of allowance for expected credit losses	1,005,825
Loans to customers	695,722
Property and equipment	37,898
Investments in subsidiaries	61,204
Assets held for sale	39,272
Intangible assets	1,301
Other assets	73,868
TOTAL ASSETS	**3,105,023**
LIABILITIES:	
Amounts due to customers	2,218,906
Amounts due to credit institutions	71,333
Financial liabilities at fair value through profit or loss	590
Debt securities issued	474,631
Provisions	16,050
Deferred tax liability	43,245
Other liabilities	41,989
TOTAL LIABILITIES	**2,866,744**
NET ASSETS	**238,279**

On 7 June 2017, the Bank entered into an agreement with CITIC Bank and China Shuangwei Investment Co., Ltd. in relation to the sale of 60% of the share capital in JSC Altyn Bank. On 24 April 2018, the Bank sold its 60% shareholding in the subsidiary JSC Altyn Bank. As at 31 December 2018, the Bank remains a 40% shareholder of JSC Altyn Bank, which is accounted for as an investment in associate (Note 12). In relation to the Bank's equity investment in JSC Altyn Bank, the Bank has the right to designate three members out of nine of JSC Altyn Bank's Board of Directors.

On 22 May 2018, the Bank announced the completion of the reorganization thereof through the merger of OJSC NBK-Bank (Subsidiary of JSC Halyk Bank) into the Commercial Bank "Moskommertsbank" (JSC) (Subsidiary of JSC Kazkommertsbank).

On 29 August 2018, the Bank announced the completion of transferring all property and all rights and obligations of JSC Insurance Company Kazkommerts-Policy (Subsidiary of JSC Kazkommertsbank) to JSC Kazakhinstrakh (Subsidiary of JSC Halyk Bank).

On 1 November 2018, within the framework of voluntary reorganization, JSC Halyk-Life (Subsidiary of JSC Halyk Bank) and JSC Life Insurance Company Kazkommerts Life (Subsidiary of JSC Kazkommertsbank) signed the Transfer Certificate, as a result of which JSC Halyk-Life became the full assignee of all the rights and obligations of JSC Life Insurance Company Kazkommerts Life.

(Millions of Kazakhstani Tenge)

12. Investments in associate

Significant associate of the Bank accounted for using the equity method as at reporting date is set out below:

Name	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the Bank 31 December 2018
JSC Altyn Bank	Bank	Kazakhstan	40%

Summarised financial information in respect of the Bank's investment in associate is set out below.

	31 December 2018
Total assets	443,036
Total liabilities	402,018
Net assets	41,018

	From 24 April 2018 until 31 December 2018
Interest income	19,055
Net profit	7,248
Other comprehensive loss for the period	(419)
Total comprehensive income for the period	6,559
Dividends received from associate during the period	-

Reconciliation of the above summarised financial information to the carrying amount of the interest in JSC Altyn Bank recognised in the financial statements:

	31 December 2018
Acquisition cost	17,705
The Bank's share of the associate's profit	2,899
Share of other comprehensive loss of associate	(167)
Carrying amount of the Bank's interest in JSC Altyn Bank	**20,437**

13. Loans to customers

Loans to customers comprise:

	31 December 2018	31 December 2017
Originated loans to customers	3,788,753	2,728,348
Overdrafts	21,730	562
	3,810,483	**2,728,910**
Stage 1	2,946,011	n/a
Stage 2	119,751	n/a
Stage 3	645,104	n/a
POCI	99,617	n/a
Total	**3,810,483**	**2,728,910**
Less – Allowance for expected credit losses (Note 21)/ (2017: Allowance for loan impairment losses)	(366,728)	(265,292)
Loans to customers	**3,443,755**	**2,463,618**

(Millions of Kazakhstani Tenge)

The average interest rate on loans to customers is calculated as interest income from loans to customers divided by monthly average balances of loans to customers. For the year ended 31 December 2018 average interest rate on loans was 13.4% (31 December 2017 - 13.0%).

As at 31 December 2018, the Bank had a concentration of loans of KZT 691,657 million to the ten largest borrowers that comprised 18% of the Bank's total gross loan portfolio (31 December 2017 – KZT 590,622 million, 21%) and 68% of the Bank's total equity (31 December 2017 – 79%).

As at 31 December 2018, the allowance for expected credit losses created against these loans was KZT 41,987 million (31 December 2017 – KZT 52,075 million).

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2018	31 December 2017
Loans collateralized by pledge of real estate or rights thereon	1,589,810	843,608
Loans collateralized by guarantees	694,613	693,459
Consumer loans issued within the framework of payroll projects*	506,147	446,823
Loans collateralized by cash	374,305	307,604
Loans collateralized by pledge of corporate shares	163,414	112,183
Loans collateralized by pledge of vehicles	42,450	25,325
Loans collateralized by pledge of inventories	30,154	29,111
Loans collateralized by mixed types of collateral	13,870	62,013
Loans collateralized by pledge of equipment	13,059	5,028
Loans collateralized by pledge of agricultural products	7,359	7,413
Unsecured loans	375,302	196,343
	3,810,483	**2,728,910**
Less – Allowance for expected credit losses (Note 21)/ (2017: Allowance for loan impairment losses)	(366,728)	(265,292)
Total loans to customers	**3,443,755**	**2,463,618**

*These loans are collateralized by cash to be received in the future from the employees of companies within the framework of salary projects.

Loans are granted to the following sectors:

	31 December 2018	%	31 December 2017	%
Retail loans:				
- consumer loans	699,067	18%	447,819	16%
- mortgage loans	218,049	6%	149,425	5%
	917,116		**597,244**	
Services	700,670	18%	507,227	19%
Wholesale trade	384,145	10%	291,545	11%
Real estate	333,050	9%	172,678	6%
Retail trade	215,466	6%	153,036	6%
Construction	215,195	6%	156,934	6%
Metallurgy	188,411	5%	141,916	5%
Oil and gas	150,967	4%	60,507	2%
Transportation	150,173	4%	107,671	4%
Agriculture	125,072	3%	111,544	5%
Financial services	73,062	2%	88,275	3%
Mining	72,917	2%	61,964	2%
Energy	69,827	2%	80,270	3%
Food industry	42,516	1%	36,542	1%
Communication	39,632	1%	49,349	2%
Machinery	33,990	1%	24,224	1%
Chemical industry	30,603	1%	29,741	1%
Hotel industry	29,998	1%	29,859	1%
Light industry	11,224	0%	9,435	0%
Other	26,449	1%	18,949	1%
	3,810,483	**100%**	**2,728,910**	**100%**

(Millions of Kazakhstani Tenge)

As at 31 December 2018, accrued interest on loans comprised KZT 186,793 million (31 December 2017 - KZT 136,078 million).

During the years ended 31 December 2018 and 2017, the Bank received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 2018 and 2017, such assets of KZT 46,354 million and KZT 9,848 million, respectively, are included in assets held for sale.

As at 31 December 2018 and 2017, loans to customers included loans of KZT 417,619 million and KZT 144,188 million, respectively, which terms were renegotiated. Otherwise, these loans would be past due or impaired.

14. Property and equipment

The movements in property and equipment are as follows:

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2017	**64,700**	**745**	**22,341**	**-**	**15,380**	**103,166**
Additions	850	447	1,945	280	1,037	4,559
Additions due to the legal merger	30,532	153	6,980	-	1,920	39,585
Revaluation	(1,675)	-	-	-	-	(1,675)
Disposals	(1,988)	(16)	(698)	(2)	(274)	(2,978)
Transfers	212	-	25	(232)	(5)	-
31 December 2018	**92,631**	**1,329**	**30,593**	**46**	**18,058**	**142,657**
Accumulated depreciation:						
31 December 2017	**982**	**618**	**14,352**	**-**	**8,746**	**24,698**
Charge for the year	1,163	76	2,481	-	1,413	5,133
Additions due to the legal merger	200	35	1,319	-	133	1,687
Disposals	(12)	(16)	(636)	-	(251)	(915)
Write-off at revaluation	(1,482)	-	-	-	-	(1,482)
31 December 2018	**851**	**713**	**17,516**	**-**	**10,041**	**29,121**
Net book value:						
31 December 2018	**91,780**	**616**	**13,077**	**46**	**8,017**	**113,536**

(Millions of Kazakhstani Tenge)

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2016	**65,153**	**759**	**22,648**	**-**	**13,944**	**102,504**
Additions	1	-	559	120	2,242	2,922
Disposals	(452)	(14)	(866)	(120)	(806)	(2,258)
Impairment	(2)	-	-	-	-	(2)
31 December 2017	**64,700**	**745**	**22,341**	**-**	**15,380**	**103,166**
Accumulated depreciation:						
31 December2016	**73**	**547**	**14,394**	**-**	**7,673**	**22,687**
Charge for the year	915	85	821	-	1,870	3,691
Disposals	(6)	(14)	(863)	-	(797)	(1,680)
31 December 2017	**982**	**618**	**14,352**	**-**	**8,746**	**24,698**
Net book value:						
31 December 2017	**63,718**	**127**	**7,989**	**-**	**6,634**	**78,468**

The Bank's revaluation policy requires the entire asset class of buildings and construction to be revalued every three years. In the event of specific market or property indicators the Bank may opt to perform revaluations more regularly.

The Bank had its buildings and properties revalued during 2018 by independent appraisers. The independent appraisers used three approaches to identify the fair value of the property and equipment - the income approach with the income capitalisation method, the comparative approach, using market information to identify the fair value of buildings and structures under active market conditions, and the cost approach when no active market existed for items subject to revaluation.

As at 31 December 2018, the fair value measurements of the Bank's buildings and construction, are categorised into Level 2 and Level 3, in the amount of KZT 91,241 million and KZT 539 million, respectively (31 December 2017: KZT 63,381 million and KZT 337 million, respectively). A description of the measurement hierarchy is disclosed in Note 35.

As at 31 December 2018, the total fair value of buildings and construction was KZT 91,780 million. As at 31 December 2018, the carrying amount of property and equipment that would have been recognised had the assets been carried under the cost model is KZT 81,927 million.

As at 31 December 2017, total amount of fair value of buildings and construction was KZT 63,718 million. As at 31 December 2017, the carrying amount of property and equipment that would have been recognized had the assets been carried under the cost model is KZT 62,842 million.

(Millions of Kazakhstani Tenge)

15. Intangible assets

The movements in intangible assets are as follows:

	Software	Licensing agreements on the rights to use software	Other intangible assets	Total
Cost:				
31 December 2016	**11,079**	**3,262**	**103**	**14,444**
Additions	403	104	945	1,452
Disposals	(14)	-	(1)	(15)
Transfers	796	-	(796)	-
31 December 2017	**12,264**	**3,366**	**251**	**15,881**
Additions	1,300	468	2	1,770
Additions due to the legal merger	1,469	391	1	1,861
Disposals	(2,690)	(684)	-	(3,374)
31 December 2018	**12,343**	**3,541**	**254**	**16,138**
Accumulated depreciation				
31 December 2016	**8,333**	**994**	**1**	**9,328**
Charge for the year	2,423	-	-	2,423
Disposals	(14)	-	-	(14)
31 December 2017	**10,742**	**994**	**1**	**11,737**
Charge for the year	1,805	172	-	1,977
Additions due to the legal merger	517	43	-	560
Disposals	(2,679)	(684)	-	(3,363)
31 December 2018	**10,385**	**525**	**1**	**10,911**
Net Book Value				
31 December 2017	**1,522**	**2,372**	**250**	**4,144**
31 December 2018	**1,958**	**3,016**	**253**	**5,227**

16. Assets held for sale

After the default of certain counterparties on loans to customers, the Bank recognized the property pledged as collateral for the loans as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan was initiated.

Assets held for sale comprised the following:

	31 December 2018	31 December 2017
Real estate	26,874	5,859
Land plots	20,702	4,757
Movable property	138	1,808
Assets classifies as held for sale related to investments in subsidiary JSC Altyn Bank (Notes 11 and 12)	-	29,984
	47,714	**42,408**

In June 2018, the Bank performed an independent valuation of its assets held for sale and based on the results recognised an impairment loss of KZT 20,424 million.

Despite the Bank actively marketing these assets for sale, the majority have not been sold within a short timeframe. However, the management remains committed to the sale of these assets. As the assets are carried at a price not exceeding the current fair value less costs to sell, they continued to be classified as held for sale at the end of 2018 and 2017.

(Millions of Kazakhstani Tenge)

The fair value of the Banks's non-current assets held for sale was determined by independent appraisers. Income approach, comparative approach and cost based approach were used to estimate the fair value of those non-current assets. To estimate the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Details of the Bank's assets held for sale and information about the fair value hierarchy as at 31 December 2018 and 2017 are as follows:

	Level 2	Level 3
31 December 2017		
Land plots	-	4,757
Real estate	5,859	-
Movable property	-	1,808
31 December 2018		
Land plots	-	20,702
Real estate	14,718	12,156
Movable property	-	138

17. Other assets

Other assets comprise:

	31 December 2018	31 December 2017
Other financial assets:		
Debtors on banking activities*	56,478	9,798
Accrued commission income	4,587	1,919
Debtors on non-banking activities	1,354	389
Other	9	-
	62,428	12,106
Less – Allowance for expected credit losses (Note 21)/(2017: Allowance for impairment)	(8,321)	(4,150)
	54,107	7,956
Other non-financial assets:		
Prepayments for investment property	6,317	11,816
Inventory	1,293	918
Advances for taxes other than income tax	873	518
Other investments	671	45
Prepayments for property and equipment	324	1,716
Other	557	1,030
	10,035	16,043
	64,142	**23,999**

* Debtors on banking activities represent debtors on sale of assets in installments recorded on the books of the Bank as a result of KKB acquisition.

(Millions of Kazakhstani Tenge)

18. Amounts due to customers

Amounts due to customers include the following:

	31 December 2018	31 December 2017
Recorded at amortized cost:		
Term deposits:		
Individuals	2,867,441	1,410,944
Legal entities	1,369,920	1,129,789
	4,237,361	**2,540,733**
Current accounts:		
Legal entities	1,737,147	848,042
Individuals	461,479	231,113
	2,198,626	**1,079,155**
	6,435,987	**3,619,888**

As at 31 December 2018, the Bank's ten largest groups of related customers accounted for approximately 28% of the total amounts due to customers (31 December 2017 - 37%), where each group of related customers represents customers related to each other within that group.

Management believes that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realize its liquid assets to enable repayment.

An analysis of customer accounts by sector is as follows:

	31 December 2018	%	31 December 2017	%
Individuals and entrepreneurs	3,328,920	52%	1,642,057	45%
Oil and gas	669,608	10%	588,510	17%
Financial services	422,712	7%	75,043	2%
Other consumer services	322,579	5%	84,040	2%
Construction	271,146	4%	65,921	2%
Wholesale trade	243,526	4%	112,006	3%
Healthcare and social services	211,571	3%	118,225	3%
Transportation	179,013	3%	110,215	3%
Government	101,523	2%	247,438	7%
Insurance and pension funds activity	93,076	1%	13,339	0%
Metallurgy	67,332	1%	284,958	8%
Energy	64,078	1%	35,197	1%
Communication	55,115	1%	60,997	2%
Education	47,446	1%	45,643	1%
Other	358,342	6%	136,299	4%
	6,435,987	**100%**	**3,619,888**	**100%**

(Millions of Kazakhstani Tenge)

19. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2018	31 December 2017
Recorded at amortized cost:		
Loans from JSC Entrepreneurship Development Fund DAMU	86,390	43,491
Loans from JSC Development Bank of Kazakhstan	38,491	21,379
Correspondent accounts	31,364	21,290
Loans and deposits from Kazakhstan banks (incl. loans under repurchase agreements)	6,130	101,148
Loans from JSC National Managing Holding KazAgro	3,107	3,870
Loans from other financial institutions	2,812	2,132
Loans and deposits from OECD based banks	295	383
Loans and deposits from non-OECD based banks	5	-
	168,594	**193,693**

As at 31 December 2018, loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") included a long-term loan of KZT 86,219 million (31 December 2017 – KZT 43,280 million) at a 1.0%-2.0% interest rate maturing in 2035 with an early recall option. The loan was received in accordance with the Government program ("the Program") to finance small and medium enterprises ("SMEs") operating in certain industries. According to the loan agreement between DAMU and the Bank, the Bank is responsible to extend loans to SME borrowers, eligible to participate in the Program, up to 10 years at a 6.0% interest rate.

As at 31 December 2018, loans from JSC Development Bank of Kazakhstan ("DBK") included long-term loans of KZT 31,171 million (31 December 2017 – KZT 16,000 million) at a 1.0%-2.0% interest rate maturing in 2034-2035, to finance corporate enterprises operating in manufacturing industries, as well as a long-term loan of KZT 7,175 million (31 December 2017 – KZT 5,300 million) at a 1.0% interest rate maturing in 2037, to finance the purchase of cars by the Bank's retail customers. According to the loan agreement between DBK and the Bank, the Bank is responsible to extend loans to corporate borrowers, eligible to participate in the Program, up to 10 years at a 6.0% interest rate, and to retail borrowers – up to 5 years at a 4.0% interest rate.

As at 31 December 2018, loans from JSC National Managing Holding KazAgro ("KazAgro") included a long-term loan of KZT 3,103 million at a 3.0% interest rate maturing in 2022 (31 December 2017 – KZT 3,865 million). The loan was received for restructuring/refinancing of loan/leasing debts of the Bank's borrowers operating in agricultural sector, originating before 1 January 2014 in connection with working capital loans, loans for the purchase of fixed assets, loans for construction-and-assembling works and loans for leasing of agriculture and technology equipment. Restructuring/refinancing of loan/leasing obligations is provided at an interest rate of 6.0% - 7.0% interest rate for the period not later than 31 December 2022.

On 3 July 2017, the Bank made an early repayment of its indebtedness to KazAgro for KZT 31,873 million due to exclusion of several loans from KazAgro financing programme.

The management of the Bank believes that there are no other similar financial instruments and due to their specific nature, the loans from DAMU, KazAgro and DBK represent separate segments in corporate, SME and retail lending. As a result, the loans from DAMU, KazAgro and DBK were received in an orderly transaction and as such have been recorded at fair value at the recognition date, which was determined to be the cash consideration transferred to the customers.

(Millions of Kazakhstani Tenge)

Interest rates and maturities of amounts due to credit institutions are presented as follows:

	31 December 2018		31 December 2017	
	Interest rate, %	**Maturity, Year**	**Interest rate, %**	**Maturity, Year**
Loans from JSC Entrepreneurship Development Fund DAMU	1.0%-5.5%	2019-2035	1.0%-2.0%	2018-2035
Loans from JSC Development Bank of Kazakhstan	1.0%-7.9%	2019-2037	1.0%-2.0%	2034-2035
Loans and deposits from Kazakhstan banks (incl. loans under repurchase agreements)	7.1%	2029	1.0%-8.5%	2018
Loans from JSC National Managing Holding KazAgro	3.0%	2022	3.0%	2022
Loans from other financial institutions	4.0%-10.0%	2023-2026	10.0%	2023
Loans and deposits from OECD based banks	4.0%	2019	3.1%	2018

Fair value of assets pledged (Note 9) and the carrying value of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 December 2018 and 2017, are as follows:

	31 December 2018		31 December 2017	
	Fair value of collateral	**Carrying amount of loans**	**Fair value of collateral**	**Carrying amount of loans**
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	-	92,719	90,046

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2018 and 2017 are disclosed below.

Loans under repurchase agreements are used by the Bank to provide current cash flows in KZT within the Bank's operating activities. The Bank regularly uses this type of instrument to attract short-term liquidity and plans to continue raising funds through loans under repurchase agreements when necessary.

The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

	Financial assets at fair value through other comprehensive income (Note 9)
As at 31 December 2018:	
Carrying amount of transferred assets	-
Carrying amount of associated liabilities	-
As at 31 December 2017:	
Carrying amount of transferred assets	92,719
Carrying amount of associated liabilities	90,046

In accordance with the contractual terms of the loans from certain OECD based banks, the Bank is required to maintain certain financial ratios, particularly with regard to capital adequacy. Certain of the Bank's outstanding financing agreements include covenants restricting the Bank's ability to create security interests over its assets. Should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements.

(Millions of Kazakhstani Tenge)

The Bank's management believes that as at 31 December 2018 and 2017, the Bank was in compliance with the covenants of the agreements the Bank has with the trustees and holders of the notes.

20. Debt securities issued

Debt securities issued comprise:

	31 December 2018	31 December 2017
Recorded at amortised cost:		
Subordinated debt securities issued:		
KZT denominated bonds, fixed rate	101,909	-
KZT denominated bonds, indexed to inflation	3,555	-
Total subordinated debt securities outstanding	**105,464**	**-**
Unsubordinated debt securities issued:		
USD denominated bonds	406,256	162,672
KZT denominated bonds	389,501	226,537
Total unsubordinated debt securities outstanding	795,757	389,209
Total debt securities issued	**901,221**	**389,209**

On 9 February 2018, KKB repaid USD 100 million perpetual subordinated Eurobonds issued in November 2005. The repayment was made out of KKB's own funds.

On 11 May 2018, KKB repaid Eurobonds issued in May 2011 with an initial placement amount of USD 300 million. The repayment was made out of KKB's own funds.

On 14 November 2018, the Bank repaid subordinated bonds issued in November 2008 with an initial placement amount of KZT 10,000 million. The repayment was made out of the Gorup's own funds.

On 3 May 2017, the Bank repaid in full at maturity its 10-year 7.25% coupon rate USD 638,029,000 Eurobond issue.

The coupon rates and maturities of the debt securities issued follow:

	31 December 2018		31 December 2017	
	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year
Subordinated debt securities issued:				
KZT denominated bonds, fixed rate	9.5%	2025	-	-
KZT denominated bonds, indexed to inflation	1%+inflation rate	2019	-	-
Unsubordinated debt securities issued:				
USD denominated bonds	5.5%-7.3%	2021-2022	7.3%	2018-2021
KZT denominated bonds	7.5%-8.8%	2019-2025	7.5%	2024-2025

As at 31 December 2018, accrued interest on debt securities issued was KZT 18,836 million (as at 31 December 2017 - KZT 9,531 million).

Subordinated securities are unsecured obligations of the Bank and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Bank. Coupon payments on debt securities issued are payable on a semi-annual and an annual basis.

(Millions of Kazakhstani Tenge)

In accordance with the terms of the USD denominated bonds, the Bank is required to maintain certain financial covenants particularly with regard to its capital adequacy, limitations on transactions at less than fair market value and payment of dividends. Furthermore, the terms of the USD denominated bonds include covenants restricting the Bank's ability to create security interests over its assets. Should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements. The Bank's management believes that as at 31 December 2018 and 2017, the Bank was in compliance with the covenants of the agreements the Bank has with the trustees and holders of the notes.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Bank's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Bank's separate statement of cash flows as cash flows from financing activities.

			Non-cash changes			
	1 January 2018	Financing cash flows	Foreign exchange movement	Changes in amortised cost	Additions due to the legal merger	31 December 2018
Debt securities issued	389,209	(62,342)	75,663	24,060	474,631	901,221

	1 January 2017	Financing cash flows	Foreign exchange movement	Changes in amortised cost	31 December 2017
Debt securities issued	585,217	(183,910)	(9,730)	(2,368)	389,209

(Millions of Kazakhstani Tenge)

21. Allowances for expected credit losses

The movements in accumulated allowances of financial assets at fair value through other comprehensive income, the allowances for impairment of interest earning and other assets were as follows:

	Loans to customers (Note 13)				Other assets (Note 17)			Financial assets at fair value through other comprehensive income* (Note 9)			Cash and cash equivalents (Note 5)	Amounts due from credit institutions (Note 8)	
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 1**	**TOTAL**
1 January 2018	**(13,867)**	**(24,949)**	**(240,471)**	**-**	**(300)**	**(2,982)**	**(742)**	**(408)**	**-**	**-**	**(7)**	**(196)**	**(283,922)**
Transfer to Stage 1	(10,927)	6,629	4,298	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	164	(244)	80	-	-	-	-	3	(3)	-	-	-	-
Transfer to Stage 3	1,928	2,470	(4,398)	-	-	-	-	-	-	-	-	-	-
Changes in models/risk parameters	11,270	(6,684)	(179,533)	25,525	(121)	-	(11,670)	526	(15)	-	2	(14)	(160,714)
New originations or purchases of financial assets	(21,043)	-	-	-	-	-	-	(338)	-	-	-	-	(21,381)
Derecognition of financial assets	7,957	2,487	103,054	41,524	-	-	-	11	-	-	-	-	155,033
Write-offs	-	-	96,372	7,068	-	-	3,855	-	-	-	-	-	107,295
Recoveries of allowances on previously written-off assets	-	-	(57,705)	(2,570)	-	-	-	-	-	-	-	-	(60,275)
Allowances due to the legal merger	(13,435)	(3,782)	(2,863)	(80,141)	(8)	1,666	473	(696)	-	-	-	-	(98,786)
Foreign exchange differences and other movements	(1,320)	(1,448)	(5,762)	(6,412)	-	1	1,507	(27)	(2)	-	(2)	(127)	(13,592)
31 December 2018	**(39,273)**	**(25,521)**	**(286,928)**	**(15,006)**	**(429)**	**(1,315)**	**(6,577)**	**(929)**	**(20)**	**-**	**(7)**	**(337)**	**(376,342)**
Total				**(366,728)**			**(8,321)**			**(949)**	**(7)**	**(337)**	**(376,342)**

*Including debt securities at amortised cost (Note 10).

(Millions of Kazakhstani Tenge)

	Loans to customers (Note 13)	Other assets (Note 17)	Total
31 December 2016	**(273,757)**	**(4,289)**	**(278,046)**
Additional provisions recognised	(155,810)	(4,025)	(159,835)
Recoveries of provisions	132,715	3,993	136,708
Write-offs	33,687	322	34,009
Foreign exchange differences	(2,127)	(151)	(2,278)
31 December 2017	**(265,292)**	**(4,150)**	**(269,442)**

During the years ended 31 December 2018 and 2017, the Bank has written-off loans of KZT 103,440 million and KZT 33,687 million, respectively, without this being considered as forgiveness of the loan, therefore, for tax purposes, such write-offs are not subject to corporate income tax.

Provision represents provisions against letters of credit and guarantees issued. The movements in provisions were as follows:

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
At the beginning of the period	(20)	(773)	(1,570)	(2,363)
Transfer to Stage 1	(400)	397	3	-
Transfer to Stage 2	-	(629)	629	-
Transfer to Stage 3	-	11,598	(11,598)	-
Recoveries	374	1,121	14,788	16,283
Allowances due to the legal merger	(63)	(12,767)	(3,220)	(16,050)
Foreign exchange differences	1	15	20	36
At the end of the period	**(108)**	**(1,038)**	**(948)**	**(2,094)**

	2017
At the beginning of the year	(380)
Provisions	(889)
Recoveries of provisions	436
Foreign exchange differences	(7)
At the end of the year	**(840)**

22. Taxation

The Bank is subject to income tax in the Republic of Kazakhstan.

The income tax expense comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
Current tax charge	22,208	35,110
Deferred income tax expense/(benefit) relating to origination and reversal of temporary differences	56,626	(14,373)
Income tax expense	**78,834**	**20,737**

(Millions of Kazakhstani Tenge)

Deferred income tax expense/(benefit) relating to the following temporary difference:

	Year ended 31 December 2018	Year ended 31 December 2017
Unused tax losses of the prior year recognised in the current year*	45,271	-
Fair value of derivatives and financial assets at fair value through other comprehensive income	20,178	(13,560)
Loans to customers, allowance for expected credit losses	(3,804)	-
Property and equipment, accrued depreciation	799	(330)
Other	(5,818)	(483)
Income tax expense/(benefit)	**56,626**	**(14,373)**

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2018 and 2017. Income on state and other qualifying securities is tax exempt.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on Kazakhstan statutory rate of 20% with the reported income tax expense is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Income before income tax expense	360,362	174,989
Statutory tax rate	20%	20%
Income tax expense at the statutory rate	72,072	34,998
Tax-exempt interest income and other related income on state and other qualifying securities	(39,133)	(12,496)
Tax-exempt income on dividends	(6,414)	(3,334)
Non-deductible expenditures:		
- derecognition of unused tax losses due to the legal merger*	45,271	-
- bonuses	1,984	-
- other provisions	915	114
- general and administrative expenses	264	202
- charity	-	328
Other	3,875	925
Income tax expense	**78,834**	**20,737**

(Millions of Kazakhstani Tenge)

Deferred tax assets and liabilities comprise:

	31 December 2018	31 December 2017
Tax effect of deductible temporary differences:		
Bonuses accrued	2,585	1,756
Vacation pay accrual	452	326
Fair value of derivatives	54	1,104
Other	2,449	-
Deferred tax asset	**5,540**	**3,186**
Tax effect of taxable temporary differences:		
Fair value adjustment on customer accounts	(42,951)	-
Fair value of derivatives and financial assets at fair value through other comprehensive income	(19,074)	-
Property and equipment, accrued depreciation	(8,227)	(7,428)
Allowance for loans to customers	-	(3,804)
Other	-	(40)
Deferred tax liability	**(70,252)**	**(11,272)**
Net deferred tax liability	**(64,712)**	**(8,086)**

*On 20 April 2018, at the Annual General Meeting of Shareholders of KKB and at the Joint General Meeting of Shareholders of the Bank and KKB, it was decided to carry out a voluntary reorganization of KKB in the form of a merger with the Bank. In June 2018, National Bank of the Republic of Kazakhstan, in its capacity as regulator of the banking system of Kazakhstan, granted its permission on the reorganization. In accordance with Kazakh tax legislation, in the event of a merger, tax losses incurred resulting from the creation of loan provisions cannot be transferred between legal entities. As a result, the deferred tax asset recognized by KKB, in relation to tax losses, cannot be transferred to the Bank, and therefore the Bank has derecognised these deferred tax assets as at 31 December 2018.

Current tax assets and liabilities comprise:

	31 December 2018	31 December 2017
Current tax refund receivable	32,928	59
Current income tax payable	-	(2,363)
Current tax asset/(liability)	**32,928**	**(2,304)**

The Bank has offset deferred tax assets and liabilities on the statement of financial position where a right of offset existed. The amounts presented after offset comprise:

	31 December 2018	31 December 2017
Deferred tax asset	5,540	-
Deferred tax liability	(70,252)	(8,086)
Net deferred tax liability	**(64,712)**	**(8,086)**

Kazakhstan has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Commercial legislation of the Republic of Kazakhstan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on Management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

(Millions of Kazakhstani Tenge)

Such uncertainty may relate to the valuation of financial instruments and the market pricing of deals. Additionally, such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the separate financial statements.

In Kazakhstan tax years remain open to review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

Management believes that the Bank is in compliance with the tax law affecting its operations; however, the risk that relevant authorities could take differing positions with regard to interpretive issues remains.

Movements in net deferred tax liability:

	2018	2017
Net deferred tax liability at the beginning of the year	8,086	22,459
Deferred tax expense/(benefit)	56,571	(14,373)
Credited to other comprehensive income at the date of property and equipment revaluation	55	-
Net deferred tax liability at the end of the year	**64,712**	**8,086**

23. Other liabilities

Other liabilities comprise:

	31 December 2018	31 December 2017
Other financial liabilities:		
Salary payable	14,021	9,636
Creditors on non-banking activities	1,653	799
Payable for general and administrative expenses	1,370	955
Creditors on bank activities	1,089	900
Liabilities on other payments	952	-
Other	376	212
	19,461	**12,502**
Other non-financial liabilities:		
Taxes payable other than income tax	4,316	1,794
Other prepayments received	3,355	1,609
	7,671	**3,403**
Total other liabilities	**27,132**	**15,905**

(Millions of Kazakhstani Tenge)

24. Equity

The number of shares authorized, issued and fully paid as at 31 December 2018 and 2017 were as follows:

31 December 2018	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	25,000,000,000	(11,552,455,218)	13,447,544,782	(1,693,490,385)	11,754,054,397

31 December 2017	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	25,000,000,000	(12,311,142,941)	12,688,857,059	(1,693,389,285)	10,995,467,774

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Number of shares Common	Nominal (placement) amount Common
31 December 2016	**10,995,539,182**	**40,742**
Purchase of treasury shares	(71,408)	(4)
31 December 2017	**10,995,467,774**	**40,738**
Issue of common shares	758,687,723	65,332
Purchase of treasury shares	(101,100)	(6)
31 December 2018	**11,754,054,397**	**106,064**

Common shares

As at 31 December 2018 and 2017, share capital comprised KZT 212,690 million and KZT 147,358 million. As at 31 December 2018, the Bank held 1,693,490,385 of the Bank's common shares as treasury shares at KZT 106,626 million (31 December 2017 -1,693,389,285 common shares at KZT 106,620 million).

Each common share outstanding is entitled to one vote and dividends. Treasury shares are not entitled to any vote or dividend.

Dividends paid for the previous financial years were as follows:

	Paid in 2018 for the year ended 31 December 2017	Paid in 2017 for the year ended 31 December 2016
Dividend paid per one common share	6.31	n/a

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

(Millions of Kazakhstani Tenge)

25. Financial commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	31 December 2018	31 December 2017
Guarantees issued	410,695	195,329
Commercial letters of credit	66,348	58,782
Commitments to extend credit	43,739	2,359
Financial commitments and contingencies	520,782	256,470
Less: cash collateral against letters of credit	(30,057)	(36,322)
Less: provisions (Note 21)	(2,094)	(840)
Financial commitments and contingencies, net	**488,631**	**219,308**

Guarantees issued represent bank guarantees issued by the Bank by order of its clients, and which are in effect as at the reporting date. As at 31 December 2018, the ten largest guarantees accounted for 68% of the Bank's total financial guarantees (31 December 2017 – 65%) and represented 27% of the Bank's total equity (31 December 2017 – 16%).

Commercial letters of credit represent letters of credit issued by the Bank by order of its clients, and under which as at the reporting date, the payment has not yet been made. As at 31 December 2018, the ten largest unsecured letters of credit accounted for 55% of the Bank's total commercial letters of credit (31 December 2017 – 66%) and represented 4% of the Bank's total equity (31 December 2017 – 3%).

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary. The Bank typically requires collateral support unless it is determined to be not necessary through review of the credit risk of the borrower or analysis of other deposit accounts held by the Bank. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Capital commitments

As at 31 December 2018 and 2017, the Bank had commitments for capital expenditures in respect of construction in progress for KZT nil.

Operating lease commitments

There were no material operating lease commitments under irrevocable operating leases outstanding as at 31 December 2018 and 2017.

(Millions of Kazakhstani Tenge)

26. Net interest income

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income:		
Loans to customers	426,501	288,256
Financial assets at fair value through other comprehensive income (IAS 39 – Available-for-sale investment securities)	97,165	49,380
Debt securities at amortised cost, net of allowance for expected credit losses	93,041	-
Amounts due from credit institutions and cash and cash equivalents	31,677	13,460
Financial assets at fair value through profit or loss	-	5,361
Other financial assets	5,614	-
Total interest income	**653,998**	**356,457**
Interest expense:		
Amounts due to customers	(242,403)	(127,660)
Debt securities issued	(83,399)	(34,652)
Amounts due to credit institutions	(3,809)	(3,494)
Total interest expense	**(329,611)**	**(165,806)**
Net interest income before credit loss expense	**324,387**	**190,651**

The total interest income calculated using the EIR method for financial assets at FVTOCI is KZT 97,165 million during the year 2018 (year 2017: KZT 49,380 million) and for financial assets measured at amortised cost is KZT 556,833 million during the year 2018 (year 2017: KZT 301,716 million). The total interest expense calculated using the EIR method for financial liabilities measured at amortised cost is KZT 329,611 million during the year 2018 (year 2017: KZT 165,806 million)

27. Fees and commissions

Fee and commission income was derived from the following sources:

	Year ended 31 December 2018	Year ended 31 December 2017
Payment cards maintenance	36,983	12,725
Bank transfers – settlements	26,351	14,464
Cash operations	24,964	11,004
Servicing customers' pension payments	8,037	7,348
Bank transfers – salary projects	7,200	6,603
Letters of credit and guarantees issued	6,932	4,128
Maintenance of customer accounts	4,259	1,700
Other	1,703	1,141
	116,429	**59,113**

Fee and commission expense comprised the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Payment cards	(25,931)	(5,380)
Deposit insurance	(10,959)	(5,287)
Foreign currency operations	(2,397)	(753)
Bank transfers	(1,809)	(658)
Commission paid to collectors	(459)	(342)
Other	(2,226)	(563)
	(43,781)	**(12,983)**

(Millions of Kazakhstani Tenge)

28. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss

Net gain/(loss) on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
Net gain/(loss) on operations with financial assets and liabilities classified as held for trading:		
Unrealized net gain/(loss) on derivative and trading operations*	97,657	(3,215)
Realized net gain/(loss) on derivative operations	12,812	(3,587)
Total net gain/(loss) on operations with financial assets and liabilities classified as held for trading	**110,469**	**(6,802)**

*The unrealised gain on derivative and trading operations in 2018 refers mainly to swap agreements with NBRK for which the fair value increased significantly due to the depreciation of the USD to KZT exchange rate.

29. Net foreign exchange (loss)/gain

Net foreign exchange (loss)/gain comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
Dealing, net	31,031	15,853
Translation differences, net	(98,132)	4,797
Total net foreign exchange (loss)/gain	**(67,101)**	**20,650**

30. Operating expenses

Operating expenses comprised:

	Year ended 31 December 2018	Year ended 31 December 2017
Salaries and other employee benefits	55,260	33,081
Depreciation and amortization expenses	9,357	6,113
Taxes other than income tax	6,195	4,450
Repair and maintenance	5,931	2,326
Collection expenses	5,601	4,287
Rent	4,619	1,699
Loss on investments in subsidiaries	4,034	472
Information services	3,972	2,375
Communication	3,830	1,903
Security	3,813	2,367
Utilities	2,735	1,579
Stationery and office supplies	1,659	794
Advertisement	1,651	642
Professional services	1,152	4,287
Charity	999	1,641
Business trip expenses	633	428
Transportation	273	108
Social events	166	134
Hospitality expenses	119	59
Other	2,021	1,110
	114,020	**69,855**

(Millions of Kazakhstani Tenge)

31. Earnings per share

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

According to Kazakhstan legislation on Joint Stock Companies, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preferred shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2018	Year ended 31 December 2017
Basic and diluted earnings per share		
Net income for the year attributable to equity holders of the parent	281,528	154,252
Less: Dividends paid on preferred shares	n/a	n/a
Earnings attributable to common shareholders	281,528	154,252
Weighted average number of common shares for the purposes of basic and diluted earnings per share	11,324,603,516	10,995,509,891
Basic and diluted earnings per share (in Kazakhstani Tenge)	**24.86**	**14.03**

As required by KASE rules for listed companies the book value of one share per each class of shares as at 31 December 2018 and 2017, is disclosed as follows:

			31 December 2018
Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share, in KZT
Common	11,754,054,397	1,019,117	86.70
		1,019,117	

			31 December 2017
Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share, in KZT
Common	10,995,467,774	780,089	70.95
		780,089	

Equity attributable to common shares is calculated as the difference between total equity and total net book value of intangible assets.

The management of the Bank believes that it fully complies with the requirement of KASE as at the reporting dates.

32. Financial risk management

Risk management is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk

Credit risk is the risk of loss arising for the Bank when a counterparty is unable to meet its contractual obligations on time or in full.

The risk management division plays an important role in managing and controlling the credit risk. This division is responsible for credit risk identification and evaluation and implementation of control and monitoring measures. The risk management division directly participates in credit decision-making processes and the consideration of internal rules, regulations and loan programs. In addition, the division provides independent recommendations concerning credit exposure minimization measures, controls limits and monitors credit risks, provides relevant reporting to management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee ("ALMC"). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, including banks and brokers, covers on and off-balance sheet exposures, which are reviewed by the Credit Committees and the ALMC. Actual exposures against limits are monitored daily.

The risk, that the counterparty will not meet its obligations, is restricted by the limits covering on and off-balance sheet exposure.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk for off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon counterparties maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the statement of financial position(i.e. the policy based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring). The Bank monitors the term to maturity of off-balance sheet contingencies, as longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Structure and authorities of credit committees

Credit committees, the ALMC, the Management Board and the Board of Directors are credit authorities responsible for the implementation of the Bank's Credit Policy and credit decision-making process.

Head Office Credit Committee ("CC")

The primary goal of the CC is implementation of the Bank's Credit Policy in terms of credit operations and credit applications from corporate customers.

Branch Credit Committee and Branch Network Credit Committee ("BCC", "BNCC")

The primary goal of the BCC and the BNCC is the implementation of the Bank's Credit Policy in terms of granting financial instruments via branches to SME customers.

Delegated credit authority limits for the BCC and the BNCC are established by the Management Board. The BCC makes credit decisions within its limits. If the loan application exceeds the relevant credit limit or the authorities of the BCC, the final decision has to be taken by the BNCC. The procedure of the decision-making by the BNCC involves consideration of a package of documents, including complex analysis and assessments of the potential borrowers conducted by the Bank's experts.

Retail Branch Credit Committee of the Head Office ("RCCHO") and Decision Making Center ("DMC")

The primary goal of the RCCHO and the DMC, which are credit authorities, is the implementation of the Bank's Credit Policy in terms of granting retail financial instruments via branches.

The DMC is comprised of credit underwriters with delegated credit authorities based on a four eyes principle. The DMC makes credit decisions within their authorities and limits established by the Management Board and the RCCHO. The RCCHO is authorized to consider loan applications that exceed relevant credit limits or the authorities of the DMC, as well as other matters within the authorities established by the Management Board.

Along with the process of decision making via the credit decision authorities mentioned above, there is an automated approach of decision making process for potential borrowers whose income can be confirmed by the Independent Government body. This approach takes into account the risk profile of the potential borrower and allows minimizing the credit risk exposure in the decision making process.

Decision Making Center for Small Business ("DMC for SB")

The DMC for SB was established in 2018, the main task of which is to consider loan applications in the small business sector in an amount not exceeding KZT 75 million.

The DMC for SB consists of credit underwriters with delegated decision-making powers based on the four-eye principle. The Decision Making Center takes decisions within the framework of the authority approved by the Board of the Bank and the limits approved by the BNCC.

Problem loans committee of the Head Office, branches

The primary goal of the problem loans committee of the Head Office, branches is the implementation of the Bank's Credit Policy in terms of management, servicing and maintaining the repayment of the problem loans.

Authorized credit authorities of the Bank's subsidiaries

Consideration and approval of the loan applications in the subsidiaries are performed by the authorized credit authorities in accordance with the internal rules and regulations of the subsidiary. Loan applications exceeding the established limits and authorities have to be approved by the Board of Directors of the subsidiaries with the preliminary consideration by the relevant credit committee according to the Bank's internal rules and regulations.

ALMC

The primary goal of the ALMC is profit maximization and to limit the risks of banking activities related to raising and allocating funds. The main tasks of the ALMC are: liquidity management, interest rate risk management, price risk and other banking risks management.

The ALMC is also responsible for establishing country and counterparty-banks limits. The ALMC reports to the Board of Directors.

(Millions of Kazakhstani Tenge)

The Management Board

For loan applications exceeding the authorities of the Head Office Credit Committee, the BNCC and the RCCHO, or exceeding the relevant limits of the BNCC and the RCCHO, have to be considered by the Management Board.

The Board of Directors

If the loan applications exceed 5% of the Bank's equity capital or the potential borrower is a related party, such applications have to be considered by the Board of Directors.

Maximum Exposure

The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on (Note 25). The collateral pledged is represented by the carrying amount of a financial instrument for which the collateral was received as security.

	31 December 2018	
	Maximum exposure and net exposure after offset	**Collateral pledged**
Cash equivalents*	1,497,703	18,904
Financial assets at fair value through profit or loss	97,927	-
Amounts due from credit institutions	93,493	-
Financial assets at fair value through other comprehensive income	1,699,468	-
Debt securities at amortised cost, net of allowance for expected credit losses	1,044,939	-
Loans to customers	3,443,755	3,068,473
Other financial assets	54,107	-
Commitments and contingencies	518,688	30,057

	31 December 2017	
	Maximum exposure and net exposure after offset	**Collateral pledged**
Cash equivalents*	1,091,154	29,377
Financial assets at fair value through profit or loss	135	-
Amounts due from credit institutions	82,466	-
Available-for-sale investment securities	791,741	-
Loans to customers	2,463,618	2,267,275
Other financial assets	7,956	-
Commitments and contingencies	255,630	36,322

*Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents in the statement of financial position.

As at 31 December 2018 and 2017 there is no any difference between maximum exposure and net exposure after offset.

Significant increase in credit risk

As explained in Note 4 the Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

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

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

For treasury operations (interbank transactions, securities, reverse repurchase agreements), a significant increase in credit risk is determined individually for each financial asset on the basis of quantitative indicators (rating downgrades by 3 or more steps, overdue by 1 day or more) and qualitative indicators (negative information relating to the issuer/counterparty, including deterioration of financial condition, change of shareholders, the realization of the risk of loss of reputation, the systematic violation of prudential standards).

For bank loans assessed on a collective basis, a significant increase in credit risk is determined for loans with an overdue of over 30 days since initial recognition, for loans assessed on an individual basis - additionally in case of the decrease of internal credit rating and increase in lifetime PD on 10 percentage points in accordance with the internal rating model (the presence of restructuring during deterioration of the financial position for classification to 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 condition, deterioration of the internal credit rating and expert opinion of the Bank's specialists.

The Bank considers 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. The Bank considers a financial instrument to have low credit risk when their external credit risk rating is equivalent to definition of 'investment grade' 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.

Incorporation of forward-looking information

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

The incorporation of forward-looking elements reflects the expectations of the Bank and involves the creation of two scenarios ("base case" and "downside" scenarios), including an assessment of the probability for each scenario. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the expected credit losses. The "base case" scenario enters with a probability of 75% and the "downside" scenario with a probability of 25%.

Development of forecasting was carried out by JSC Halyk Finance using internal and external information for creating "base case" and "downside" scenarios of future forecasting of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

(Millions of Kazakhstani Tenge)

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

In relation to the sensitivity, within the implementation of specified stress factors, the results of the stress testing demonstrate the deterioration of the Bank's financial indicators (growth of allowances for expected credit losses, decrease of net profit and outflow of amounts due to customers).

At the same time, given that, the Bank has a sufficient amount of equity and liquid assets, significant deterioration in the financial position of the Bank and violation of regulatory requirements and norms are not predicted.

In general, a worsening of forecasted macroeconomic variables for each scenario or an increase in the probability of the "downside" scenario occurring will both increase the number of loans migrating from Stage 1 to Stage 2 and increase the estimated allowances for expected credit losses. In contrast, an improvement in the outlook on forecasted macroeconomic variables or an increase in the probability of the "base case" scenario occurring will have a positive impact. It is not possible to meaningfully isolate the impact of changes in the various macroeconomic variables for a particular scenario due to the interrelationship between the variables as well as the interrelationship between the level of pessimism inherent in a particular scenario and its probability of occurring.

The table below summarizes the principal macroeconomic indicators included in economic scenarios as at 31 December 2018 for Kazakhstan, which is the country where the Bank operates and therefore is the country that has a material impact in ECLs.

List of macro variables used	Definition	Range
Real GDP growth	% change	Between 1.0% and 3.3%
Inflation	Inflation %	Between 6.5% and 9.0%
Oil price (USD/bbl)	Price per barrel	Between USD 45 and USD 60

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Bank's internal rating system. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as speculative grade.

The following table details the credit ratings of financial assets held by the Bank (except for loans to customers, which are disclosed in details below), before any impairment losses:

	AA	AA-	A	BBB	<BBB	Not rated	31 December 2018 Total
Cash and cash equivalents*	154,798	73,652	18,155	1,205,663	23,749	21,693	1,497,710
Obligatory reserves	-	-	-	105,856	-	-	105,856
Financial assets at fair value through profit or loss	-	2,356	-	95,364	21	186	97,927
Amounts due from credit institutions	-	9,950	-	19	-	83,861	93,830
Financial assets at fair value through other comprehensive income	258,777	-	-	1,275,882	155,598	9,211	1,699,468
Debt securities at amortised cost	-	-	-	1,045,357	-	-	1,045,357
Other financial assets	-	-	-	-	-	62,428	62,428
Commitments and contingencies	-	-	-	-	-	520,782	520,782

(Millions of Kazakhstani Tenge)

	AA	AA-	A	BBB	<BBB	Not rated	31 December 2017 Total
Cash and cash equivalents*	110,970	76,897	43,136	813,833	8,380	37,938	1,091,154
Financial assets at fair value through profit or loss	-	-	63	-	65	7	135
Amounts due from credit institutions	-	-	8,812	4,045	51,495	18,114	82,466
Available-for-sale investment securities	231,617			451,466	104,889	3,769	791,741
Other financial assets	-	-	-	-	-	12,106	12,106
Commitments and contingencies	-	-	-	-	-	256,470	256,470

*Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents in the statement of financial position.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Bank, and this classification is verified by the Risk Management function.

The Bank is using an internal rating model to classify loans in different risk categories.

After the occurrence of an impairment event, the model assists in estimating the allowance for loan loss based on a borrowers' financial performance, credit history, quality of accounts receivable, liquidity of the borrower, market risks relating to the borrower, industry of the borrower and other factors. Periodically, the required information is inputted into the model by credit analysts. Information input into the system and the estimate of the allowance for loan loss is verified by the risk management department.

The following classifications are used by the rating model:

- Rating score 1 - superior loan rating, minimal credit risk;
- Rating score 2 - very high quality of loan, very low credit risk;
- Rating score 3 - high quality of loan, low credit risk;
- Rating score 4 - satisfactory quality of loan, insignificant risk;
- Rating score 5 - credit risk can increase at economic variation;
- Rating score 6 - high risk at economic variation;
- Rating score 7 - high risk of default, paying capacity of the borrower depends on favourable economic circumstances;
- Rating score 8 - 10 - very high risk of default/default.

Pools of homogeneous loans – loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Pools of homogeneous loans include assets that have been assessed collectively.

(Millions of Kazakhstani Tenge)

An analysis of the Bank's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following table. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	31 December 2018				
	Stage 1	Stage 2	Stage 3		
Rating Score	12-month ECL	Lifetime ECL	Lifetime ECL	POCI	Total
1-3	58,588	-	-	-	58,588
4	185,482	-	-	-	185,482
5	791,056	8,898	469	-	800,423
6	548,998	21,140	5,733	14,391	590,262
7	231,223	70,653	155,650	6,633	464,159
8-10	-	-	126,059	55,339	181,398
Not rated	-	-	75,122	7,627	82,749
Loans to corporate customers that are individually assessed for impairment	1,815,347	100,691	363,033	83,990	2,363,061
Loans to SME customers and retail business that are individually assessed for impairment	397,766	13,408	103,505	15,627	530,306
Loans to customers that are collectively assessed for impairment	732,898	5,652	178,566	-	917,116
	2,946,011	**119,751**	**645,104**	**99,617**	**3,810,483**
Less – Allowances for expected credit losses (Note 21)	(39,273)	(25,521)	(286,928)	(15,006)	(366,728)
Loans to customers	**2,906,738**	**94,230**	**358,176**	**84,611**	**3,443,755**

Rating score	31 December 2017
1-3	53,985
4	118,566
5	537,873
6	522,351
7	410,973
8-10	172,697
Loans to corporate customers that are individually assessed for impairment	1,816,445
Loans to SME customers and retail business that are individually assessed for impairment	176,503
Loans to customers that are collectively assessed for impairment	735,962
	2,728,910
Less –Allowance for loan impairment losses (Note 21)	(265,292)
Loans to customers	**2,463,618**

(Millions of Kazakhstani Tenge)

Analysis by credit quality of loans to retail business and SME customers that are collectively and individually assessed for impairment as at 31 December 2018 is as follows:

As at 31 December 2018	Gross loans	Allowances for expected credit losses	Net loans
Loans to retail business			
Not past due	725,324	(28,489)	696,835
Overdue:			
up to 30 days	34,083	(4,811)	29,272
31 to 60 days	7,923	(2,837)	5,086
61 to 90 days	5,175	(2,230)	2,945
91 to 180 days	10,915	(6,571)	4,344
over 180 days	106,837	(61,339)	45,498
Loans to retail business that are collectively and individually assessed for impairment	**890,257**	**(106,277)**	**783,980**
Loans to SME customers			
Not past due	426,232	(6,571)	419,661
Overdue:			
up to 30 days	11,217	(339)	10,878
31 to 60 days	5,823	(1,449)	4,374
61 to 90 days	8,141	(3,099)	5,042
91 to 180 days	5,209	(1,194)	4,015
over 180 days	73,684	(38,857)	34,827
Loans to SME customers that are collectively and individually assessed for impairment	**530,306**	**(51,509)**	**478,797**
Loans to SME customers and retail business that are collectively and individually assessed for impairment	**1,420,563**	**(157,786)**	**1,262,776**
Loans to corporate customers that are collectively and individually assessed for impairment	**2,363,061**	**(203,712)**	**2,159,349**
Loans related to card transactions	**26,859**	**(5,230)**	**21,629**
Loans to customers	**3,810,483**	**(366,728)**	**3,443,755**

(Millions of Kazakhstani Tenge)

The following table details the carrying value of financial assets that are impaired and for those that are past due but not impaired:

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		
	Unimpaired financial assets		Impaired financial assets				
	Gross carrying amount of assets	Amount of allowance for expected credit losses	Gross carrying amount of assets	Amount of allowance for expected credit losses	Gross carrying amount of assets	Amount of allowance for expected credit losses	31 December 2018 Total
Amounts due from credit institutions	93,830	(337)	-	-	-	-	93,493
Financial assets at fair value through other comprehensive income	1,699,999	(531)	-	-	-	-	1,699,468
Debt securities at amortized cost	1,045,357	(418)	-	-	-	-	1,044,939
Loans to customers	2,211,618	(31,995)	462,648	(159,846)	1,136,217	(174,887)	3,443,755
Other financial assets	-	-	46,729	(8,321)	15,699	-	54,107

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		
	Unimpaired financial assets		Impaired financial assets				
	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	31 December 2017 Total
Amounts due from credit institutions	82,466	-	-	-	-	-	82,466
Available-for-sale investment securities	791,741	-	-	-	-	-	791,741
Loans to customers	1,610,970	(15,635)	382,543	(169,808)	735,397	(79,849)	2,463,618
Other financial assets	7,956	-	4,150	(4,150)	-	-	7,956

As at 31 December 2018, the carrying amount of unimpaired overdue loans was KZT 35,640 million (31 December 2017 – KZT 2,468 million). Maturities of these overdue loans are not greater than 90 days.

Liquidity risk

Liquidity risk is the risk resulting from the inability of the Bank to provide funds for repayment of its obligations in a due time. The Bank's liquidity risk arises when terms of assets on active operations and maturity dates of obligations do not match.

Short-term liquidity needs are managed by the Bank's Treasury function collecting daily cash inflow/outflow forecasts. Long-term liquidity management is performed by ALMC by analyzing longer term liquidity positions and making decisions on managing significant gaps through various available means.

In order to manage liquidity risk, the Bank analyzes the financial assets and liabilities, and obligatory reserves taking into account payment schedules for loans issued to customers. The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the earliest of the contractual maturity date or available maturity date, except for financial assets at fair value through profit or loss in the form of securities, which are included in the column "Less than 1 month" as they are available to meet the Bank's short-term liquidity needs.

(Millions of Kazakhstani Tenge)

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2018 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,685,874	-	-	-	-	1,685,874
Obligatory reserves	65,438	7,396	21,505	11,296	221	105,856
Financial assets at fair value through profit or loss	498	-	91,263	6,166	-	97,927
Amounts due from credit institutions	12,703	4,286	8,556	37,543	30,405	93,493
Financial assets at fair value through other comprehensive income	672,760	262,292	166,478	293,442	304,496	1,699,468
Debt securities at amortised cost, net of allowance for expected credit losses	11,678	-	33,802	499,740	499,719	1,044,939
Loans to customers*	242,392	358,077	2,044,533	695,632	103,121	3,443,755
Other financial assets	37,453	159	1,638	14,744	113	54,107
	2,728,796	**632,210**	**2,367,775**	**1,558,563**	**938,075**	**8,225,419**
FINANCIAL LIABILITIES:						
Amounts due to customers	3,844,981	367,900	1,385,814	585,048	252,244	6,435,987
Amounts due to credit institutions	38,046	234	3,168	13,498	113,648	168,594
Financial liabilities at fair value through profit or loss	2,467	16	4,330	203	-	7,016
Debt securities issued	13,505	3,785	66,798	494,115	323,018	901,221
Other financial liabilities	19,016	376	23	34	12	19,461
	3,918,015	**372,311**	**1,460,133**	**1,092,898**	**688,922**	**7,532,279**
Net position	**(1,189,219)**	**259,899**	**907,642**	**465,665**	**249,153**	
Accumulated gap	**(1,189,219)**	**(929,320)**	**(21,678)**	**443,987**	**693,140**	

(Millions of Kazakhstani Tenge)

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,168,386	35,776	-	-	-	1,204,162
Obligatory reserves	40,469	4,958	13,359	3,903	154	62,843
Financial assets at fair value through profit or loss	135	-	-	-	-	135
Amounts due from credit institutions	13,218	-	23,955	41,130	4,163	82,466
Available-for-sale investment securities	72,083	142,807	230,208	126,771	219,872	791,741
Loans to customers*	114,975	210,342	1,721,625	348,927	67,749	2,463,618
Other financial assets	7,753	203	-	-	-	7,956
	1,417,019	**394,086**	**1,989,147**	**520,731**	**291,938**	**4,612,921**
FINANCIAL LIABILITIES:						
Amounts due to customers	1,973,129	247,595	672,133	669,727	57,304	3,619,888
Amounts due to credit institutions	154,811	116	968	3,222	34,576	193,693
Financial liabilities at fair value through profit or loss	243	-	-	5,096	-	5,339
Debt securities issued	4,871	3,785	875	157,801	221,877	389,209
Other financial liabilities	11,503	656	280	32	31	12,502
	2,144,557	**252,152**	**674,256**	**835,878**	**313,788**	**4,220,631**
Net position	**(727,538)**	**141,934**	**1,314,891**	**(315,147)**	**(21,850)**	
Accumulated gap	**(727,538)**	**(585,604)**	**729,287**	**414,140**	**392,290**	

* Loans to customers "3 months to 1 year" include loans with non-standard repayment schedule.

(Millions of Kazakhstani Tenge)

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Bank possesses a right to unilaterally call back part of long-term loans provided to customers in ten-months period after proper notification would be issued by the Bank.

A significant portion of the Bank's liabilities is represented by customer term deposits, current accounts of corporate and retail customers, bonds.

Management believes that although a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicate that these deposits provide a long-term and stable source of funding for the Bank. Therefore, an essential part of current accounts is considered as stable resources for the purposes of liquidity analysis and management.

A further analysis of the liquidity risk is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities and contingent liabilities based on the remaining contractual payments (including interest payments).

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2018 Total
FINANCIAL AND CONTINGENT LIABILITIES:						
Amounts due to customers	3,846,919	371,288	1,433,389	625,629	368,140	6,645,365
Amounts due to credit institutions	38,047	234	3,175	16,227	146,929	204,612
Debt securities issued	28,366	8,722	116,487	721,030	337,563	1,212,168
Other financial liabilities	19,017	376	23	34	11	19,461
Guarantees issued	410,695	-	-	-	-	410,695
Commercial letters of credit	66,348	-	-	-	-	66,348
Commitments to extend credit	43,739	-	-	-	-	43,739
	4,453,131	**380,620**	**1,553,074**	**1,362,920**	**852,643**	**8,602,388**
Derivative financial assets	413,251	700	771,330	44,978	-	1,230,259
Derivative financial liabilities	415,219	716	684,600	38,812	-	1,139,347

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL AND CONTINGENT LIABILITIES:						
Amounts due to customers	1,974,273	249,776	696,683	696,301	90,302	3,707,335
Amounts due to credit institutions	154,929	116	981	3,586	54,787	214,399
Debt securities issued	4,871	14,745	19,335	239,344	261,562	539,857
Other financial liabilities	11,503	656	280	32	31	12,502
Guarantees issued	195,329	-	-	-	-	195,329
Commercial letters of credit	58,782	-	-	-	-	58,782
Commitments to extend credit	2,359	-	-	-	-	2,359
	2,402,046	**265,293**	**717,279**	**939,263**	**406,682**	**4,730,563**
Derivative financial assets	91,195	-	-	25,761	-	116,956
Derivative financial liabilities	91,337	-	-	30,823	-	122,160

Market risk

Market risk is a risk that Bank's earnings or equity or its ability to meet business objectives will be adversely affected by changes in market variables such as interest rates, foreign exchange rates, securities prices and other basic variables.

The Bank is exposed to market risks which include the following components:

- Risk of changes in interest rates (interest rate risk);
- Risk of changes in foreign exchange rates (currency risk);
- Risk of changes in securities prices (price risk).

The objective of market risk management is to optimize risk/return, minimize losses in case of adverse events and decrease deviation of factual financial results from the expected one.

Market risk management includes security portfolio management and control of open positions on currencies, interest rates and derivatives. For these purposes ALMC fixes limits on security portfolios, open positions, stop-loss limits and other limitations. Market risk limits are subject to review at least on an annual basis and should be monitored continuously.

Interest rate risk

The Bank is exposed to interest rate risk. Interest rate risk is defined as the risk of interest income decrease, interest expense increase or negative impact on equity resulting from adverse changes of market interest rates.

The Bank determines two types of interest rate risk:

- Interest rate risk related to securities portfolios changes in fair value of which are reflected through equity;
- Interest rate risk resulting from assets and liabilities maturity dates (dates of interest rates repricing) mismatch that are sensitive to the interest rates changes (risk of interest rates changes).

ALMC manages interest rate risks and market risks through the management of the Bank's position on interest rates to reach positive interest margins.

The Bank manages interest rates by determining the Bank's exposure to the interest rate risk using the approach described by the Basel Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Bank's exposure to the interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities.

Sensitivity analysis of interest rate risk

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The Bank assesses the reasonably possible changes in interest rates in tenge and foreign currencies separately, in which financial assets and liabilities are denominated due to the different volatility of interest rates. In 2017, the Bank reassessed possible changes in interest rates in tenge taking into account the dynamics of the NBRK base rate during 2017 year.

The impact on profit before tax is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2018 and 2017, and the effect of revaluing instruments with fixed rates accounted for at fair value. The management of the Bank believes income tax not to have a substantial effect for the purpose of interest rate risk management.

(Millions of Kazakhstani Tenge)

The impact on income before tax based on asset and liability values as at 31 December 2018 and 2017 is as follows:

	31 December 2018		31 December 2017	
	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%
FINANCIAL ASSETS:				
Loans to customers	1,197	(1,197)	1,383	(1,383)
KZT	-	-	-	-
CCY	1,197	(1,197)	1,383	(1,383)
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	6	(6)	8	(8)
KZT	-	-	-	-
CCY	6	(6)	8	(8)
Net impact on income before tax	**1,191**	**(1,191)**	**1,375**	**(1,375)**

The impact on equity is the effect of the assumed changes in interest rates due to changes in retained earnings and the effect of revaluation of financial assets at fair value through other comprehensive income with fixed rates.

The impact on equity based on asset and liability values as at 31 December 2018 and 2017 is as follows:

	31 December 2018		31 December 2017	
	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%
FINANCIAL ASSETS:				
Loans to customers	1,197	(1,197)	1,383	(1,383)
KZT	-	-	-	-
CCY	1,197	(1,197)	1,383	(1,383)
Financial assets at fair value through other comprehensive income (2017: available-for-sale investment securities)	(52,226)	52,226	(36,219)	36,219
KZT	(14,976)	14,976	(8,633)	8,633
CCY	(37,250)	37,250	(27,586)	27,586
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	6	(6)	8	(8)
KZT	-	-	-	-
CCY	6	(6)	8	(8)
Net impact on equity	**(51,023)**	**51,023**	**(34,828)**	**34,828**

Currency Risk

The Bank is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on the financial performance of the Bank.

The ALMC controls currency risk by management of the open currency position based on the estimations of KZT devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rate fluctuations of national and foreign currencies.

The treasury department performs daily monitoring of the Bank's open currency position with the aim to comply with the requirements of the regulatory authority.

The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial position, results of operations and cash flows, which are monitored daily. ALMC sets limits on the level of exposure by currencies within the authority approved by the Board of Directors. These limits also comply with the minimum requirements of the regulator authority

The Bank's principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying values of the Bank's USD denominated monetary assets and liabilities. Currency risk is assessed in relation to the statement of financial position and off-balance sheet positions. The current Bank's sensitivity to fluctuations in exchange rates is acceptable due to the fact that the off balance sheet items significantly neutralize the statement of financial position.

(Millions of Kazakhstani Tenge)

The Bank's exposure to foreign currency exchange rate risk is as follows:

							31 December 2018
	USD	EUR	RUB	Other foreign currencies	Total foreign currencies	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	1,017,145	133,282	29,123	206,358	1,385,908	299,966	1,685,874
Obligatory reserves	54,068	2,079	742	332	57,221	48,635	105,856
Financial assets at fair value through profit or loss	74	-	-	-	74	97,853	97,927
Amounts due from credit institutions	72,428	5,696	14,942	-	93,066	427	93,493
Financial assets at fair value through other comprehensive income	591,473	26,555	4,098	-	622,126	1,077,342	1,699,468
Debt securities at amortised cost, net of allowance for expected credit losses	-	-	-	-	-	1,044,939	1,044,939
Loans to customers	1,006,227	5,815	2,901	591	1,015,534	2,428,221	3,443,755
Other financial assets	6,487	302	6	11	6,806	47,301	54,107
	2,747,902	**173,729**	**51,812**	**207,292**	**3,180,735**	**5,044,684**	**8,225,419**
FINANCIAL LIABILITIES:							
Amounts due to customers	3,352,283	127,717	34,748	10,611	3,525,359	2,910,628	6,435,987
Amounts due to credit institutions	26,853	2,457	338	2,204	31,852	136,742	168,594
Financial liabilities at fair value through profit or loss	-	-	203	-	203	6,813	7,016
Debt securities issued	406,256	-	-	-	406,256	494,965	901,221
Other financial liabilities	83	60	-	21	164	19,297	19,461
	3,785,475	**130,234**	**35,289**	**12,836**	**3,963,834**	**3,568,445**	**7,532,279**
Net balance sheet position	**(1,037,573)**	**43,495**	**16,523**	**194,455**	**(783,100)**	**1,476,239**	**693,140**
Net off balance sheet position	**1,052,893**	**(45,694)**	**(284)**	**(214,026)**	**792,889**	**(700,861)**	**92,028**
Net position	**15,320**	**(2,199)**	**16,239**	**(19,571)**	**9,789**	**775,378**	**785,168**

(Millions of Kazakhstani Tenge)

							31 December 2017
	USD	EUR	RUB	Other foreign currencies	Total foreign currencies	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	976,733	8,353	12,890	46,718	1,044,694	159,468	1,204,162
Obligatory reserves	33,678	590	191	43	34,502	28,341	62,843
Financial assets at fair value through profit or loss	35	-	-	-	35	100	135
Amounts due from credit institutions	45,885	-	32,540	-	78,425	4,041	82,466
Available-for-sale investment securities	462,480	4,147	-	-	466,627	325,114	791,741
Loans to customers	736,458	16,292	1,170	1,750	755,670	1,707,948	2,463,618
Other financial assets	933	144	2	5	1,084	6,872	7,956
	2,256,202	**29,526**	**46,793**	**48,516**	**2,381,037**	**2,231,884**	**4,612,921**
FINANCIAL LIABILITIES:							
Amounts due to customers	2,143,125	34,317	8,860	2,408	2,188,710	1,431,178	3,619,888
Amounts due to credit institutions	17,460	471	131	342	18,404	175,289	193,693
Financial liabilities at fair value through profit or loss	-	-	212	-	212	5,127	5,339
Debt securities issued	162,672	-	-	-	162,672	226,537	389,209
Other financial liabilities	163	62	39	42	306	12,196	12,502
	2,323,420	**34,850**	**9,242**	**2,792**	**2,370,304**	**1,850,327**	**4,220,631**
Net balance sheet position	**(67,218)**	**(5,324)**	**37,551**	**45,724**	**10,733**	**381,557**	**392,290**
Net off balance sheet position	**67,500**	**5,575**	**(37,493)**	**(47,450)**	**(11,868)**	**15,102**	
Net position	**282**	**251**	**58**	**(1,726)**	**(1,135)**	**396,659**	

(Millions of Kazakhstani Tenge)

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Bank had significant exposure at 31 December 2018 and 2017, and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate with all other variables held constant on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in the statement of profit or loss, while a positive amount reflects a net potential increase. Sensitivity of currency risk is assessed based on balance sheet and off-balance sheet open currency positions. The management of the Bank believes income tax not to have substantial effect for the purpose of currency risk management.

The impact on income before tax and equity, based on asset values as at 31 December 2018 and 2017, was calculated using the currency rate fluctuations analysis.

The impact on income before tax and equity, based on asset values as at 31 December 2018 and 31 December 2017, was calculated using the annual analysis of the exchange rates volatility based on historical data of the exchange rates dynamics over the last two years; see the details in the following table:

	31 December 2018		31 December 2017	
	+15% KZT/USD	-15% KZT/USD	+15% KZT/USD	-15% KZT/USD
Impact on income before tax	2,298	(2,298)	43	(43)

	31 December 2018		31 December 2017	
	+15% KZT/EUR	-15% KZT/EUR	+15% KZT/EUR	-15% KZT/EUR
Impact on income before tax	(330)	330	38	(38)

	31 December 2018		31 December 2017	
	+15% KZT/RUB	-15% KZT/RUB	+15% KZT/RUB	-15% KZT/RUB
Impact on income before tax	2,436	(2,436)	9	(9)

Impact on equity:

	31 December 2018		31 December 2017	
	+15% KZT/USD	-15% KZT/USD	+15% KZT/USD	-15% KZT/USD
Impact on equity	2,298	(2,298)	43	(43)

	31 December 2018		31 December 2017	
	+15% KZT/EUR	-15% KZT/EUR	+15% KZT/EUR	-15% KZT/EUR
Impact on equity	(330)	330	38	(38)

	31 December 2018		31 December 2017	
	+15% KZT/RUB	-15% KZT/RUB	+15% KZT/RUB	-15% KZT/RUB
Impact on equity	2,436	(2,436)	9	(9)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, where those changes are caused by factors specific to the individual security, its issuer, or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

To limit price risk the Bank determines limits for maximum losses (stop-loss) on each security from trade portfolio to minimize potential losses of trade portfolio.

Price risk assessment is also made on the basis of VaR method through establishment of Expected Shortfall (ES) limits on the level of the expected losses, which the Bank is able to undertake within one day in situation when factual losses may exceed the level of VaR.

Calculation of VaR is based on the following parameters:

- Reporting period – 252 working days;
- Confidence interval – 95%;
- The method of measurement – historical simulation.

The Bank estimates the price risk at 31 December 2018 and 2017 to be not material and therefore quantitative information is not disclosed.

33. Capital risk management

The Bank's objectives when managing capital, which are a broader concept than the "equity" on the face of the statement of financial position, are as follows:

- To comply with the capital requirements set by the NBRK;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined during the annual budgeting process, taking into account the above objectives, and is approved by the Management Board and the Board of Directors. As of the current date, the capital adequacy of the Bank is calculated according to prudential norms set for banks by the Kazakhstan regulatory authority, applying Basel Committee principles and methods. Starting from 1 January 2016, prudential norms regulating the capital calculation applied certain principles and methods prescribed by the Basel III Committee. Prior to 1 January 2016, prudential norms regulating the capital calculation applied starndards and methods prescribed by the Basel II Committee. Risk-weighted assets are calculated according to Kazakhstan regulatory standards.

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Currently, regulatory capital is represented by:

- Tier 1 capital, which is required to maintain the normal operating activity of the Bank and absorb losses, as they arise. It consists of Common Equity Tier 1 capital ("CET 1 capital") and Additional Tier 1 capital, which includes common shares issued by the Bank, share premium, retained earnings, other accrued comprehensive income and disclosed reserves and regulatory adjustments (deductions);
- Tier 2 capital, which is required to absorb losses in case of the Bank's liquidation. This part of capital consists of instruments issued by the Bank and deductions.

Risk-weighted assets are split into five different groups, based on the risk level of the investment and its possible impairment, and weighted according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments made to reflect the more contingent nature of the potential losses.

The below table summarizes regulatory the capital composition and capital adequacy ratios of the Bank for the years ended 31 December 2018 and 2017. During these two years, the Bank complied with all of the externally imposed capital requirements to which it is subject to.

	31 December 2018	31 December 2017
Composition of regulatory capital		
CET		
Common shares, net of treasury shares	106,064	40,738
Share premium	1,880	1,880
Retained earnings of prior years	576,123	500,793
Net income for the current period	281,528	154,252
Accumulated disclosed reserves*	53,761	73,329
Property and financial assets at fair value through other comprehensive income revaluation reserves (2017: Available-for-sale investment securities revaluation reserve)	4,456	13,241
Less: goodwill and intangible assets	(8,311)	(7,276)
Less: regulatory adjustments	(5,680)	(7,487)
Common Equity Tier 1 (CET 1) Capital	**1,009,821**	**769,470**
Additional tier 1		
Subordinated debt	105,464	-
Tier 2	105,464	-
Total regulatory capital	**1,115,285**	**769,470**
Risk weighted assets	5,157,442	3,584,465
CET 1 capital adequacy ratio	**19.6%**	**21.5%**
Tier 1 capital adequacy ratio	**19.6%**	**21.5%**
Total capital adequacy ratio	**21.6%**	**21.4%**

*As at 31 December 2018, accumulated disclosed reserves comprised from KZT 53,761 million capital reserve (31 December 2017: KZT 19,568 million dynamic reserve and KZT 53,761 million capital reserve).

Starting from 1 January 2016, prudential norms of the NBRK, which apply certain principles and methods prescribed by Basel III committee, set minimum CET 1 capital, Additional Tier 1 capital and total capital adequacy ratios at 7.5%, 8.5% and 10.0%, respectively, including buffers, which since 1 January 2017 have been raised to the level of 9.5%, 10.5% and 12.0%, respectively.

34. Segment analysis

The Bank is managed and reported on the basis of four main operating segments – corporate banking, SME banking, retail banking and investment banking. These segments are strategic business units that offer different products and services and are managed separately.

Retail banking represents private banking services to individuals, including private customer current accounts, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, cash and foreign currency related services to individuals.

Corporate banking represents banking services to corporate clients and financial organizations, including current accounts and correspondent accounts, deposits, custody, overdrafts, loans and other credit facilities, documentary operations, including guarantees and letters of credit, interbank operations, as well as cash services and foreign exchange transactions.

SME banking represents banking services to SME clients and individual entrepreneurs, including current accounts, deposits, overdrafts, loans and other credit facilities, documentary operations and guarantees, foreign exchange transactions and trade finance products.

Investment banking represents services on sale and purchase of securities on the market.

Unallocated amounts are account balances and classes of transactions, which are not allocated to particular segment, not initiated by any business function and relate to the current activity of the Bank. Unallocated assets include fixed assets, intangible assets, non-current assets held for sale, cash on hand and other unallocated assets. Unallocated liabilities include deferred tax liabilities and other unallocated liabilities. Unallocated income includes other income from main and nonoperating activities and insurance income. Unallocated expenses include provision on account receivables, operating overhead expenses, insurance expenses and income tax.

The segment information below is based on financial information used for performance evaluation by the Bank's Chairperson of the Management Board, the Bank's chief operating decision maker, in accordance with IFRS 8. The Bank's Management reviews discrete financial information for each segment, including evaluation of operating results, assets and liabilities.

There were no transactions between business segments during the years ended 31 December 2018 and 2017.

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Segment information for the main reportable business segments of the Bank for the years ended 31 December 2018 and 2017, is set out below:

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2018 and for the year then ended						
External revenues	254,652	406,563	81,786	195,136	27,492	965,629
Total revenues	**254,652**	**406,563**	**81,786**	**195,136**	**27,492**	**965,629**
Total revenues comprise:						
- Interest income	168,080	237,897	57,815	190,206	-	653,998
- Fee and commission income	86,127	9,395	20,793	114	-	116,429
- Net gain from financial assets and liabilities at fair value through profit or loss	-	105,653	-	4,816	-	110,469
- Dividends from subsidiaries	-	38,396	2,562	-	-	40,958
- Share in profit of associate	-	-	-	-	2,899	2,899
- Recovery of other credit loss expense	445	15,222	616	-	-	16,283
- Other income	-	-	-	-	24,593	24,593
Total revenues	**254,652**	**406,563**	**81,786**	**195,136**	**27,492**	**965,629**
- Interest expense	(156,310)	(79,383)	(10,519)	(83,399)	-	(329,611)
- (Credit loss expense)/recovery of credit loss expense	(25,492)	8,826	(4,838)	184	(5,742)	(27,062)
- Fee and commission expense	(39,843)	(1,767)	(2,074)	(97)	-	(43,781)
- Net realised loss from financial assets at fair value through other comprehensive income	-	-	-	(1,593)	-	(1,593)
- Operating expenses	(83,171)	(6,970)	(16,701)	(1,011)	(6,167)	(114,020)
- Loss from impairment of non-financial assets	-	-	-	-	(22,099)	(22,099)
- Net foreign exchange gain/(loss)	10,795	(108,491)	13,452	-	17,143	(67,101)
Total expenses	**(294,021)**	**(187,785)**	**(20,680)**	**(85,916)**	**(16,865)**	**(605,267)**
Segment result	**(39,369)**	**218,778**	**61,106**	**109,220**	**10,627**	**360,362**
Income before income tax expense						360,362
Income tax expense						(78,834)
Net income						**281,528**
Total segment assets	805,608	3,949,069	487,551	2,744,407	644,465	8,631,100
Total segment liabilities	3,287,697	2,386,844	893,768	901,221	137,226	7,606,756
Other segment items:						
Capital expenditures						(4,937)
Depreciation and amortisation						(9,357)
Investment in associate						20,437

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	Retail banking	Corporate banking	SME Banking	Investing banking	Unallocated amounts	Total
As at 31 December 2017 and for the year then ended						
External revenues	192,255	163,227	48,367	50,700	(515)	454,034
Total revenues	**192,255**	**163,227**	**48,367**	**50,700**	**(515)**	**454,034**
Total revenues comprise:						
-Interest income	107,120	162,424	32,172	54,741	-	356,457
-Fee and commission income	45,446	6,356	7,311	-	-	59,113
-Dividends received from subsidiaries	-	14,917	1,461	-	-	16,378
-Net foreign exchange gain/(loss)	39,689	(20,470)	7,423	(4,041)	(1,951)	20,650
-Other income	-	-	-	-	1,436	1,436
Total revenues	**192,255**	**163,227**	**48,367**	**50,700**	**(515)**	**454,034**
-Interest expense	(77,235)	(48,436)	(5,483)	(34,652)	-	(165,806)
-Impairment charge	(1,864)	(18,351)	(2,812)	-	(100)	(23,127)
-Fee and commission expense	(12,260)	(449)	(240)	(34)	-	(12,983)
-Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	(12,860)	5,445	(1,276)	1,184	705	(6,802)
-Net realized loss from available-for-sale investment securities	-	-	-	(19)	-	(19)
-Operating expenses	(44,828)	(5,485)	(14,523)	(527)	(4,492)	(69,855)
-Provisions	-	(453)	-	-	-	(453)
Total expenses	**(149,047)**	**(67,729)**	**(24,334)**	**(34,048)**	**(3,887)**	**(279,045)**
Segment result	**43,208**	**95,498**	**24,033**	**16,652**	**(4,402)**	**174,989**
Income before income tax expense						174,989
Income tax expense					(20,737)	(20,737)
Net income						**154,252**
Total segment assets	542,945	2,882,539	276,755	791,741	525,576	5,019,556
Total segment liabilities	1,629,712	1,829,632	354,168	389,209	32,602	4,235,323
Other segment items:						
Capital expenditure					(5,319)	(5,319)
Depreciation and amortization expense					(6,113)	(6,113)

(Millions of Kazakhstani Tenge)

Geographical information

Information for the main geographical areas of the Bank is set out below as at 31 December 2018 and 2017, and for the years then ended.

	Kazakhstan	OECD	Non OECD	Total
2018				
Total assets	7,832,069	672,795	126,236	8,631,100
External revenues	913,908	36,785	14,936	965,629
Capital expenditure	(4,937)	-	-	(4,937)
2017				
Total assets	4,389,126	566,376	64,054	5,019,556
External revenues	432,430	20,831	773	454,034
Capital expenditure	(5,319)	-	-	(5,319)

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated in the Republic of Kazakhstan.

35. Fair values of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Management assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Bank considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on its statement of financial position as well as its profit/(loss) could be material.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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The table below summarises the Bank's financial assets and liabilities held at fair value by valuation methodology at 31 December 2018 and 2017:

	Fair value at					
Financial Assets/Liabilities	**31 December 2018**	**31 December 2017**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
Derivative financial assets at fair value through profit or loss, excluding options (Note 7)	2,656	135	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss (Note 7)	95,271	-	Level 3	Future cash flows in USD discounted using LIBOR rate obtained from available sources. Future cash flows in KZT discounted using internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to zero at initial recognition.	KZT implied rate	The greater KZT implied rate – the smaller fair value
Total financial assets at fair value through profit or loss	**97,927**	**135**				
Derivative financial liabilities at fair value through profit or loss excluding options (Note 7)	7,016	5,339	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Financial liabilities at fair value through profit or loss	**7,016**	**5,339**				
Non-derivative financial assets at fair value through other comprehensive income (2017: Available-for-sale investment securities) (Note 9)	1,699,468	791,741	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
Financial assets at fair value through other comprehensive income (2017: Available-for-sale investment securities)	**1,699,468**	**791,741**				

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There were no transfers between Level 1 and 2, nor between Levels 2 and 3, during the years ended 31 December 2018 and 2017.

	Financial assets at fair value through profit or loss (Level 3)
31 December 2016	76,683
Loss to profit or loss	3,651
Settlements*	(80,334)
31 December 2017	-
Additions	70,562
Gain to profit or loss	96,584
Settlements*	(71,875)
31 December 2018	**95,271**

* As at 31 December 2018 and 2017, the settlements include interest and repayment of NBRK swaps.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The following methods and assumptions are used by the Bank to estimate the fair value of financial instruments not carried at fair value.

Amounts due from and to credit institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Amounts due to customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

(Millions of Kazakhstani Tenge)

The following table sets out the carrying amount and fair values of financial assets and liabilities not carried at their fair values:

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	93,493	92,688	82,466	67,849
Loans to customers	3,443,755	3,377,107	2,463,618	2,471,314
Debt securities at amortised cost, net of allowance for expected credit losses	1,044,939	1,077,222	n/a	n/a
Financial liabilities				
Amounts due to customers	6,435,987	6,608,962	3,619,888	3,591,990
Amounts due to credit institutions	168,594	158,712	193,693	180,237
Debt securities issued	901,221	973,169	389,209	386,844

				31 December 2018
	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Amounts due from credit institutions	-	92,688	-	92,688
Loans to customers	-	-	3,377,107	3,377,107
Debt securities at amortised cost, net of allowance for expected credit losses	-	1,077,222	-	1,077,222
Financial liabilities				
Amounts due to customers	-	6,608,962	-	6,608,962
Amounts due to credit institutions	-	158,712	-	158,712
Debt securities issued	973,169	-	-	973,169

				31 December 2017
	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Amounts due from credit institutions	-	67,849	-	67,849
Loans to customers	-	-	2,471,314	2,471,314
Financial liabilities				
Amounts due to customers	-	3,591,990	-	3,591,990
Amounts due to credit institutions	-	180,237	-	180,237
Debt securities issued	386,844	-	-	386,844

The carrying amounts of cash and cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

36. Related party transactions

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Terms, conditions and amounts of related party transactions are usually same as those between unrelated parties.

Considering each possible related party not only their legal status is taken into account but also the substance of the relationship between these parties.

(Millions of Kazakhstani Tenge)

As at 31 December 2018 and 2017, the Bank had the following transactions outstanding with related parties:

	31 December 2018		31 December 2017	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Cash and cash equivalents	20,574	1,685,874	41,899	1,204,162
-subsidiaries	20,574		41,899	
Amounts due from credit institutions	78,063	93,493	48,319	82,466
-subsidiaries	78,063		48,319	
Investments in subsidiaries	172,308	172,308	254,490	254,490
-subsidiaries	172,308		254,490	
Loans to customers before allowance for expected credit losses	154,322	3,810,483	55,043	2,728,910
-entities with joint control or significant influence over the Bank	1,641		793	
-key management personnel of the Bank or its parent	86		115	
-subsidiaries	152,575		54,093	
-other related parties	20		42	
Allowance for expected credit losses	(16,546)	(366,728)	(240)	(265,292)
-entities with joint control or significant influence over the Bank	(16)		(10)	
-subsidiaries	(16,530)		(230)	
Other assets	1,106	64,142	457	23,999
-subsidiaries	1,106		457	
Amounts due to customers	256,835	6,435,987	152,920	3,619,888
-the parent	69,882		27,238	
-entities with joint control or significant influence over the Bank	9,480		3,172	
-key management personnel of the Bank or its parent	11,076		8,804	
-subsidiaries	161,698		1,965	
-other related parties	4,699		111,741	
Amounts due to credit institutions	8,375	168,594	12,893	193,693
-subsidiaries	8,375		12,893	
Debt securities issued	4,097	901,221	94	389,209
-subsidiaries	4,097		94	

(Millions of Kazakhstani Tenge)

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

	Year ended 31 December 2018		Year ended 31 December 2017	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	12,315	653,998	2,584	356,457
-entities with joint control or significant influence over the Bank	127		120	
-key management personnel of the Bank or its parent	13		10	
-subsidiaries	11,997		2,449	
-other related parties	178		5	
Interest expense	(5,086)	(329,611)	(3,527)	(165,806)
-the parent	(2,479)		(2,535)	
-entities with joint control or significant influence over the Bank	(22)		(3)	
-key management personnel of the Bank or its parent	(213)		(198)	
-subsidiaries	(869)		(15)	
-other related parties	(1,503)		(776)	
Fee and commission income	8,501	116,429	677	59,113
-subsidiaries	8,501		677	
Fee and commission expense	(8,191)	(43,781)	(252)	(12,983)
-subsidiaries	(8,191)		(252)	
Dividends received from subsidiaries	40,958	40,958	16,378	16,378
-subsidiaries	40,958		16,378	
Operating expenses	(10,130)	(114,020)	(126)	(69,855)
-subsidiaries	(10,130)		(126)	

	Year ended 31 December 2018		Year ended 31 December 2017	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:	3,672	55,260	1,922	33,081
-salaries and other employee benefits	3,672		1,922	

37. Events after the reporting period

On 21 January 2019, the Bank received tentative approval from the Central Bank of Uzbekistan to establish a subsidiary bank - JSC Tenge Bank. Currently, the Bank is taking measures to register a legal entity and to obtain a license to conduct banking activities.

On 28 January 2019, the subsidiary insurance company JSC Kazakhinstrakh was renamed to JSC Subsidiary company of JSC Halyk Bank "Insurance company "Halyk".

On 1 March 2019, the Bank made a prepayment on its USD 750,000,000 Eurobond issue bearing 5.5% coupon rate due 2022. The prepayment was made for the amount of USD 200,000,000 together with the interest accrued but unpaid.